MANAGEMENT'S DISCUSSION AND ANALYSIS

February 14, 2017

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 years ended December 31, 2016 and 2015 and should be read in conjunction with our Audited Consolidated Financial Statements and accompanying notes for the years ended December 31, 2016 and 2015. 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: http://corporate.yp.ca.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards (IFRS) for financial statements and is expressed in Canadian dollars, unless otherwise stated. The audited IFRS-related disclosures and values in this MD&A have been prepared using the standards and interpretations currently issued and effective at the end of our reporting period, December 31, 2016.

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), Yellow Pages Homes Limited (Yellow Pages NextHome), YPG (USA) Holdings, Inc. and Yellow Pages Digital & Media Solutions LLC (the latter two collectively YP USA), Bookenda Limited (Bookenda), YP Dine Solutions Limited (YP Dine), 9059-2114 Québec Inc. and ByTheOwner Inc. (the latter two collectively ComFree/DuProprio), Juice DMS Advertising Limited and Juice Mobile USA LLC (the latter two collectively JUICE), and 9778748 Canada Inc. (Totem)).

FORWARD-LOOKING INFORMATION

This MD&A contains assertions about the objectives, strategies, financial condition, results of operations and businesses of YP. These statements are considered "forward-looking" because they are based on current expectations of our business, on the markets we operate in, and on various estimates and assumptions.

Forward-looking information and statements are based on a number of assumptions which may prove to be incorrect. In making certain forward-looking statements, we have made the following assumptions:

- that general economic conditions in Canada will not materially deteriorate beyond currently anticipated levels;
- that investments in branding will evolve legacy perceptions and boost awareness of our digital media platforms and marketing solutions;
- that we will be able to acquire new customers at the currently anticipated rate and currently anticipated Average Revenue per Customer (ARPC);
- that customer renewal rates, as well as our ability to upsell renewing customers, will not be materially lower than currently anticipated;
- that print decline rates remain stable;
- that we will be able to introduce, sell and provision new products and services that will generate the anticipated return on investment (ROI) for customers;
- that revenues and profitability across its subsidiaries will not be materially lower than anticipated;
- that investments in new content and digital experiences across our owned and operated properties will protect digital audiences;
- that the revenue mix between our digital owned and operated, services and resale solutions will not materially change from currently anticipated levels;
- that exposure to foreign exchange risk arising from foreign currency transactions will remain insignificant;
- that we will be able to realize efficiency gains; and
- that we will be able to attract and retain key personnel in key positions.

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:

- Substantial competition could reduce the market share of the Corporation;
- A prolonged economic downturn in principal markets 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 attract, retain and upsell customers;
- The inability of the Corporation to successfully enhance and expand its offering of digital and new media products;
- The inability of the Corporation to supply the relationships and technologies required to appropriately service the needs of its national customers;
- A higher than anticipated proportion of revenues coming from the Corporation's digital products with lower margin, such as services and resale;
- 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;
- The inability of the Corporation to develop information and technology systems and platforms required to execute the Corporation's Return to Growth Plan;
- The inability of the Corporation to execute on or delays in the execution of its Return to Growth Plan could impair its ability to grow revenues and expand its business;
- The Corporation might be required to record additional impairment charges;
- The Corporation's inability to realize cost savings;
- 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;
- Failure by the Corporation to adequately protect and maintain its brands and trademarks, as well as third party infringement of such;
- Work stoppages and other labour disturbances;
- The Corporation's inability to attract and retain key personnel;
- 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 internet portals, search engines and individual websites;
- The failure of the Corporation's computers and communications systems;
- Declines in, or changes to, the real estate industry;
- The inability of the Corporation to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions;
- The Corporation's amount of debt and compliance with the covenants applicable under its debt instruments could adversely affect its efforts to refinance; and
- Incremental contributions by the Corporation to its pension plans.

DEFINITIONS RELATIVE TO UNDERSTANDING OUR RESULTS

Income from Operations before Depreciation and Amortization, Impairment of Intangible Assets and Restructuring and Special Charges (Adjusted EBITDA)

We report on our Income from operations before depreciation and amortization, impairment of intangible assets and restructuring and special charges (Adjusted EBITDA). Adjusted EBITDA is not a performance measure defined under IFRS and is not considered an alternative to (loss) income from operations or net (loss) earnings in the context of measuring Yellow Pages' performance. Adjusted EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. Adjusted EBITDA should not be used as an exclusive measure of cash flow since it does 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 19 of this MD&A.

We define Adjusted EBITDA as revenues less operating costs, as shown in Yellow Pages Limited's consolidated income statements. We use Adjusted EBITDA to evaluate the performance of our business as it reflects its ongoing profitability. We believe that certain investors and analysts use Adjusted EBITDA 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 is also one component in the determination of short-term incentive compensation for all management employees.

Free cash flow

Free cash flow is a non-IFRS financial measure generally used as an indicator of financial performance. It should not be seen as a substitute for cash flow from operating activities. Free cash flow is defined as cash flows from operating activities, as reported in accordance with IFRS, less an adjustment for capital expenditures. Free cash flow is not a standardized measure and is not comparable with that of other publicly traded companies. We consider free cash flow to be an important indicator of the performance of our business as it shows how much cash is available to repay debt and to make sound investment decisions. We believe that certain investors and analysts use free cash flow to value a business and its underlying assets as well as to evaluate a company's performance. The most comparable IFRS financial measure is cash flows from operating activities. Please refer to Section 4 – *Free Cash Flow* for a reconciliation of cash flows from operating activities to free cash flow.

Net debt

Net debt 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 net debt as current portion of long-term debt plus long-term debt and exchangeable debentures, less cash, as presented in Yellow Pages Limited's consolidated statements of financial position. We consider net debt to be an important indicator of our financial leverage as it represents the amount of debt that is not covered by available cash. We believe that certain investors and analysts use net debt to determine a company's financial leverage. Net debt has no directly comparable IFRS financial measure; it is calculated using certain asset and liability categories from consolidated statements of financial position. Please refer to Section 3 – *Liquidity and Capital Resources* for a reconciliation of long-term debt, net of cash, to net debt.

This MD&A is divided into the following sections:

1. Our Business and Strategy and Capability to Deliver Results
2. Results
3. Liquidity and Capital Resources
4. Free Cash Flow
5. Critical Assumptions
6. Risks and Uncertainties
7. Controls and Procedures

1. OUR BUSINESS AND STRATEGY AND CAPABILITY TO DELIVER RESULTS

OUR BUSINESS

Yellow Pages is one of Canada's leading digital media and marketing solutions companies, providing local businesses, national brands and consumers with the necessary tools 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' owned and operated media, content syndication, search engine solutions, website fulfillment, social media campaign management and digital display advertising, as well as video production and print advertising. The Company's in-house network of close to 1,000 sales professionals are committed to providing effective digital marketing campaigns for local businesses across Canada, while also assisting the Company's customer base of 241,500 SMEs.

Yellow Pages' marketing solutions extend beyond SMEs to also focus on the national advertising needs of brands and publishers. The acquisition of JUICE in March 2016, a premium mobile advertising technology company, in conjunction with the Company's Mediative division, positions the Company as a desktop and mobile national advertising agency. JUICE's proprietary Programmatic Direct and Real-Time Bidding platforms facilitate the automatic buying and selling of mobile advertising between brands and publishers and by leveraging these proprietary programmatic technologies as well as a database of high-intent consumer data, a publisher network and strong relationships established with a number of large national advertisers, Yellow Pages' national digital advertising programs allow brands and publishers to maximize revenue and reach across both desktop and mobile platforms.

Yellow Pages continues to actively strengthen its market positioning by introducing digital solutions that address the targeted needs of SMEs and consumers within key verticals.

ComFree/DuProprio (CFDP), acquired in July 2015, has established Yellow Pages as a leader in the Canadian consumer-to-consumer real estate marketplace, by providing homeowners with trusted media as well as expertise to sell their homes in a proven and cost-effective manner. Approximately 20% of all real estate listings and sales in Quebec are represented through CFDP, and various initiatives are currently underway to grow adoption of the platform in Ontario.

Through Bookenda, the Company is enhancing its value proposition to local restaurant owners. Bookenda's reservation management system offers restaurants a comprehensive solution allowing them to effectively manage reservations and orders, grow market visibility and boost customer loyalty, all at a competitive cost.

Consumer Offerings

Yellow Pages' owned and operated media, which include desktop, mobile and print properties, continue to serve as effective marketplaces for Canadian local merchants, brands and consumers. Helping Canadians discover their neighbourhoods, the Company's network of media properties is becoming increasingly specialized across the services, real estate, dining and retail verticals. A description of the Company's existing digital media properties is 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;
- RedFlagDeals.com™ – Canada's leading provider of online and mobile promotions, deals, coupons and shopping forums;
- ComFree/DuProprio – Currently Quebec's leading real estate digital destination and one of the top five most-visited networks of real estate digital properties in Canada, CFDP offers homeowners a professional and cost-effective service to market and sell their homes;
- YP Dine™ – A digital property allowing users to discover, search for and book local restaurants based on time of day, mood, purpose and expert suggestions, in addition to offering online ordering capabilities;
- Yellow Pages NextHome – Provides Canadians with helpful information in making informed home buying, selling, and/or renting decisions. Digital properties operating under the Yellow Pages NextHome umbrella include YP NextHome Rent and YP NextHome New Construction;

- Bookenda.com – A leading online transaction platform for users and merchants to interact and manage bookings and orders;
- dine.TO – Provides users in the Greater Toronto Area with an extensive database of online local restaurant listings, reviews, deals, playlists and events;
- YP Shopwise™ – A mobile application offering geo-localized deals and flyers, as well as access to product catalogues from local and national retailers; and
- 411.ca – A digital directory service to help users find and connect with people and local businesses.

