

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF YELLOW PAGES LIMITED

September 30, 2022 and 2021

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Interim Condensed Consolidated Statements of Financial Position

(in thousands of Canadian dollars – Unaudited)

As at	September 30, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS		
Cash	\$ 144,677	\$ 123,559
Trade and other receivables (Note 3)	39,213	42,267
Prepaid expenses	5,469	4,137
Deferred publication costs	941	1,945
Net investment in subleases	1,635	1,485
TOTAL CURRENT ASSETS	191,935	173,393
NON-CURRENT ASSETS		
Deferred commissions	2,189	1,959
Financial and other assets	1,843	1,671
Right-of-use assets	7,117	9,752
Net investment in subleases	25,185	25,189
Property and equipment	4,276	5,249
Intangible assets	51,769	58,747
Deferred income taxes	15,564	29,269
TOTAL NON-CURRENT ASSETS	107,943	131,836
TOTAL ASSETS	\$ 299,878	\$ 305,229
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables	\$ 31,537	\$ 34,931
Income taxes payable	4,272	5,305
Provisions	16,295	21,090
Deferred revenues	1,599	1,622
Current portion of lease obligations	3,184	2,940
TOTAL CURRENT LIABILITIES	56,887	65,888
NON-CURRENT LIABILITIES		
Provisions	856	1,051
Post-employment benefits (Note 5)	52,040	75,220
Lease obligations	44,488	46,939
TOTAL NON-CURRENT LIABILITIES	97,384	123,210
TOTAL LIABILITIES	154,271	189,098
CAPITAL AND RESERVES	6,369,372	6,498,894
DEFICIT	(6,223,765)	(6,382,763)
TOTAL EQUITY	145,607	116,131
TOTAL LIABILITIES AND EQUITY	\$ 299,878	\$ 305,229

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

Interim Condensed Consolidated Statements of Income

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

For the three and nine-month periods ended September 30,	2022		2021	
Revenues (Note 8)	\$	66,310	\$	70,920
Operating costs (Note 7)		39,920		44,303
Income from operations before depreciation and amortization, and restructuring and other charges		26,390		26,617
Depreciation and amortization		3,514		5,058
Restructuring and other charges (Note 4)		612		1,423
Income from operations		22,264		20,136
Financial charges, net (Note 10)		55		1,132
Loss on early repayment of debt		–		–
Earnings before income taxes		22,209		19,004
Provision for income taxes		5,516		5,257
Net earnings	\$	16,693	\$	13,747
Basic earnings per share	\$	0.66	\$	0.52
Weighted average shares outstanding – basic earnings per share (Note 6)		25,305,133		26,341,494
Diluted earnings per share	\$	0.60	\$	0.51
Weighted average shares outstanding – diluted earnings per share (Note 6)		25,518,288		26,733,364

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

Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars– Unaudited)

For the three and nine-month periods ended September 30,	2022		2021	
	\$	16,693	\$	13,747
Net earnings	\$	16,693	\$	13,747
				\$ 44,001
				\$ 31,900
Other comprehensive income:				
Items that will not be reclassified subsequently to net earnings				
Actuarial gains (Note 5)		2,413		14,231
Income taxes relating to items that will not be reclassified subsequently to net earnings		(637)		(3,753)
Other comprehensive income		1,776		10,478
Total comprehensive income	\$	18,469	\$	24,225
				\$ 57,850
				\$ 63,589

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

Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars – Unaudited)