STRATEGY AND CAPABILITY TO DELIVER RESULTS

The Return to Growth Plan (the Plan), which was introduced in early 2014, sets out three main objectives to promote Yellow Pages' growth into a leading Canadian digital company: (1) enhance its value proposition to local merchants and national brands as it relates to effective digital marketing, (2) grow consumer awareness and usage of its network of digital media properties, and (3) strengthen the Company's digital brand perception among Canadians. Since the introduction of the Plan, we have achieved sustained progress, namely, the onset of a certain level of stabilization of the customer base and consolidated revenues, as well as growth in customer acquisition as we transition to a digital-first company. In addition, we have substantially deleveraged our balance sheet.

As we continue to focus on the execution of the Plan, we have initiated a review of our business strategy and management outlook with the purpose of supporting the continued long-term success of our digital-first business. The areas of focus include marketing offers, the customer journey, sales structure, operational platforms and the subsequent effects on long-term revenue, Adjusted EBITDA growth and capital allocation policy. The Company anticipates communicating the outcomes of this exercise and the accompanying strategy in May 2017.

Key highlights on the implementation and execution of Yellow Pages' Plan for the full year and fourth quarter ended December 31, 2016 include:

- Digital Revenues – Consolidated digital revenues grew 14.3% year-over-year to reach $555.8 million in 2016, representing 67.9% of consolidated revenues. For the fourth quarter ended December 31, 2016, digital revenues grew 10.8% year-over-year to total $143.1 million, representing 70.6% of consolidated revenues;
- Adjusted EBITDA – Adjusted EBITDA totalled $235.2 million, or 28.8% of revenues in 2016, relative to $260.7 million or 31.4% of revenues in 2015. Adjusted EBITDA for the fourth quarter ended December 31, 2016, totalled $57.4 million or 28.3% of revenues, as compared to $64.5 million or 30.9% of revenues for the same period last year;
- Customer Count – The Company's customer count was 241,500 customers as at December 31, 2016, as compared to 245,000 customers as at December 31, 2015. This represents a net customer count decline of 3,500 year-over-year, a significant improvement when compared to 11,000 net customers lost during the same period last year;
- Digital Visits – Total digital visits (TDV) totalled 464.7 million in 2016, as compared to 464 million in 2015. Total digital visits measures the number of visits made across the YP, YP Shopwise, YP Dine, RedFlagDeals, C411, Bookenda and dine.TO online and mobile properties, as well as visits made across the properties of the Company's application syndication partners; and
- Debt Repayment – The Company made principal mandatory redemption payments of $97.1 million in 2016 on its 9.25% senior secured notes, bringing the total repayment to $490.3 million since inception of the senior secured notes on December 20, 2012.

Enhancing its Customer Value Proposition

The Company's customer count totalled 241,500 customers as at December 31, 2016, as compared to 245,000 customers as at December 31, 2015. This represents a net customer count decline of 3,500 year-over-year, a significant improvement from 11,000 net customers lost during the same period last year.

Growth in the customer count remains a critical driver in the Company's ability to deliver sustainable revenue and Adjusted EBITDA growth. Yellow Pages successfully acquired 41,100 new customers during the year ended December 31, 2016, exceeding the acquisition of 30,800 new customers during the same period last year, representing a 33% increase year-over-year. In 2016, the Company focused on promoting lead generation and optimizing conversion rates within the Company's sales force to grow customer acquisition and stabilize the customer count. In conjunction, various initiatives and tools were implemented throughout the year, including the introduction of a dialer across Yellow Pages' call centers to automate the qualification and assignment of incoming customer leads. The dialer, which also acts as a leads management system, enabled the sales force to target leads by segment, launch meaningful campaigns at the optimal times of the year, and ultimately contributed to overall improvements in the conversion rate.

The customer renewal rate was 82% for the year ended December 31, 2016, as compared to a renewal rate of 85% last year. While this continues to represent strong customer loyalty for the industry, the customer renewal rate remains under pressure due to accelerated levels of customer acquisition as new customer cohorts churn at higher rates than older customer cohorts. In an effort to protect customer renewal rates, Yellow Pages continues to grow specialized onboarding teams and increase retention efforts across sales and customer care channels. Digital-only customers grew to 76,800, or 32% of the customer base as at December 31, 2016, up from 54,500, or 22% of the customer base as at the same period last year. With new platforms and processes being implemented, the Company is actively growing the efficiency and productivity of its customer-facing and digital fulfillment operations.

CUSTOMER ACQUISITION AND RENEWAL[1]

For the years ended December 31,	**2016**	2015
Customer count[2]	**241,500**	245,000
New customers	**41,100**	30,800
Customer renewal rate	**82%**	85%

[1] *YP only, excludes the contribution of Mediative, JUICE, 411.ca, Yellow Pages NextHome, CFDP and Totem.*

[2] *As at December 31.*

Strengthening its Media Assets

Total digital visits (TDV) totalled 464.7 million for the year ended December 31, 2016, as compared to 464 million during the same period last year. TDV performance in 2016 remained stable year-over-year with an increase of 26% in traffic in the fourth quarter of 2016 compared to the same period last year, attributable to the Company's strong partnership network, syndicating Yellow Pages listings and content.

Extending its Brand Promise

Over the course of 2016, the Company launched a range of multimedia campaigns to enhance the digital brand relevancy and perception of Yellow Pages' media and marketing solutions across Canada and raise adoption of the Company's digital media properties, as well as to boost the level of investment of current and prospective customers in the Company's marketing solutions.

Yellow Pages launched a campaign comprised of digital mobile and online advertising to promote the Company's NetSync product, a product allowing merchants to create their online business listing. This campaign successfully generated quality leads for our sales force that ultimately contributed to the customer acquisition target achievement and underscored the need among Canadian small and medium-sized businesses.

On the consumer front, Yellow Pages launched a digital advertising campaign to increase awareness and adoption of the Company's dining application, YP Dine that can be viewed at the Company's dedicated YP Dine Facebook page: https://www.facebook.com/ypdine/videos. Also in 2017, Yellow Pages specifically targeted ethnic markets in Toronto and Vancouver. This campaign has yielded positive results, with business owners demonstrating an interest in YP Dine products and services across demographics.

2. RESULTS

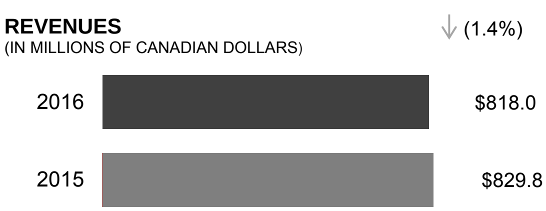
This section provides an overview of our financial performance in 2016 compared to 2015 and 2014. We present several metrics to help investors better understand our performance. Some of these metrics are not measures recognized by IFRS. Definitions of these financial metrics are provided on page 3 of this MD&A and are important aspects which should be considered when analyzing our performance.

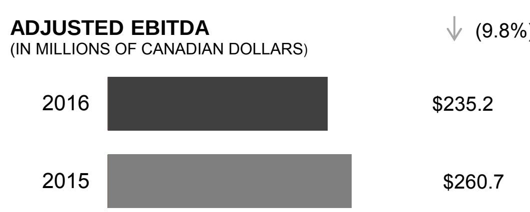
OVERALL

- Revenues decreased by $11.8 million or 1.4% to $818 million compared to the previous year.
- Digital revenues grew 14.3% year-over-year to reach $555.8 million in 2016. For the year ended December 31, 2016, digital revenues represented 67.9% of consolidated revenues, up from 58.6% for the same period in 2015.
- Income from operations before depreciation and amortization, impairment of intangible assets and restructuring and special charges (Adjusted EBITDA) decreased by $25.5 million or 9.8% to $235.2 million for the year ended December 31, 2016 compared to the same period in 2015.

HIGHLIGHTS
(IN THOUSANDS OF CANADIAN DOLLARS– EXCEPT PER SHARE AND PERCENTAGE INFORMATION)

For the years ended December 31,		**2016**		2015
Revenues	**$**	**817,979**	$	829,771
Income from operations before depreciation and amortization, impairment of intangible assets and restructuring and special charges (Adjusted EBITDA)	**$**	**235,191**	$	260,687
Adjusted EBITDA margin		**28.8%**		31.4%
Impairment of intangible assets	**$**	**600,000**	$	–
Net (loss) earnings	**$**	**(403,705)**	$	61,055
Basic (loss) earnings per share	**$**	**(15.23)**	$	2.29
Cash flows from operating activities	**$**	**158,113**	$	197,566
Free cash flow	**$**	**94,607**	$	122,145





CONSOLIDATED OPERATING AND FINANCIAL RESULTS
(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT PER SHARE INFORMATION)

For the years ended December 31,	**2016**	2015	2014
Revenues	**$ 817,979**	$ 829,771	$ 877,528
Operating costs	**582,788**	569,084	561,552
Income from operations before depreciation and amortization, impairment of intangible assets and restructuring and special charges	**235,191**	260,687	315,976
Depreciation and amortization	**104,882**	80,837	78,076
Impairment of intangible assets	**600,000**	–	–
Restructuring and special charges	**22,961**	30,834	18,359
(Loss) income from operations	**(492,652)**	149,016	219,541
Financial charges, net	**56,130**	60,922	72,116
(Loss) earnings before income taxes and (loss) earnings from investments in associates	**(548,782)**	88,094	147,425
(Recovery of) provision for income taxes	**(145,517)**	27,039	(40,937)
Loss (earnings) from investments in associates	**440**	–	(178)
Net (loss) earnings	**$ (403,705)**	$ 61,055	$ 188,540
Basic (loss) earnings per share	**$ (15.23)**	$ 2.29	$ 6.95
Diluted (loss) earnings per share	**$ (15.23)**	$ 2.05	$ 5.81

As at December 31,	**2016**	2015	2014
Total assets	**$ 1,099,937**	$ 1,710,627	$ 1,749,560
Long-term debt (including current portion, excluding exchangeable debentures)	**$ 310,028**	$ 407,353	$ 507,911
Exchangeable debentures	**$ 92,174**	$ 90,478	$ 88,959

ANALYSIS OF CONSOLIDATED OPERATING AND FINANCIAL RESULTS

FISCAL YEAR 2016 VERSUS 2015

Revenues

Revenues for the year ended December 31, 2016 decreased by 1.4% year-over-year and amounted to $818 million in 2016 as compared to $829.8 million for the same period last year. Revenue decline is due to lower print revenues. Included in revenues for the year were revenues generated from our acquired businesses, CFDP and JUICE on July 1, 2015 and March 17, 2016, respectively. On a pro forma basis, which adjusts revenues for the full inclusion of CFDP and JUICE in 2015 as well as for the full inclusion of JUICE during the first quarter of 2016, revenues decreased 6.2% year-over-year.