For the nine-month periods ended September 30,

	2022							
	Shareholders' capital (Note 6)	Restricted shares	Warrants	Stock-based compensation and other reserves	Reduction of capital reserve	Total capital and reserves	Deficit	Total equity
Balance, December 31, 2021	\$ 3,938,124	\$ (18,688)	\$ 1,456	\$ 120,949	\$ 2,457,053	\$ 6,498,894	\$ (6,382,763)	\$ 116,131
Other comprehensive income	–	–	–	–	–	–	13,849	13,849
Net earnings	–	–	–	–	–	–	44,001	44,001
Total comprehensive income	–	–	–	–	–	–	57,850	57,850
Repurchase of common shares (Note 6)	(125,098)	–	–	–	–	(125,098)	112,694	(12,404)
Shares issued under the stock option plan (Note 6)	210	–	–	(57)	–	153	–	153
Dividends to shareholders (Note 6)	–	–	–	45	–	45	(11,546)	(11,501)
Restricted shares settled (Note 9)	–	992	–	(941)	–	51	–	51
Restricted shares expense (Note 9)	–	–	–	218	–	218	–	218
Stock options equity-settled expense (Note 9)	–	–	–	641	–	641	–	641
Stock options reclassification (Note 9)	–	–	–	(6,168)	–	(6,168)	–	(6,168)
Common shares subject to repurchase	–	–	–	636	–	636	–	636
Balance, September 30, 2022	\$ 3,813,236	\$ (17,696)	\$ 1,456	\$ 115,323	\$ 2,457,053	\$ 6,369,372	\$ (6,223,765)	\$ 145,607

	2021								
	Shareholders' capital (Note 6)	Restricted shares	Warrants	Compound financial instruments ¹	Stock-based compensation and other reserves	Reduction of capital reserve	Total capital and reserves	Deficit	Total equity
Balance, December 31, 2020	\$ 3,992,754	\$ (19,318)	\$ 1,456	\$ 3,617	\$ 120,218	\$ 2,457,053	\$ 6,555,780	\$ (6,526,479)	\$ 29,301
Other comprehensive income	–	–	–	–	–	–	–	31,689	31,689
Net earnings	–	–	–	–	–	–	–	31,900	31,900
Total comprehensive income	–	–	–	–	–	–	–	63,589	63,589
Repayment of exchangeable debentures	–	–	–	(3,617)	–	–	(3,617)	4,946	1,329
Repurchase of common shares (Note 6)	(22,744)	–	–	–	–	–	(22,744)	20,614	(2,130)
Shares issued under the stock option plan (Note 6)	141	–	–	–	(30)	–	111	–	111
Dividends to shareholders (Note 6)	–	–	–	–	47	–	47	(10,858)	(10,811)
Restricted shares settled (Note 9)	–	630	–	–	(566)	–	64	–	64
Restricted shares expense (Note 9)	–	–	–	–	224	–	224	–	224
Stock options equity-settled expense (Note 9)	–	–	–	–	1,311	–	1,311	–	1,311
Stock options reclassification (Note 9)	–	–	–	–	(1,130)	–	(1,130)	–	(1,130)
Common shares subject to repurchase	–	–	–	–	299	–	299	–	299
Balance, September 30, 2021	\$ 3,970,151	\$ (18,688)	\$ 1,456	\$ –	\$ 120,373	\$ 2,457,053	\$ 6,530,345	\$ (6,448,188)	\$ 82,157

¹ The equity component of the exchangeable debentures presented above is net of income taxes of \$1.3 million. These exchangeable debentures were repaid in May 2021.

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

Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars– Unaudited)

For the nine-month periods ended September 30,	2022	2021
OPERATING ACTIVITIES		
Net earnings	\$ 44,001	\$ 31,900
Adjusting items		
Stock-based compensation expense – equity settled	859	1,535
Depreciation and amortization	12,070	15,078
Restructuring and other charges	2,767	2,679
Financial charges, net	1,285	8,129
Loss on early repayment of debt	–	7,764
Provision for income taxes	15,466	12,090
Change in operating assets and liabilities	(578)	17,865
Stock-based compensation cash payments	(7,076)	(5,486)
Funding of post-employment benefit plans in excess of costs	(6,092)	(4,984)
Restructuring and other charges paid	(3,206)	(4,754)
Interest paid	(1,618)	(6,012)
Income taxes paid, net	(7,758)	–
	50,120	75,804
INVESTING ACTIVITIES		
Additions to intangible assets	(3,948)	(3,798)
Additions to property and equipment	(70)	(56)
Payments received from net investment in subleases	975	272
	(3,043)	(3,582)
FINANCING ACTIVITIES		
Repayment of exchangeable debentures	–	(107,033)
Repurchase of common shares (Note 6)	(12,404)	(2,130)
Issuance of common shares (Note 6)	153	111
Payment of lease obligations	(2,207)	(2,286)
Dividends paid (Note 6)	(11,501)	(10,811)
	(25,959)	(122,149)
NET INCREASE (DECREASE) IN CASH	21,118	(49,927)
CASH, BEGINNING OF YEAR	123,559	153,492
CASH, END OF PERIOD	\$ 144,677	\$ 103,565