Digital revenues grew 14.3% year-over-year to reach $555.8 million in 2016, or 67.9% of revenues. This compares to $486.3 million, or 58.6% of revenues, for the same period last year. On a pro forma basis, digital revenues for the year ended December 31, 2016 increased approximately 5% year-over-year. Yellow Pages' local operations contributed favourably to pro forma digital revenue growth, a result of accelerated customer acquisition and an increase in digital spending among the Company's renewing customer base. Pro forma digital revenue growth was also favourably impacted by CFDP's growing network of home sellers and buyers in Quebec and Ontario, as well as by revenue growth in our national advertising operations (JUICE and Mediative), despite a softer than anticipated performance. For the year ended December 31, 2016, 47% of renewing customers experienced a year-over-year increase in annual spending, as compared to 44% of customers over the same period last year.

Print revenues decreased 23.6% year-over-year and amounted to $262.2 million in 2016, adversely impacted by a decline in the number of print customers and the migration of print marketing spending to digital.

CUSTOMER PENETRATION[1]

As at December 31,	2016	2015
Print	**68%**	78%
Owned and Operated Digital Media[2]	**70%**	66%
Online priority placement	**61%**	60%
Mobile priority placement	**26%**	27%
Digital Services[3]	**10%**	10%

SPENDING DYNAMICS[1]

For the years ended December 31,	2016	2015
Amongst Renewing Customers[1]		
Increase in spending[4]		
Customer distribution	**47%**	44%
% of revenues	**32%**	32%
Stable spending[5]		
Customer distribution	**36%**	39%
% of revenues	**27%**	27%
Decrease in spending[6]		
Customer distribution	**17%**	17%
% of revenues	**41%**	41%
Average Revenue per Customer (ARPC)	**$ 2,689**	$ 2,930

OPERATIONAL INDICATORS

As at December 31,	2016	2015
Digital-only customers[1]	**76,800**	54,500
Digital revenues (in thousands of Canadian dollars)[7]	**$ 555,772**	$ 486,346
Digital revenues as a percentage of total revenues[7]	**67.9%**	58.6%

1 *YP only, excludes the contribution of Mediative, JUICE, 411.ca, Yellow Pages NextHome, CFDP and Totem.*

2 *Percentage of YP customers purchasing at least one Online Priority Placement, Mobile Priority Placement, NetSync, Content, Video, and/or Legacy product.*

3 *Percentage of YP customers purchasing at least one PresenceExtended, Website, Search Engine Optimization (SEO), Search Engine Marketing (SEM), Facebook Solution, and/or Smart Digital Display product.*

4 *Renewing YP customers experiencing an increase in spending of over 5%, on a year-over-year basis.*

5 *Renewing YP customers experiencing an increase in spending between 0% and 5%, on a year-over-year basis.*

6 *Renewing YP customers experiencing a decrease in spending on a year-over-year basis.*

7 *For the years ended December 31.*

Adjusted EBITDA

Adjusted EBITDA decreased by $25.5 million to $235.2 million during 2016, compared with a decline of $55.3 million to $260.7 million during 2015. This represents a year-over-year decline of 9.8% during 2016, as compared to a year-over-year decline of 17.5% the year prior. Our Adjusted EBITDA margin for 2016 was 28.8% compared to 31.4% for 2015. The decrease in Adjusted EBITDA and Adjusted EBITDA margin for the year ended December 31, 2016 was mostly impacted by lower print revenues and a change in product mix, partly offset by cost saving initiatives. The decline in the Adjusted EBITDA margin was also impacted by the acquisitions of CFDP and JUICE, which operate at a lower Adjusted EBITDA margin relative to Yellow Pages prior to the acquisitions.

Cost of sales increased by $14.6 million to $335.2 million in 2016, as compared to $320.6 million for the same period in 2015. The increase for the year is due principally to the acquisitions of CFDP and JUICE on July 1, 2015 and March 17, 2016, respectively, as well as a change in product mix, partly offset by cost saving initiatives.

Gross profit margin decreased to 59% in 2016 compared to 61.4% in 2015. The decrease is primarily due to a change in product mix and the acquisitions of CFDP and JUICE, which operate at a lower gross profit margin relative to Yellow Pages prior to the acquisitions, partly offset by operational efficiencies.

General and administrative expenses decreased by $0.9 million to $247.6 million during 2016 compared to $248.5 million for the year ended December 31, 2015. The decrease for the year is mainly attributable to cost savings associated with the corporate realignment implemented in the third and fourth quarters of 2015, as well as cost containment initiatives implemented throughout the year, offset by expenses associated with JUICE.

Depreciation and amortization

Depreciation and amortization increased to $104.9 million during 2016 compared to $80.8 million in 2015. The increase is due to higher capital expenditures in connection with the deployment of systems and platforms as the Company implements its digital transformation as well as amortization of the intangible assets related to the acquisition of JUICE.

Impairment of intangible assets

In the context of its annual impairment testing and as a result of a marked acceleration in an unfavourable change in the product mix during the fourth quarter of 2016 in the Yellow Pages CGU, the Company determined that the recoverability of certain of its assets had to be reviewed for impairment purposes. Consequently, we recorded an impairment loss of $600 million during the fourth quarter related to certain of our intangible assets, namely our trademarks and non-competition agreements. The impairment charge is a non-cash item and does not affect the Company's debt covenants. In this context, the Company anticipates additional pressure on Adjusted EBITDA in 2017. As it works to address the mix issue, the Company expects stabilization in Adjusted EBITDA in the short to mid-term, post-2017. However, not at the levels previously anticipated.

Restructuring and special charges

In 2016, we recorded restructuring and special charges of $23 million associated primarily with internal reorganizations and workforce reductions, as well as transaction costs associated with business acquisitions. In 2015, we recorded restructuring and special charges of $30.8 million associated primarily with workforce reductions related to the corporate realignment, internal reorganizations, transaction costs associated with business acquisitions, and contract termination costs, partially offset by a curtailment gain related to workforce reductions.

Financial charges

Financial charges decreased by $4.8 million to $56.1 million during 2016 compared to $60.9 million for 2015. The decrease is due to a lower level of indebtedness, partially offset by sales taxes resulting from the settlement of a sales tax assessment relating to financing costs and foreign currency losses. As at December 31, 2016, the effective average interest rate on our debt portfolio was 8.9% (2015 – 9%).

(Recovery of) provision for income taxes

The combined statutory provincial and federal tax rates were 26.9% and 26.7% for the years ended December 31, 2016 and 2015, respectively. The Company recorded a recovery of $145.5 million during 2016, comprised of a recovery of income taxes of $161 million associated with an impairment loss of $600 million on certain of its intangible assets recorded during the fourth quarter of 2016. The recovery of income taxes of $161 million is a non-cash item. The Company recorded an expense of $27 million in 2015. The Company recorded a recovery of 26.5% on the loss for the year ended December 31, 2016 compared to an expense of 30.7% on earnings for the year ended December 31, 2015.

The difference between the effective and the statutory rates in 2016 and 2015 is due to the non-deductibility of certain expenses for tax purposes.

Loss from investment in associate

On October 3, 2016, we acquired a 50% ownership in 9778730 Canada Inc., which owns 100% of Coupgon Inc., a digital coupon solutions provider. We recorded a loss from our investment in an associate in the amount of $0.4 million during the year ended December 31, 2016.

Net (loss) earnings

We recorded a net loss of $403.7 million during 2016 compared with net earnings of $61.1 million for 2015. The decrease for the year is principally explained by an impairment of our intangible assets of $600 million as well as lower Adjusted EBITDA and higher depreciation and amortization, mainly resulting from a higher level of capital expenditures in the context of the Company's digital evolution as well as amortization of intangible assets related to the acquisition of JUICE.

FISCAL YEAR 2015 VERSUS 2014

Revenues

Revenues decreased by 5.4% year-over-year to reach $829.8 million in 2015. This compares to $877.5 million for the same period in 2014. Revenues remained adversely impacted by a lower customer count within Yellow Pages' core business, in addition to a decrease in print spending among renewing customers.

Digital revenues are a growing contribution of the Company's consolidated revenue base. Digital revenues grew by 9.8% year-over-year to reach $486.3 million in 2015, or 58.6% of revenues, as compared to $442.8 million, or 50.5% of revenues, in 2014. Growth in digital revenues was principally driven by accelerated customer acquisition and growth in digital spending among the Company's renewing customers, as well as the acquisition of CFDP on July 1, 2015. Excluding CFDP, digital revenues for the year ended December 31, 2015 grew by approximately 6% year-over-year.

Print revenues decreased 21% year-over-year to reach $343.4 million in 2015, adversely impacted by a decline in the number of print customers and the migration of print marketing spending to digital.

Adjusted EBITDA

Adjusted EBITDA decreased by $55.3 million to $260.7 million during 2015, compared with a decline of $100.1 million to $316 million for the same period in 2014. This represents a year-over-year decline of 17.5% during 2015, as compared to a year-over-year decline of 24.1% the year prior. Our Adjusted EBITDA margin for 2015 was 31.4% compared to 36% for 2014. The decrease in Adjusted EBITDA and Adjusted EBITDA margin for the year ended December 31, 2015 is due mainly to lower print revenues and a change in product mix, partly offset by cost saving initiatives and lower employee related expenses. The Adjusted EBITDA margin was also adversely impacted by the Company's Mediative, 411.ca and CFDP operations, which operate at lower Adjusted EBITDA margins relative to Yellow Pages' core business.