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

1. Description

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

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

The Board of Directors (the “Board”) approved the interim condensed consolidated financial statements for the three and nine-month periods ended September 30, 2022 and 2021 on November 9, 2022 for publication on November 10, 2022.

2. Basis of presentation and significant accounting policies

2.1 Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 – *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The accounting policies and methods of computation applied in these interim condensed consolidated financial statements are consistent with International Financial Reporting Standards (“IFRS”) and are the same as those applied by Yellow Pages Limited in its audited consolidated financial statements as at and for the years ended December 31, 2021 and 2020. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2021 and 2020.

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

Effective January 1, 2022, the Company adopted the following amended accounting standards;

Amendments to IFRS 3 – Business Combinations

The amendments to the implementation guidance of IFRS 3 clarify the definition of a business to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The adoption of these amendments did not have any impact to the Company’s financial statements. They may have an impact on the accounting of future business combinations, if any.

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

The amendments to IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets, specifying which costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments to IAS 37, clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The adoption of these amendments did not have any impact on the Company’s financial statements.

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

Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

On February 12, 2021, the IASB, issued amendments to IAS 8. These amendments introduce the definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The Company does not expect any significant impact to its financial statements related to the adoption of these amendments.

Amendments to IAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current

On January 20, 2020, the IASB issued amendments to IAS 1, to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is assessing the impact of adopting these amendments on its financial statements, although it does not expect any significant impact to its financial statements related to the adoption of these amendments.

Amendments to IAS 1 – Presentation of Financial Statements – Disclosure of Accounting Policies

On February 12, 2021, the IASB issued amendments to IAS 1, Presentation of Financial Statements and amended IFRS practice Statement 2, Making Material Judgements to require entities to disclose their material accounting policy information rather than their significant accounting policies. These amendments are effective for annual periods beginning on or after January 1, 2023, earlier application is permitted. The Company is currently assessing the impact of this amendment on its current accounting policy disclosure.

Amendments to IAS 12 – Income taxes

On May 7, 2021, IASB published Deferred Tax related to Assets and Liabilities arising from a single transaction. The amendments clarify the accounting for deferred tax on transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. The Company does not expect any significant impact to its financial statements related to the adoption of these amendments.

3. Trade and other receivables¹

As at	September 30, 2022	December 31, 2021
Current	\$ 33,173	\$ 33,800
Past due less than 180 days	3,571	3,639
Past due over 180 days	127	1,259
Trade receivables	\$ 36,871	\$ 38,698
Other receivables²	\$ 2,342	\$ 3,569
Trade and other receivables	\$ 39,213	\$ 42,267

¹ Trade and other receivables are presented net of allowance for revenue adjustments ("AFRA") and ECL of \$15.7 million as at September 30, 2022 (\$27.7 million as at December 31, 2021).

² Other receivables included a loan receivable associated with a forward contract, for a net amount of \$nil as at September 30, 2022 (\$3.1 million as at December 31, 2021).

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

As at	September 30, 2022	December 31, 2021
Contract assets	\$ 23,012	\$ 25,366
Allowance for revenue adjustments and ECL	(1,223)	(1,884)
Contract assets net of allowance for revenue adjustments and ECL	\$ 21,789	\$ 23,482

The contract assets, which are included in trade and other receivables, consist of payments for print products on delivered directories that are not yet due from the customer and represent the Company's right to consideration for the services rendered. Any amount previously recognized as a contract asset is reclassified to trade receivables once it is invoiced to the customer. The change in contract assets for the nine-month period ended September 30, 2022 is primarily related to the fluctuation in print revenue.

The revenues related to the performance obligations that are unsatisfied (or partially unsatisfied at the reporting date) are expected to be recognized over the next twelve (12) months. The contract liabilities consist of deferred revenues which primarily relate to the advanced consideration received from customers for which revenue is recognized over time.

4. Restructuring and other charges

Yellow Pages Limited recorded restructuring and other charges of \$0.6 million during the third quarter of 2022 consisting mainly of restructuring charges of \$0.3 million associated with workforce reductions and \$0.3 million of other costs. Restructuring and other charges of \$1.4 million were recorded for the three-month period ended September 30, 2021 consisting mainly of restructuring charges of \$1.0 million associated with workforce reductions and a \$0.5 million charge related to future operation costs provisioned related to lease contracts of previously vacated office space partially offset by a \$0.1 million recovery related to the sublease of previously vacated office space.

Yellow Pages Limited recorded restructuring and other charges of \$2.8 million during the nine-month period ended September 30, 2022 consisting mainly of restructuring charges of \$0.9 million associated with workforce reductions as well as a \$1.4 million charge related to the impairment of property and equipment and right-of-use assets related to vacated office space and \$0.2 million charge related to future operation costs provisioned related to lease contracts for office closures and \$0.3 million of other costs. Yellow Pages Limited recorded restructuring and other charges of \$2.7 million during the nine-month period ended September 30, 2021 consisting mainly of restructuring charges of \$2.5 million associated with workforce reductions and a \$0.3 million charge related to future operation costs provisioned related to lease contracts of previously vacated office space partially offset by a \$0.1 million recovery related to the sublease of previously vacated office space.

5. Post-employment benefits

Yellow Pages Limited recorded an actuarial gain of \$1.8 million in other comprehensive income, net of income taxes of \$0.6 million for the three-month period ended September 30, 2022. A gain of \$5.7 million resulting from the decrease in the inflation rate from 1.80% to 1.60% was partially offset by a loss of \$3.2 million due to the lower-than-expected actual return on plan assets and a loss of \$0.1 million due to the increase in the interest rates. Yellow Pages Limited recorded an actuarial gain of \$10.5 million in other comprehensive income, net of income taxes of \$3.8 million for the three-month period ended September 30, 2021. A gain of \$22.1 million resulting from the increase in the discount rate from 3.10% to 3.40%, was partially offset by a loss of \$7.9 million due to the lower-than-expected actual return on plan assets.

Yellow Pages Limited recorded an actuarial gain of \$13.8 million in other comprehensive income, net of income taxes of \$5.0 million for the nine-month period ended September 30, 2022. A gain of \$132.1 million resulting from the increase in the discount rate from 3.20% to 5.20% and decrease in the inflation rate from 1.80% to 1.60%, was partially offset by a loss of \$113.3 million due to the lower-than-expected actual return on plan assets. Yellow Pages Limited recorded an actuarial gain of \$31.7 million in other comprehensive income, net of income taxes of \$11.3 million for the nine-month period ended September 30, 2021. A gain of \$56.4 million resulting from the increase in the discount rate from 2.60% to 3.40%, partially offset by the increase in the inflation rate from 1.50% to 1.70% and a loss of \$13.4 million due to the lower-than-expected actual return on plan assets.

6. Shareholders' capital

Common shares – Issued

For the nine-month period ended September 30, 2022	Number of Shares	Amount
Balance, December 31, 2021	27,459,686	\$ 3,938,124
Common shares repurchased	(871,135)	(125,098)
Shared issued under stock option plan	18,873	210
Balance, September 30, 2022	26,607,424	\$ 3,813,236

For the year ended December 31, 2021	Number of Shares	Amount
Balance, December 31, 2020	27,828,906	\$ 3,992,754
Common shares repurchased	(381,406)	(54,771)
Shared issued under stock option plan	12,185	141
Exchange of common share purchase warrants	1	–
Balance, December 31, 2021	27,459,686	\$ 3,938,124

The total number of common shares of Yellow Pages Limited held by the trustee for the purpose of funding the restricted share unit and performance share unit plan (the “RSU and PSU Plan”) amounted to 1,298,994 as at September 30, 2022 (see Note 9).