Cost of sales increased by $13.7 million to $320.6 million in 2015, as compared to $306.9 million for the same period in 2014. The increase for the year is due primarily to the acquisitions of 411.ca and CFDP on June 1, 2014 and July 1, 2015, respectively, and a change in product mix, partly offset by cost savings generated from print optimization initiatives.

Gross profit margin decreased to 61.4% in 2015 compared to 65% in 2014. The decrease is primarily due to a change in product mix and the acquisitions of 411.ca and CFDP.

General and administrative expenses decreased by $5.4 million to $249.3 million during 2015 compared with $254.7 million for the year ended December 31, 2014. The decrease is mainly attributable to cost savings associated with the corporate realignment, employee related expenses and amendments to our pension and post-retirement benefit plans, partly offset by expenses associated with 411.ca and CFDP.

Depreciation and amortization

Depreciation and amortization increased to $80.8 million during 2015 compared to $78.1 million in 2014. The increase is due to higher capital expenditures in connection with the deployment of systems and platforms as the Company executes its digital transformation.

Restructuring and special charges

In 2015, we recorded restructuring and special charges of $30.8 million associated primarily with workforce reductions related to a corporate realignment, internal reorganizations, transaction costs associated with business acquisitions, and contract termination costs, partially offset by a curtailment gain related to workforce reductions. In 2014, we recorded restructuring and special charges of $18.4 million associated primarily with internal reorganizations and workforce reductions, partially offset by a net curtailment gain related to workforce reductions.

Financial charges

Financial charges decreased by $11.2 million to $60.9 million during 2015 compared with $72.1 million for 2014. The decrease is mainly attributable to a lower level of indebtedness. As at December 31, 2015 and 2014, the effective average interest rate on our debt portfolio was 9%.

Provision for (recovery of) income taxes

The combined statutory provincial and federal tax rates were 26.70% and 26.56% for the years ended December 31, 2015 and 2014, respectively. The Company recorded an expense of $27 million for the year compared to a recovery of $40.9 million in 2014. The Company recorded an expense of 30.69% on earnings for the year ended December 31, 2015 and a recovery of 27.77% on earnings for the year ended December 31, 2014.

The difference between the effective and the statutory rates in 2015 is due to the non-deductibility of certain expenses for tax purposes. The difference between the effective and the statutory rates in 2014 is primarily due to a recovery of income taxes of $84.8 million related to the cancellation of certain income tax liabilities in the fourth quarter of 2014 following the settlement of tax assessments with the Canada Revenue Agency.

Earnings from investments in associates

On June 1, 2014, we acquired the remaining 70% interest in 411.ca, whose results are now consolidated within YP. We recorded earnings of $0.2 million for the period from January 1, 2014 up to the acquisition date.

Net earnings

We recorded net earnings of $61.1 million during 2015 compared with $188.5 million for 2014. The decrease for the year is principally explained by lower Adjusted EBITDA and higher restructuring and special charges, in addition to a recovery of income taxes of $84.8 million during the fourth quarter of 2014 related to the cancellation of certain income tax liabilities following the settlement of tax assessments.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

QUARTERLY RESULTS
(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT PER SHARE AND PERCENTAGE INFORMATION)

				2016				2015
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	**$ 202,723**	$ 201,142	$ 210,487	$ 203,627	$ 208,505	$ 210,593	$ 204,771	$ 205,902
Operating costs	**145,305**	144,193	151,556	141,734	144,007	146,783	143,178	135,116
Income from operations before depreciation and amortization, impairment of intangible assets and restructuring and special charges (Adjusted EBITDA)	**57,418**	56,949	58,931	61,893	64,498	63,810	61,593	70,786
Adjusted EBITDA margin	**28.3%**	28.3%	28.0%	30.4%	30.9%	30.3%	30.1%	34.4%
Depreciation and amortization	**27,745**	26,838	25,440	24,859	20,792	21,161	20,212	18,672
Impairment of intangible assets	**600,000**	–	–	–	–	–	–	–
Restructuring and special charges	**7,493**	9,691	1,519	4,258	17,168	9,113	2,551	2,002
(Loss) income from operations	**(577,820)**	20,420	31,972	32,776	26,538	33,536	38,830	50,112
Net (loss) earnings	**(431,583)**	3,774	10,953	13,151	5,866	13,155	16,510	25,524
Basic (loss) earnings per share	**$ (16.35)**	$ 0.14	$ 0.41	$ 0.49	$ 0.22	$ 0.49	$ 0.62	$ 0.95
Diluted (loss) earnings per share	**$ (16.35)**	$ 0.14	$ 0.38	$ 0.45	$ 0.21	$ 0.44	$ 0.54	$ 0.81

Revenues decreased throughout the quarters principally impacted by an overall loss of customers, a decline in print spending among renewing customers, partially offset by an increasing number of digital customers. Revenues, starting in the third quarter of 2015, were favourably impacted by the acquisition of CFDP on July 1, 2015. Revenues, starting in the second quarter of 2016, were also favourably impacted by the acquisition of JUICE on March 17, 2016.

The Adjusted EBITDA margin was higher in the first quarter of 2015, given the timing of various investments related to the execution of the Company's digital evolution as well as a favourable impact related to amendments to our pension and post-retirement benefit plans. Adjusted EBITDA margins remained relatively stable from the second quarter of 2015 to the first quarter of 2016, as print revenue declines, changes in the product mix, investments related to the Plan, and the acquisition of CFDP were offset by cost savings initiatives and lower employee related expenses. The Adjusted EBITDA margin decreased in the second, third, and fourth quarters of 2016 as a result of the acquisition of JUICE.

Depreciation and amortization expense remained relatively stable throughout 2015. Depreciation and amortization expense increased in 2016 in connection with the deployment of platforms and applications related to the Company's digital evolution. Amortization was further increased in the second, third and fourth quarters of 2016 due to the amortization of intangible assets related to the acquisition of JUICE.

As the Company advances in the deployment of the Plan and its evolution from a print centric to a digital centric organization, it initiated workforce reductions and cost containment initiatives resulting in restructuring and special charges over the quarters.

Our net loss for the fourth quarter of 2016 was due to an impairment loss of $600 million related to certain of our intangible assets. Our net earnings for the fourth quarter of 2015 and the third quarter of 2016 were negatively impacted by higher restructuring charges resulting from internal reorganizations and workforce reductions.

ANALYSIS OF FOURTH QUARTER 2016 RESULTS

Revenues

Revenues decreased by 2.8% year-over-year to $202.7 million during the fourth quarter of 2016, as compared to $208.5 million for the same period last year. Revenue decline for the quarter is due to lower print revenues. Included in revenues for the quarter were revenues generated from JUICE. On a pro forma basis, which adjusts revenues for the full inclusion of JUICE during the fourth quarter of 2015, revenues decreased 7.1% year-over-year for the three-month period ended December 31, 2016.

Digital revenues grew 10.8% year-over-year to reach $143.1 million during the fourth quarter of 2016, or 70.6% of revenues. This compares to $129.2 million, or 62% of revenues, for the same period last year. On a pro forma basis, digital revenues for the three-month period ended December 31, 2016 increased approximately 3% year-over-year. Pro forma digital revenue growth was favourably impacted by CFDP's growing network of home sellers and buyers in Quebec and Ontario, as well as by revenue growth in our national advertising operations (JUICE and Mediative), despite a softer than anticipated performance.

Print revenues decreased 24.8% year-over-year and amounted to $59.6 million during the fourth quarter ended December 31, 2016. Print revenue performance was adversely impacted by a decline in the number of print customers and the migration of print marketing spending to digital.

Adjusted EBITDA

Adjusted EBITDA decreased by $7.1 million to $57.4 million during the fourth quarter of 2016, compared to $64.5 million for the same period in 2015. Our Adjusted EBITDA margin for the fourth quarter of 2016 was 28.3% as compared to 30.9% for the same period last year. The decrease in Adjusted EBITDA and Adjusted EBITDA margin for the three-month period ended December 31, 2016 was mostly impacted by lower print revenues and a change in product mix, partly offset by cost saving initiatives. The decline in the Adjusted EBITDA margin was also impacted by the acquisition of JUICE, which operates at a lower Adjusted EBITDA margin relative to Yellow Pages prior to the acquisition.

Cost of sales increased by $4.9 million to $87 million during the fourth quarter of 2016, as compared to $82.1 million during the fourth quarter of 2015. The increase for the fourth quarter of 2016 is mainly due to the acquisition of JUICE on March 17, 2016, partly offset by lower expenses associated with lower revenues.

Gross profit margin decreased to 57.1% for the fourth quarter of 2016 compared to 60.6% for the fourth quarter in 2015. The decrease is primarily due to a change in product mix and the acquisitions of CFDP and JUICE, which operate at a lower gross profit margin relative to Yellow Pages prior to the acquisitions, partly offset by operational efficiencies.

General and administrative expenses decreased by $3.6 million to $58.3 million during the fourth quarter of 2016 compared to $61.9 million for the same period in 2015. The decrease for the quarter is due to cost savings associated with the corporate realignment implemented in the third and fourth quarters of 2015, as well as cost containment initiatives implemented throughout the year, offset by expenses associated with JUICE.

Depreciation and amortization

Depreciation and amortization increased to $27.7 million during the fourth quarter of 2016 compared to $20.8 million during the fourth quarter in 2015. The increase is due to higher capital expenditures in connection with the deployment of systems and platforms as the Company implements its digital evolution as well as amortization of the intangible assets related to the acquisition of JUICE.

Impairment of intangible assets

In the context of its annual impairment testing and as a result of a marked acceleration in an unfavourable change in the product mix during the fourth quarter of 2016 in the Yellow Pages CGU, the Company determined that the recoverability of certain of its assets had to be reviewed for impairment purposes. Consequently, we recorded an impairment loss of $600 million during the fourth quarter related to certain of our intangible assets, namely our trademarks and non-competition agreements. The impairment charge is a non-cash item and does not affect the Company's debt covenants. In this context, the Company anticipates additional pressure on Adjusted EBITDA in 2017. As it works to address the mix issue, the Company expects stabilization in Adjusted EBITDA in the short to mid-term, post-2017. However, not at the levels previously anticipated.