Share repurchases

The Company entered into a normal course issuer bid (“NCIB”), commencing August 10, 2020, to purchase up to \$5.0 million of Common Shares in the open market for cancellation, on or before August 9, 2021. Upon completion of this NCIB on July 16, 2021, the Company had purchased 403,220 common shares for cash of \$5.0 million. For the nine-month period ended September 30, 2021, the Company purchased under this NCIB program 130,030 common shares for cash of \$1.7 million. The related historical carrying value of these shares in excess of the repurchase proceeds was reclassified from shareholder’s capital to deficit.

On August 5, 2021, the Company announced a new NCIB commencing August 10, 2021 to purchase up to \$16.0 million of the Company’s outstanding shares for cancellation on or before August 9, 2022. Upon completion of this NCIB program on May 30, 2022, the Company purchased under this NCIB program, a total of 1,122,511 common shares for cash of \$16.0 million. For the nine-month period ended September 30, 2022, the Company purchased under this NCIB program 871,135 common shares, for cash of \$12.4 million. The related historical carrying value of these shares in excess of the repurchase proceeds was reclassified from shareholder’s capital to deficit within the Company’s interim condensed consolidated financial statements. For the three and nine-month periods ended September 30, 2021, the Company purchased under this NCIB program 28,357 common shares for cash of \$0.4 million.

Dividends

On May 12th, 2021, the Company’s Board of Directors (the “Board”) modified its dividend policy of paying a quarterly cash dividend to its common shareholders by increasing the dividend from \$0.11 per share to \$0.15 per share. YP’s dividend payout policy and the declaration of dividends on any of the Company’s outstanding common shares are subject to the discretion of the Board and, consequently, there can be no guarantee that the dividend payout policy will be maintained or that dividends will be declared.

During the nine-month period ended September 30, 2022, the Company paid quarterly dividends of \$0.15 per common share. The dividends were paid on March 15, June 15 and September 15 of 2022 for a total consideration of \$11.5 million to common shareholders. During the nine-month period ended September 30, 2021, the Company paid quarterly dividends of \$0.11 per common share on March 15, 2021 and of \$0.15 per common share on June 30, 2021 and September 15, 2021 for a total consideration of \$10.8 million to common shareholders.

Warrants

On December 20, 2012, the Company issued 2,995,506 common share purchase warrants (“Warrants”).

As at September 30, 2022, the Company had a total of 2,995,483 Warrants outstanding for an amount of \$1.5 million. During the year ended December 31, 2021, 1 Warrant was exercised in exchange for 1 common share of Yellow Pages Limited. As at December 31, 2021, the Company had a total of 2,995,483 Warrants outstanding for an amount of \$1.5 million.

Each Warrant is transferable and entitles the holder to purchase one common share of Yellow Pages Limited at an exercise price of \$28.16 per Warrant payable in cash at any time on or prior to December 20, 2022. The fair value of the Warrants on December 20, 2012 was \$1.5 million.

The fair value of the Warrants was calculated using a binomial option pricing model with the following assumptions:

Risk free interest rate	2.27%
Expected life	10 years
Expiry date	December 20, 2022
Expected volatility	33.5%

Earnings per share

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

For the three and nine-month periods ended September 30,	2022	2021	2022	2021
Weighted average number of shares outstanding used in computing basic earnings per share ¹	25,305,133	26,341,494	25,582,437	26,380,082
Dilutive effect of restricted share units	77,311	114,977	77,311	114,977
Dilutive effect of stock options	135,844	276,893	172,155	247,482
Weighted average number of shares outstanding used in computing diluted earnings per share¹	25,518,288	26,733,364	25,831,903	26,742,541
For the three and nine-month periods ended September 30,	2022	2021	2022	2021
Net earnings used in the computation of basic earnings per share	\$ 16,693	\$ 13,747	\$ 44,001	\$ 31,900
Impact of assumed conversion of stock options, net of applicable taxes	(1,293)	–	(1,708)	–
Total net earnings used in the computation of diluted earnings per share	\$ 15,400	\$ 13,747	\$ 42,293	\$ 31,900

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

For the three and nine-month periods ended September 30, 2022 and 2021, the diluted earnings per share calculation did not take into consideration the potential dilutive effect of the Warrants as well as stock options that are not in the money and therefore are not dilutive.