Restructuring and special charges

During the fourth quarter of 2016, we recorded restructuring and special charges of $7.5 million associated primarily with internal reorganizations and workforce reductions, as well as transaction costs associated with business acquisitions. During the fourth quarter of 2015, we recorded restructuring and special charges of $17.2 million associated primarily with workforce reductions related to the corporate realignment and contract termination costs, partially offset by a curtailment gain related to the workforce reductions.

Financial charges

Financial charges decreased by $2.6 million to $12.7 million during the fourth quarter of 2016 compared to $15.3 million for the same period in 2015. The decrease is due to a lower level of indebtedness.

(Recovery of) provision for income taxes

The combined statutory provincial and federal tax rates were 26.9% and 26.7% for the three-month periods ended December 31, 2016 and 2015, respectively. During the fourth quarter of 2016, the Company recorded a recovery of $159.3 million, comprised of a recovery of income taxes of $161 million associated with an impairment loss of $600 million on certain of its intangible assets. The recovery of income taxes of $161 million is a non-cash item. The Company recorded an expense of $5.4 million for the three-month period ended December 31, 2015. The Company recorded a recovery of 27% of the loss for the fourth quarter of 2016 compared to 48% of earnings for the fourth quarter of 2015.

The difference between the effective and the statutory rates for the fourth quarter of 2016 is due to the non-deductibility of certain expenses for tax purposes.

The difference between the effective and the statutory rates for the fourth quarter of 2015 is due to the recognition of previously unrecognized tax attributes on assets of our foreign subsidiaries as well as non-taxable and non-deductible items.

Loss from investments in associates

On October 3, 2016, we acquired a 50% ownership in 9778730 Canada Inc., which owns 100% of Coupgon Inc., a digital coupon solutions provider. We recorded a loss from our investment in an associate in the amount of $0.4 million during the fourth quarter of 2016.

Net (loss) earnings

We recorded a net loss of $431.6 million during the fourth quarter of 2016 as compared with net earnings of $5.9 million for the same period last year. The decrease for the quarter is principally explained by an impairment of our intangible assets of $600 million as well as lower Adjusted EBITDA and higher depreciation and amortization, mainly resulting from a higher level of capital expenditures in the context of the Company's digital evolution as well as amortization of intangible assets related to the acquisition of JUICE, offset by lower restructuring and special charges and financial charges.

3. LIQUIDITY AND CAPITAL RESOURCES

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

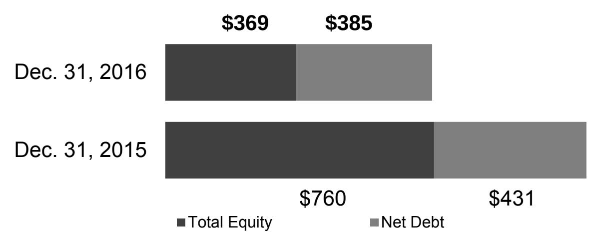
FINANCIAL POSITION

CAPITAL STRUCTURE
(IN THOUSANDS OF CANADIAN DOLLARS – EXCEPT PERCENTAGE INFORMATION)

As at	**December 31, 2016**	December 31, 2015
Cash	**$ 17,260**	$ 67,253
Senior secured notes	**$ 309,669**	$ 406,733
Exchangeable debentures	**92,174**	90,478
Obligations under finance leases	**359**	620
Net debt	**$ 384,942**	$ 430,578
Equity	**368,904**	759,524
Total capitalization	**$ 753,846**	$ 1,190,102
Net debt to total capitalization	**51.1%**	36.2%

NET DEBT TO LATEST TWELVE-MONTH ADJUSTED EBITDA[1] RATIO

CAPITAL STRUCTURE
(IN MILLIONS OF CANADIAN DOLLARS)



As at December 31, 2016, Yellow Pages had $384.9 million of net debt, compared to $430.6 million as at December 31, 2015.

The net debt to Latest Twelve-Month Adjusted EBITDA[1] ratio as at December 31, 2016 was 1.6 times compared to 1.7 times as at December 31, 2015. The decrease is due to a lower level of indebtedness, partially offset by lower Adjusted EBITDA and the acquisition of JUICE which resulted in a cash outflow of $35.3 million during the first quarter of 2016.

Asset-Based Loan

In August 2013, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, entered into a five-year $50 million asset-based loan (ABL) expiring in August 2018. The ABL is 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 secured by a first priority lien over the receivables of the Company. Interest is calculated based either on the BA Rate or the Prime Rate plus an applicable margin. The ABL is subject to an availability reserve of $5 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at December 31, 2016, the Company had $7.4 million of letters of credit issued and outstanding under the ABL. As such, $42.6 million of the ABL was available as at December 31, 2016.

As at December 31, 2016, the Company was in compliance with all covenants under the loan agreement governing the ABL.

[1] *Latest twelve-month income from operations before depreciation and amortization, impairment of intangible assets and restructuring and special charges (Latest Twelve-Month Adjusted EBITDA). Latest Twelve-Month Adjusted EBITDA is a non-IFRS measure and may not be comparable with similar measures used by other publicly traded companies. Please refer to page 3 for a definition of Adjusted EBITDA.*

Senior Secured Notes

On December 20, 2012, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued $800 million of 9.25% senior secured notes (the Senior Secured Notes) maturing November 30, 2018. Interest on the Senior Secured Notes is payable in cash, quarterly in arrears, in equal instalments on the last day of February, May, August and November of each year.

The Company repaid a total of $97.1 million in 2016 and $490.3 million since December 20, 2012 of its Senior Secured Notes, thereby reducing the balance from $800 million to $309.7 million as at December 31, 2016.

As at December 31, 2016, the Company was in compliance with all covenants under the indenture governing the Senior Secured Notes.

Mandatory Redemption

Pursuant to the indenture governing the Senior Secured Notes, the Company is required to use an amount equal to 75% of its consolidated Excess Cash Flow for the immediately preceding six-month period ending March 31 or September 30, as applicable, to redeem on a semi-annual basis on the last day of May and November of each year, commencing on May 31, 2013, at a redemption price equal to 100% of the principal amount thereof from holders on a pro rata basis, subject to the Company maintaining a minimum cash balance, including availability on the ABL, of $75 million immediately following the mandatory redemption payment, subject to certain conditions. The $75 million minimum cash balance condition is subject to a reduction in certain cases as provided in the indenture governing the Senior Secured Notes. Excess Cash Flow, as defined in the indenture governing the Senior Secured Notes, means the aggregate cash flow from operating activities adjusted for, among other things, payments relating to interest, taxes, long-term employee compensation plans, certain pension plan contribution payments and the acquisition of property and equipment and intangible assets. For purposes of determining the consolidated Excess Cash Flow, deductions for capital expenditures and information systems/information technology expenses are each subject to an annual deduction limit of $50 million. Under other circumstances, the Company may also have to make additional repayments on the Senior Secured Notes (refer to the indenture governing the Senior Secured Notes).

Optional Redemption

The Company may redeem all or part of the Senior Secured Notes at its option, upon not less than 30 nor more than 60 days prior notice, at a redemption price equal to:

- In the case of a redemption occurring prior to May 31, 2017, 105% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- In the case of a redemption occurring on or after May 31, 2017, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

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.

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.

As at December 31, 2016, 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, at any time on or after the date on which all of the Senior Secured Notes have been repaid in full, 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.

CREDIT RATINGS

DBRS LIMITED	STANDARD AND POOR'S RATING SERVICES
B (high)/Issuer rating – stable outlook	B/Corporate credit rating – stable outlook
BB (low)/Credit rating for Senior Secured Notes	BB-/Credit rating for Senior Secured Notes
B (low)/Credit rating for Exchangeable Debentures	CCC+/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 to fund capital expenditures, working capital requirements and current obligations, and service its outstanding debt obligations. As at February 13, 2017, the Company had approximately $15.1 million of cash and $42.8 million available under the ABL.

Options

On December 20, 2012, as part of the implementation of Yellow Pages' recapitalization transaction, a new stock option plan (the Stock Option Plan) was adopted. The Stock Option Plan is intended to attract and retain the services of selected employees (the Participants) of Yellow Pages who are in a position to make a material contribution to the successful operation of the business, provide meaningful incentive to management to lead Yellow Pages through the transition and transformation of its business and to more closely align the interests of management with those of the shareholders of Yellow Pages Limited. A maximum of 1,290,612 stock options may be granted under the Stock Option Plan.

The stock options expire approximately seven years after the grant date and Participants are required to hold 25% of the common shares received pursuant to the exercise of the stock options until the Participants meet the ownership guidelines which apply to their respective position.

Share data

OUTSTANDING SHARE DATA

As at	February 14, 2017	December 31, 2016	December 31, 2015
Common shares outstanding	28,075,306	28,075,304	28,063,919
Exchangeable Debentures outstanding[1]	5,624,422	5,624,422	5,624,422
Common share purchase warrants outstanding	2,995,486	2,995,488	2,995,498
Stock options outstanding[2]	630,950	630,950	522,950

[1] *As at February 14, 2017, Yellow Pages had $107.1 million principal amount of Exchangeable Debentures outstanding, which amount is exchangeable into 5,624,422 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 630,950 as at February 14, 2017 and December 31, 2016 are 366,500 and 186,550 stock options exercisable as at those respective dates. Included in the stock options outstanding balance of 522,950 as at December 31, 2015 are 78,000 stock options exercisable as at that date.*

Contractual Obligations and Other Commitments

Contractual obligations

(in thousands of Canadian dollars)

		Payments due for the years following December 31, 2016			
	Total	**1 year**	**2 – 3 years**	**4 – 5 years**	**After 5 years**
Long-term debt[1,2]	**$ 309,669**	$ 75,018	$ 234,651	$ —	$ —
Obligations under finance leases[1]	**359**	143	216	—	—
Exchangeable Debentures[1]	**107,089**	—	—	—	107,089
Operating leases	**294,020**	21,417	36,720	33,386	202,497
Other	**59,677**	31,835	21,517	3,806	2,519
Total contractual obligations	**$ 770,814**	$ 128,413	$ 293,104	$ 37,192	$ 312,105

[1] *Principal amount.*

[2] *The repayment of the Senior Secured Notes may vary subject to the Excess Cash Flow under the indenture governing the Senior Secured Notes as well as the minimum cash balance requirement post Mandatory Redemptions under the indenture governing the Senior Secured Notes.*

Obligations under finance leases

We enter into finance lease agreements for office equipment and software. As at December 31, 2016, minimum payments under these finance leases up to 2019 totalled $0.4 million.

Operating leases

We rent our premises and office equipment under various operating leases. As at December 31, 2016, minimum payments under these operating leases up to 2034 totalled $294 million.

Purchase obligations

We use the services of outside suppliers to distribute and print our directories and have entered into long-term agreements with a number of these suppliers. These agreements expire between 2017 and 2038. We also have purchase obligations under service contracts for both operating and capital expenditures. As at December 31, 2016, we have an obligation to purchase services for $59.7 million over the next five years and thereafter. Cash from operations will be used to fund these purchase obligations.

Pension Obligations

YP sponsors a pension plan registered with the Canada Revenue Agency and the Financial Services Commission of Ontario with defined benefit (DB) for employees hired prior to January 1, 2006, and defined contribution (DC) components for the non-Québec based employees hired on or after January 1, 2006 (the YP Pension Plan) as well as a DC plan registered with the Régie des Rentes du Québec (the YP Québec Plan), for the Québec based employees hired on or after January 1, 2006. Both plans together cover substantially all employees of the Company.

As at December 31, 2016, the DB component of the YP Pension Plan's assets totalled $505.2 million and were invested in a diversified portfolio of Canadian fixed income securities and Canadian and international equity securities. Its rate of return on assets was 8.7% for 2016, 0.6% above our benchmark portfolio.

The most recent actuarial valuation of the defined benefit component of the YP Pension Plan for funding purposes was performed as at December 31, 2015. The December 2015 valuation resulted in a solvency deficit of $59 million to be funded over a five-year period. The next actuarial valuation will be as at December 31, 2016.

In 2016, the Company made annual contributions equivalent to the current service cost (the Annual Employer Cost) of $26.8 million, including $13.6 million to fund the deficit. Total cash payments are expected to amount to $26.7 million for 2017, of which $12.8 million will be to fund the deficit.

SOURCES AND USES OF CASH

(IN THOUSANDS OF CANADIAN DOLLARS)

For the years ended December 31,	2016	2015
Cash flows from operating activities		
Cash flows from operations	**$ 167,547**	$ 208,270
Change in operating assets and liabilities	**(9,434)**	(10,704)
	$ 158,113	$ 197,566
Cash flows used in investing activities		
Additions to intangible assets	**$ (50,787)**	$ (69,190)
Additions to property and equipment	**(12,719)**	(6,231)
Business acquisitions	**(35,271)**	(51,063)
Investment in associate	**(1,597)**	–
Other	**(50)**	–
	$ (100,424)	$ (126,484)
Cash flows used in financing activities		
Repayment of long-term debt	**$ (97,325)**	$ (100,650)
Purchase of restricted shares	**(10,472)**	(6,838)
Issuance of common shares upon exercise of stock options	**115**	883
	$ (107,682)	$ (106,605)

Cash flows from operating activities

Cash flows from operations

Cash flows from operations decreased by $40.7 million from $208.3 million for the year ended December 31, 2015 to $167.5 million for the same period in 2016. Cash flows from income taxes generated a net outflow of $1.8 million for the year ended December 31, 2016 compared to net income taxes received of $46.7 million during the same period last year as a result of a tax settlement covering prior years. Cash flows from operations in 2016 were also impacted by lower cash Adjusted EBITDA of $16.1 million.

Change in operating assets and liabilities

The change in operating assets and liabilities for the year ended December 31, 2016 generated an outflow of $9.4 million compared to $10.7 million for the same period last year. The outflow for the year ended December 31, 2016 is explained by a higher level of trade receivables associated primarily with longer collection cycles in the national advertising industry, lower deferred revenues mainly due to declining revenues, and a decrease in trade payables, partially offset by the receipt of a settlement of sales tax assessments of $16.6 million. The outflow for the year ended December 31, 2015 is due principally to the increased level of payment of variable compensation, partially offset by lower deferred publication costs resulting from a new print distribution model implemented in 2015.

Cash flows used in investing activities

Cash used in investing activities amounted to $100.4 million for the year ended December 31, 2016 compared with $126.5 million for the same period last year. During the year ended December 31, 2016, we invested in software development and ISIT equipment in the amount of $50.8 million and $12.7 million, respectively, as compared to $69.2 million and $6.2 million, respectively, during the same period last year. Capital expenditures incurred in 2015 and 2016 are related to investments required to maintain the integrity of our infrastructure as well as the development and implementation of new technologies and software aimed at accelerating our evolution into Canada's leading local digital company. The level of investments is decreasing year-over-year as we are progressing in our evolution. During the first quarter of 2016, we acquired the net assets of JUICE for a purchase price of $35.3 million. During the third quarter of 2015, we acquired all the shares of the CFDP network for a purchase price of $50.2 million.

Cash flows used in financing activities

Cash used in financing activities amounted to $107.7 million during the year ended December 31, 2016 compared to $106.6 million for the same period last year. During the year, we repaid $97.1 million of the Senior Secured Notes compared to $100.3 million during the same period last year. During the year, we purchased common shares of Yellow Pages Limited on the open market to fund the Restricted Share Unit and Performance Share Unit Plan at a cost of $10.5 million compared to $6.8 million during the same period last year.

FINANCIAL AND OTHER INSTRUMENTS

(See Note 22 of the Audited Consolidated Financial Statements of the Company for the years ended December 31, 2016 and 2015).

The Company's financial instruments primarily consist of cash, trade and other receivables, trade and other payables, long-term debt, Exchangeable Debentures and derivatives designated as cash flow hedges.

There is no carrying value of embedded derivatives as at December 31, 2016. The carrying value is calculated, as is customary in the industry, using discounted cash flows based on quarter-end market rates.

4. FREE CASH FLOW

(IN THOUSANDS OF CANADIAN DOLLARS)

For the three-month periods and years ended December 31,	**2016**	2015	**2016**	2015
Cash flows from operating activities	**$ 27,874**	$ 42,417	**$ 158,113**	$ 197,566
Capital expenditures	**20,036**	17,168	**63,506**	75,421
Free cash flow	**$ 7,838**	$ 25,249	**$ 94,607**	$ 122,145

5. CRITICAL ASSUMPTIONS

When we prepare our 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.

In this section, we provide detailed information on these important estimates and assumptions which are under continuous evaluation by the Company.

Intangible assets, goodwill and property and equipment

The values associated with identifiable intangible assets and goodwill involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These significant estimates require considerable judgment which could affect Yellow Pages' future results if the current estimates of future performance and fair values change. These determinations may affect the amount of amortization expense on identifiable intangible assets recognized in future periods and impairment of goodwill, intangible assets and property and equipment.

Yellow Pages assesses impairment by comparing the recoverable amount of an identifiable intangible asset or goodwill with its carrying value. The determination of the recoverable amount involves significant management judgment.

Yellow Pages performed its annual test for impairment of goodwill and indefinite life intangible assets in accordance with the policy described in Note 3.12 of the Audited Consolidated Financial Statements of Yellow Pages Limited for the years ended December 31, 2016 and 2015.

The recoverable amount of the cash generating units (CGUs) was determined based on the value-in-use approach using a discounted cash flow model which relies on significant key assumptions, including after-tax cash flows forecasted over an extended period of time, terminal growth rates and discount rates. We use published statistics or seek advice where possible when determining the assumptions we use. Details of Yellow Pages' impairment reviews are disclosed in Note 4 of the Audited Consolidated Financial Statements of Yellow Pages Limited for the years ended December 31, 2016 and 2015.

Employee future benefits

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Determination of the benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Actual results may differ from results which are estimated based on assumptions.

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of Yellow Pages' ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Pages' assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of

Yellow Pages' ability to utilize the underlying future tax deductions changes, Yellow Pages would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined.

Yellow Pages is subject to taxation in numerous jurisdictions. Significant judgment is required in determining the consolidated provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Yellow Pages maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters under active discussion, audit, dispute or appeal with tax authorities, or which are otherwise considered to involve uncertainty. These provisions for uncertain tax positions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Yellow Pages reviews the adequacy of these provisions at each statement of financial position date. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

ACCOUNTING STANDARDS

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

Amendments to IAS 16 – *Property, Plant and Equipment, and IAS 38 – Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*

In May 2014, the International Accounting Standards Board (IASB) issued Amendments to International Accounting Standard (IAS) 16 – *Property, Plant and Equipment* and IAS 38 – *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* to clarify that the use of revenue-based methods to calculate depreciation is not appropriate as revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the related asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption may be rebutted in certain limited circumstances. These amendments must be applied prospectively for annual periods beginning on or after January 1, 2016.

IAS 1 – *Presentation of financial statements*

In December 2014, the IASB issued amendments to IAS 1 – *Presentation of financial statements* as part of its initiative to improve presentation and disclosure in financial reports. The amendments to IAS 1 clarify the existing presentation and disclosure requirements as they relate to materiality, order of the notes, subtotals, accounting policies and disaggregation. The amendments also provide additional guidance on the application of professional judgment to disclosure requirements when preparing the notes to the financial statements.

Certain new standards, interpretations and amendments to existing standards have been published and are mandatory for Yellow Pages Limited's accounting periods beginning on or after January 1, 2017. The new standards which are considered to be relevant to Yellow Pages Limited's operations are as follows:

IFRS 15 – *Revenue from Contracts with Customers*

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

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

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

On April 12, 2016, the IASB published the final clarifications to IFRS 15. The amendments are effective for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The amendments do not change the underlying principles of the standard yet clarify how the principles should be applied. Yellow Pages Limited continues to evaluate the impact this standard will have on its consolidated financial statements.