7. Operating costs

The Company was eligible for the Canada Emergency Wage Subsidy offered by the Government of Canada as it met the criteria for certain periods. Yellow Pages Limited received non-refundable contributions of \$0.6 million and \$1.1 million during the three and nine-month periods ended September 30, 2022 (2021 - \$1.0 and \$4.0 million, respectively), for admissible salaries related to its workforce. The contributions are recorded as a reduction to operating costs in the interim condensed consolidated statements of income.

8. Revenues

The Company reviews revenues by similar products and services, such as Print and Digital.

Print revenues are recognized at a point in time, whereas 99% of digital revenues were recognized over the term of the contract and 1% at a point in time for the three and nine-month periods ended September 30, 2022 and for the three and nine-month periods ended September 30, 2021.

The following table presents revenue information by similar products and services:

For the three and nine-month periods ended September 30,	2022	2021	2022	2021
Digital	\$ 52,230	\$ 54,973	\$ 157,621	\$ 167,673
Print	14,080	15,947	46,062	51,349
Total revenues	\$ 66,310	\$ 70,920	\$ 203,683	\$ 219,022

9. Stock-based compensation plans

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

Restricted Share Unit and Performance Share Unit Plan

The total number of common shares of Yellow Pages Limited held by the trustee for the purpose of funding the RSU and PSU Plan amounted to 1,298,994 as at September 30, 2022. There were nil PSUs outstanding as at September 30, 2022 and September 30, 2021.

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

	2022		2021	
	Number of RSUs	Liability ¹	Number of RSUs	Liability ¹
Outstanding, beginning of year	277,317	\$ 1,950	327,617	\$ 831
Granted ²	149,371	64	–	–
Dividends credited ³	8,765	127	9,263	62
Settled	(65,269)	(838)	(62,504)	(891)
Variation due to change in fair value and vesting	–	687	–	1,601
Outstanding, end of period⁴	370,184	\$ 1,990	274,376	\$ 1,603

¹ The liability related to the RSUs is recorded in trade and other payables, and the expense related to the vested RSUs and the variation due to change in fair value are included in operating costs.

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

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

⁴ The number of restricted shares vested as of September 30, 2022 is 159,865 (2021 – 116,608).

The following table summarizes the continuity of all the RSUs, including those shown in the table above and those presented in equity, during the nine-month periods ended September 30:

	2022	2021
Number of	RSUs	RSUs
Outstanding, beginning of year	393,525	448,965
Granted	171,224	26,512
Settled	(123,724)	(97,688)
Dividends credited ¹	12,110	12,676
Forfeited	(5,640)	(1,112)
Outstanding, end of period	447,495	389,353
Weighted average remaining life (years)	1.44	1.39

¹ Dividends in the form of additional RSUs are credited to the participant's account on each dividend payment date and are equivalent in value to the dividend paid on common shares.

During the three and nine-month periods ended September 30, 2022, an expense of \$0.2 million and \$1.1 million, respectively (2021 – \$0.4 million and \$1.9 million, respectively) was recorded in the interim condensed consolidated statement of income in operating costs in relation to RSUs.

Deferred Share Unit Plan

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

	2022		2021	
	Number of DSUs	Liability ¹	Number of DSUs	Liability ¹
Outstanding, beginning of year	300,919	\$ 4,111	339,808	\$ 4,257
Granted ²	24,560	253	30,704	266
Forfeited	–	–	(3,292)	–
Dividends credited ³	11,190	148	11,154	153
Variation due to change in stock price	–	(310)	–	439
Outstanding, end of period⁴	336,669	\$ 4,202	378,374	\$ 5,115

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

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

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

⁴ The number of DSUs vested as of September 30, 2022 is 330,529 (2021 – 371,982).