IFRS 9 – ***Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*. IFRS 9 replaces the requirements in IAS 39 – *Financial Instruments: Recognition and Measurement* for classification and measurement of financial assets and liabilities. The new standard introduces a single classification and measurement approach for financial instruments, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements and results in a single impairment model being applied to all financial instruments. IFRS 9 also modified the hedge accounting model to incorporate the risk management practices of an entity.

Additional disclosures will also be required under the new standard. The new standard will come into effect for annual periods beginning on or after January 1, 2018 with early adoption permitted. Yellow Pages Limited continues to evaluate the impact this standard will have on its consolidated financial statements.

IFRS 16 – ***Leases***

In January 2016, the IASB issued IFRS 16 – *Leases*. It supersedes the IASB's current lease standard, IAS 17, which required lessees and lessors to classify their leases as either finance leases or operating leases and to account for those two types of leases differently. It did not require lessees to recognize assets and liabilities arising from operating leases, but it did require lessees to recognize assets and liabilities arising from finance leases.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months and for which the underlying asset is not of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 contains disclosure requirements for lessees and lessors. This new standard will come into effect for annual periods beginning on or after January 1, 2019. Earlier application is permitted for companies that apply IFRS 15 – *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. Yellow Pages Limited continues to assess the impact this standard will have on its consolidated financial statements.

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

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

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

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

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

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

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

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

6. RISKS AND UNCERTAINTIES

The following section examines the major risks and uncertainties that could materially affect YP's future business results.

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. Please refer to the "Risk Factors" section of our AIF for a complete description of these risk factors. Despite these guidelines, the Company cannot provide assurances that any such efforts will be successful.

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

The Corporation competes with other directory, advertising media and classified advertising businesses and across various media and platforms. This includes the internet, newspapers, television, radio, mobile telecommunication devices, magazines, billboards and direct mail advertising. In particular, the directories business faces substantial competition due to increased online penetration, through the use of online search engines and social networking organizations. The Corporation may not be able to compete effectively with these online competitors, some of which may have greater resources. The Corporation's internet strategy and its directories business may be adversely affected if major search engines build local sales forces or otherwise begin to more effectively reach local businesses for local commercial search services. These competitors may reduce their prices to increase their market share or may be able to offer their services at lower costs than the Corporation can.

The Corporation may be forced to reduce its prices or offer and perform other services in order to remain competitive. The Corporation's failure to compete effectively with its current or future competitors could have a number of impacts such as a reduction in its advertiser base, lower rates and increased costs. This could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

A prolonged economic downturn in principal markets of the Corporation could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation derives revenues principally from the sale of advertising in Yellow Pages print and digital directories across Canada. The Corporation's advertising revenues, as well as those of directories publishers in general, typically do not fluctuate widely with economic cycles. However, a prolonged economic downturn or recession affecting the Corporation's markets, or any deterioration in general economic conditions, could have a material adverse effect on the Corporation's business. The adverse effects of an economic downturn or recession on the Corporation could be compounded by the fact that the majority of the Corporation's customers are SMEs. Such businesses have fewer financial resources and higher rates of failure than larger businesses, and may be more vulnerable to prolonged economic downturns. Therefore, these SMEs may be more likely to reduce or discontinue advertising with the Corporation, which 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 Corporation could be materially adversely affected if the usage of print telephone directories declines at a rate higher than anticipated. The development of new technologies and the widespread use of internet is causing changes in preferences and consumer habits. The usage of internet-based products providing information, formerly exclusively available in print directories, has increased rapidly. The internet has become increasingly accessible as an advertising medium for businesses of all sizes. Further, the use of the internet, including as a means to transact commerce through mobile devices, has resulted in new technologies and services that compete with traditional advertising mediums. In particular, this has a significant influence on print products, and the decrease in usage gradually leads to lower advertising revenues. References to print business directories may decline faster than expected as users increasingly turn to digital and interactive media delivery devices for local commercial search information.

The inability of the Corporation to attract, retain and upsell customers could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's revenues remain adversely impacted by a lower customer count. Failure to provide existing customers with marketing solutions that meet their key marketing objectives and generate return on investment may limit the Corporation's ability to retain existing customers. In addition, the inability of the Corporation's customer acquisition strategies and channels to find and attract new customers may limit the Corporation's ability to grow its total customer count. These events could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The inability of the Corporation to successfully enhance and expand its offering of digital and new media products could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The transition from print to digital causes uncertainties surrounding whether and when new product introductions will compensate for the declining trend in print revenues. If revenue from the Corporation's digital products does not increase significantly, the Corporation's cash flow, results of operations and financial condition will be materially adversely affected.

The Corporation expects to derive a greater portion of its total revenue from its digital and other new media products, as directory usage continues to shift from print directories to digital and other new media products.

The Corporation's transformational expansion towards digital and new media products is subject to a variety of challenges and risks, including the following:

- the Corporation may not continue to grow usage on its digital properties at the same rate as other providers or may grow at a slower rate than currently anticipated;
- internet usage as a source of information and a medium for advertising may not continue to grow, or may grow at a slower rate than currently anticipated, as a result of factors that the Corporation cannot predict or control;
- the Corporation may incur substantial additional costs and expenses related to investments in its information technology, modifications to existing products and development of new products and this may reduce profit margins in the future;
- the Corporation may be unable to develop and market new products in a timely and efficient manner, as the Corporation's markets are characterised by rapidly changing technology, introductions and enhancements to existing products and shifting advertising customer and end-user demands, including technology preferences;
- the Corporation may be unable to improve its information technology systems so as to efficiently manage increased levels of traffic on the Corporation's digital properties and provide new services and products;
- the Corporation may be unable to keep apprised of changes to search engines' terms of service or algorithms, which could cause the Corporation's digital properties, or its advertising customers' digital properties, to be excluded from or ranked lower in search results or make it more difficult or more expensive for the Corporation to provide search engine marketing and search engine optimisation solutions to its advertising customers;
- the Corporation's advertising customers may be unwilling to grow their investment in digital advertising; and
- the Corporation may be unable to increase or maintain the prices of its products and services in the future.

If any of the above-mentioned risks were to occur, the Corporation's digital revenue, as well as its business, results from operations and financial condition could be materially adversely affected.

The inability of the Corporation to supply the relationships and technologies required to appropriately service the needs of its national customers could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation anticipates that it will continue to depend on various third-party relationships in order to grow its business, such as technology and content providers, real-time advertising exchanges and other strategic partners. The Corporation may not be able to maintain such relationships and these third parties may experience disruptions or performance problems, which could negatively affect the Corporation's efficiency and reputation.

In addition, the Corporation relies heavily on information technology systems to manage critical functions of its digital and mobile marketing solutions. The future success of the Corporation will depend in part upon its ability to continuously enhance and improve its existing solutions in a timely manner with features and pricing that meet changing advertiser needs. As marketing via new digital advertising channels, such as mobile advertising is emerging, it may evolve in unexpected ways, and the failure of the Corporation to adapt successfully to market evolution could have a material adverse effect on the Corporation, its business, results of operations and financial condition.

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

The success of numerous of our customers' marketing campaigns is dependent on how well they can attract valuable audiences. The Corporation will invest in order to protect digital audiences across its network of online and mobile properties by enhancing the quality, completeness and relevance of the content distributed to its properties, and by providing compelling verticalized sites and applications for local discovery. The Corporation may not be able to protect or grow traffic across its digital properties and such investments may not prove to be cost-effective. There can be no assurance that current traffic or potential growth in traffic across the Corporation's digital properties may maintain or increase advertising customer renewal rates and/or annual spending, or lead to a measurable increase in advertising customers.

A higher than anticipated proportion of revenues coming from the Corporation's digital products with lower margins, such as services and resale, could have a material adverse effect on the Corporation's profitability

Digital advertising sold on the Corporation's owned and operated media currently operate at the highest level of profitability relative to digital service (websites, search engine optimization, content syndication and Facebook) solutions and resale (SEM) solutions. Revenues sourced from digital service and resale solutions that are proportionally materially higher than anticipated may have an adverse impact on the Corporation's profitability.

The inability of the Corporation to develop information and technology systems and platforms required to execute the Corporation's Return to Growth Plan could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The achievement of the Corporation's Return to Growth Plan requires the development of its digital media, mobile and online businesses. The customer preference for digital media, mobile and online products will likely accelerate as younger, more technologically savvy advertisers make up a greater portion of the Corporation's potential customer base. Moreover, the rapid technological evolution in the advertising industry is driving changes in user behaviour as users seek more control over the way in which they consume content. In order to succeed, the Corporation will need to invest significant resources in order to, among other things:

- accelerate the evolution of its existing products and services;
- develop in a timely manner compelling new digital media, mobile and online products and services that engage users across various platforms;
- attract and retain talent for critical positions;
- continue to transform its organization and operating model to grow its digital media, mobile and online businesses;
- continue to develop and upgrade its technologies and supporting processes to distinguish its products and services offering from those of its competitors; and
- sell advertising in significant markets and be a compelling choice for advertisers on mobile and online.

The Corporation cannot assure that it will be successful in achieving these and other necessary objectives or that the Return to Growth Plan will be successful. Failure to adapt to new technology or delivery methods, or the choice of one technological innovation over another, may have an adverse impact on the Corporation's ability to compete effectively with its competitors or to achieve its Return to Growth Plan, which could have a material adverse effect on the Corporation, its business, results of operations and financial condition.

The inability of the Corporation to execute on or delays in the execution of its Return to Growth Plan could impair its ability to grow revenues and expand its business

In early 2014, the Corporation introduced the Return to Growth Plan, which was a five year strategic plan to return to growth in customer count, revenues and profitability. The Corporation's inability to execute on or delays in the execution of the Plan could impair its ability to grow revenue and expand its business, which might have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The Corporation might be required to record additional impairment charges

The Corporation may be subject to impairment losses that would reduce its reported assets and earnings. Economic, legal, regulatory, competitive, contractual and other factors may affect the value of identifiable intangible assets. If any of these factors impair the value of these assets, accounting rules would require the Corporation to reduce their carrying value and recognize an impairment charge, which would reduce the value of the Corporation's reported assets and earnings of the Corporation in the year the impairment charge is recognized.

The Corporation's inability to realize cost savings could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Return to Growth Plan is designed to improve operational efficiencies and generate cost savings across the organization. The Corporation will continue to realize efficiencies by decommissioning and replacing legacy systems and ISIT datacenters, while optimizing various customer service and digital fulfillment processes. The Corporation may not be able to complete these projects on time, on budget and/or successfully, placing the realization of anticipated cost savings at risk. Delays and/or disruptions in these projects may have an adverse effect on our business, results from operations and financial condition.

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 could result in a material adverse effect on the Corporation, its business, results from operations and financial condition

We have a Billing and Collection Services Agreement with Bell Canada (up to 2017), with TELUS (up to 2031), with MTS Inc. (up to 2017) and with Bell Canada Inc. (as successor to Bell Aliant Regional Communications LP) (up to 2037). Through these agreements, our billing is included as a separate line item on the telephone bills of Bell, TELUS, MTS Inc. and Bell Canada Inc. customers who use our services. Bell Canada, TELUS, MTS Inc. and Bell Canada Inc. (the Telco Partners) contract with third parties to conduct monthly billing of customers who use them as their local telephone service providers. In addition, the Telco Partners provide collection services for the Corporation with those customers who are also their customers. Additionally, the Corporation has entered into publishing agreements with each Telco Partner. If the Corporation fails to perform its obligations under these agreements and the agreements are consequently terminated by such Telco Partner, other agreements with such Telco Partners may also be terminated, including the Bell Canada Trademark License Agreement, the TELUS Trademark License Agreement, the MTS Inc. Branding and Trademark Agreement and the Bell Canada Inc. Branding and Trademark Agreement, as well as non-competition covenants we benefit from with such Telco Partners.

We have agreements with outside service suppliers to print and distribute our directories and publications. These agreements are for services that are integral to our business.

The failure of the Telco Partners or any of our other suppliers to fulfill their contractual obligations under these agreements could result in a material adverse effect on our business.

Customers who do not use the Telco Partners as their local telephone provider as well as all new customers are billed directly by the Corporation.

Failure by the Corporation to adequately protect and maintain its brands and trademarks, as well as third party infringement of such, could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation relies heavily on its existing brands and trademarks for a significant portion of its revenues. Failure to adequately maintain the strength and integrity of these brands and trademarks, or to develop new brands and trademarks, could adversely affect our results from operations and our financial condition.

It is possible that third parties could infringe upon, misappropriate or challenge the validity of the Corporation's trademarks or our other intellectual property rights. This could have a material adverse effect on our business, our financial condition or our operating results. The actions that the Corporation takes to protect its trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce or protect the Corporation's intellectual property rights, its trade secrets or to determine the validity and scope of the proprietary rights of others. We cannot ensure that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information.

Any such infringement or misappropriation could harm any competitive advantage we currently derive, or may derive, from our proprietary rights. Third parties may assert infringement claims against the Corporation. Any such claims and any resulting litigation could subject the Corporation to significant liability for damages. An adverse judgment arising from any litigation of this type could require the Corporation to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend against and could result in the diversion of the Corporation's time and resources. Any claims from third parties may also result in limitations on the Corporation's ability to use the intellectual property subject to these claims.

Work stoppages and other labour disturbances could have a material adverse effect on the Corporation, its business, results from operations and financial condition

Certain non-management employees of the Corporation are unionized. Current union agreements range between one to five years in duration and are subject to expiration at various dates in the future. Four of these agreements have expired and are being renegotiated. If the Corporation is unable to renew these agreements as they come up for renegotiation from time to time, it could result in work stoppages and other labour disturbances which could have a material adverse effect on our business. Additionally, if a greater percentage of the Corporation's workforce becomes unionized, this could have a material adverse effect on our business, results from operations and financial condition.

The Corporation's inability to attract and retain key personnel could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The success of the Corporation depends on the abilities, experience and personal efforts of senior management of the Corporation, including their ability to retain and attract skilled employees. The Corporation is also dependent on the number and experience of its sales representatives and ISIT employees. The loss of the services of such key personnel could have a material adverse effect on the Corporation, its business, its results from operations and financial condition.

Challenge by tax authorities of the Corporation's position on certain income tax matters could have a material adverse effect on the Corporation, its business, results from operations and financial condition

In the normal course of the Corporation's activities, the tax authorities are carrying out ongoing reviews. In that respect, the Corporation is of the view that all expenses claimed by the different entities of the group are reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties have been correctly determined. There is no assurance that the tax authorities may not challenge these positions. Such challenge, if successful, may have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The loss of key relationships or changes in the level of service provided by mapping applications and search engines could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation has entered into agreements with mapping applications and search engines to promote its online directories. These agreements facilitate access to the Corporation's content and customer advertising, allow the Corporation to generate a higher volume of traffic than it would on its own as well as generate business leads for its advertisers, while retaining the client relationship. Loss of key relationships or changes in the level of service provided by the mapping applications and search engines could impact performance of the Corporation's internet marketing solutions. In addition, internet marketing services are provided by many other competitors within the markets the Corporation serves and its clients could choose to work with other, sometimes larger providers of these services, or with other search engines directly. The foregoing could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

The failure of the Corporation's computers and communications systems could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's business activities rely significantly on the efficient and uninterrupted operation of computers and communications systems as well as those of third parties. The Corporation's media properties, sales and advertising processing, data storage, production, billing, collection and day-to-day operations could be adversely impaired by the failure of such technology, which could in turn have a material adverse effect on the Corporation, its business, results from operations and financial condition.

In addition, the Corporation's computer and ISIT systems may be vulnerable to damage or interruption from a variety of sources and its disaster recovery systems may be deemed ineffective. Any failure of these systems could impair the Corporation's business. This could have a material adverse effect on the Corporation, its business, results from operations and financial condition.

Declines in, or changes to, the real estate industry could have a material adverse effect on the Corporation, its business, results from operations and financial condition

On July 1, 2015, Yellow Pages acquired CFDP, growing the Corporation into a leading digital real estate marketplace. As a result of the acquisition, the Corporation has a greater presence in the real estate listing business. The CFDP business and financial performance are affected by the health of, and changes to, the real estate industry. Home-buying patterns are sensitive to economic conditions and tend to decline or grow more slowly during economic downturns. A decrease in real estate activities could lead to reductions in the purchase of package offerings by home sellers. CFDP is subject to rules and regulations in the real estate industry, which may change from time to time in a way that may restrict or complicate CFDP's ability to deliver its products and harm CFDP's business and operating results. Declines or disruptions in the real estate market could reduce demand for CFDP's products and could harm its business and operating results. This 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

The ability of the Corporation to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance. There can be no assurance that the Corporation will be able to generate sufficient cash from its operations to pay its debt obligations. The Corporation's ability to generate sufficient funds from operations, debt financings, equity financings or refinancing transactions is, to a large extent, subject to economic, financial, competitive, operational and other factors, many of which are beyond the Corporation's control.

There can be no assurance that the Corporation will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to the Corporation to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome the challenges associated with the evolution of its business and support its business strategy if cash flows from operations and cash on hand are insufficient.

Failure to generate sufficient funds, whether from operations or debt or equity financings or refinancing transactions, could require the Corporation to delay or abandon some of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on the Corporation, its business, results from operations and financial condition. Furthermore, competitors with greater liquidity or their ability to raise money more easily and on less onerous terms could create a competitive disadvantage for the Corporation.

The Corporation's amount of debt could adversely affect its efforts to refinance or reduce its indebtedness and could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation's amount of debt could have material adverse effects on the Corporation, its business, results from operations and financial condition. For example, it could:

- increase the Corporation's vulnerability to adverse economic and industry conditions;
- require the Corporation to dedicate a substantial portion of its cash flows from operations to make payments on its debt, thereby reducing funds available for operations, future business opportunities or other purposes;
- limit the Corporation's flexibility in planning for, or reacting to, changes in its business and its industry;
- place the Corporation at a competitive disadvantage compared to its competitors that have less debt; and
- limit the Corporation's ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions, debt service requirements or other purposes.

In addition, the indenture governing the Senior Secured Notes, the indenture governing the Exchangeable Debentures and the ABL contain a number of financial and other restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets and certain transactions with affiliates and its business activities. A failure to comply with such obligations could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the indenture governing the Senior Secured Notes, the indenture governing the Exchangeable Debentures or the ABL, as the case may be, were to be accelerated, there can be no assurance that the Corporation would have sufficient liquidity or access to capital to repay in full that indebtedness.

Incremental contributions by the Corporation to its pension plans could have a material adverse effect on the Corporation, its business, results from operations and financial condition

The Corporation is currently and may be required to make incremental contributions to its pension plans in the future depending on various factors including future returns on pension plan assets, long-term interest rates and changes in pension regulations, which may have a materially negative effect on the Corporation's liquidity and results from operations. The Corporation is currently making incremental contributions to its pension plans to reduce its actuarial solvency deficits.

The funding requirements of the Corporation's pension plans, resulting from valuations of its pension plan assets and liabilities, depend on a number of factors, including actual returns on pension plan assets, long-term interest rates, plan demographic and pension regulations. Changes in these factors could cause actual future contributions to significantly differ from the Corporation's current estimates and could require the Corporation to make incremental contributions to its pension plans in the future and, therefore, could have a materially negative effect on the Corporation's liquidity, business, results from operations and financial condition.

There is no assurance that the Corporation's pension plans will be able to earn their assumed rate of return. A material portion of the Corporation's pension plans' assets is invested in public equity securities. As a result, the ability of the Corporation's pension plans to earn the rate of return that management has assumed depends significantly on the performance of capital markets. The market conditions also impact the discount rate used to calculate the Corporation's solvency obligations and thereby could also significantly affect the Corporation's cash funding requirements.

7. CONTROLS AND PROCEDURES

As a public entity, we must take every step 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 December 31, 2016.

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 December 31, 2016.

During the quarter beginning on October 1, 2016 and ended on December 31, 2016, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.