During the three and nine-month periods ended September 30, 2022, a recovery of \$0.2 million and expense of \$0.1 million, respectively (2021 – a recovery of \$0.2 million and an expense of \$0.9 million, respectively) was recorded in the interim condensed consolidated statement of income in operating costs in relation to the Deferred Share Unit Plan.

Stock options

On March 24, 2022, the Board approved an amendment to the 2012 Stock Option Plan in order provide the Board the discretion to amend the exercise price of Options, subject to TSX approval, in the event a stock dividend or cash dividend (other than any ordinary course cash dividend) is declared on the Corporation’s common shares.

On March 23, 2021, the Board approved an amendment to the 2012 Stock Option Plan to increase the insider participation limits and the maximum number of shares issuable to one person from 5% of the issued and outstanding shares to 10% of the issued and outstanding shares. In addition, the 2012 Stock Option Plan was amended to provide that any shares repurchased by the Company for cancellation pursuant to a NCIB will not constitute non-compliance with these limits for any options outstanding prior to such purchase of Shares for cancellation.

A maximum of 2,806,932 stock options may be granted under the Stock Option Plan.

Stock options granted that are payable in cash upon certain conditions being met are presented as a liability.

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

	2022		2021	
	Number of options	Liability ¹	Number of options	Liability ¹
Outstanding, beginning of year	1,044,992	\$ 3,315	1,567,487	\$ 1,703
Granted	1,046,805	1,665	–	–
Stock options reclassified from equity-settled to cash settled ^{2,3}	1,240,737	6,168	363,948	1,128
Settled	(1,185,147)	(6,052)	(878,427)	(4,337)
Variation due to change in fair value and vesting	–	(2,927)	–	4,393
Outstanding, end of period⁴	2,147,387	\$ 2,169	1,053,008	\$ 2,887

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

² On February 9, 2022 and February 10, 2021, a modification adding a cash alternative to the settlement of certain stock options resulted in an obligation to settle in cash. A re-class from equity to liability was recorded at the modification date, based on the difference between the fair value of the shares at the modification date and the exercise price of the option. The variation due to change in fair value subsequent to the modification date is included in operating costs.

³ The number of stock options is net of stock options exercised and forfeited.

⁴ The number of stock options vested as of September 30, 2022 is 1,012,944 (2021 – 515,998).

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

	2022		2021	
	Number of options	Weighted average exercise price per option	Number of options	Weighted average exercise price per option
Outstanding, beginning of year	2,332,893	\$ 9.34	2,717,779	\$ 8.71
Granted	1,046,805	\$ 13.50	519,276	\$ 11.86
Forfeited	(28,291)	\$ 8.54	(5,533)	\$ 11.98
Exercised	(18,873)	\$ 8.11	(12,185)	\$ 9.15
Settled	(1,185,147)	\$ 8.32	(878,427)	\$ 8.89
Outstanding, end of period	2,147,387	\$ 11.89	2,340,910	\$ 9.33
Exercisable, end of period	10,435	\$ 5.86	8,016	\$ 7.61

The following table shows the key assumptions used in applying the valuation model for stock options granted during the nine-month periods ended September 30:

	2022	2021
Weighted average grant date share price	\$ 13.50	\$ 11.86
Weighted average exercise price	\$ 13.50	\$ 11.86
Volatility	48.1%	54.2%
Expected life (years)	3.0	2.7
Dividend yield	4.46%	3.62%
Risk-free interest rate	3.07%	0.66%

During the three and nine-month periods ended September 30, 2022, a recovery of \$2.3 million and \$0.6 million, respectively (2021 – an expense of \$0.8 million and \$5.7 million, respectively) was recorded in the interim condensed consolidated statement of income in operating costs in relation to the Stock Option Plan.

During the three-month period ended September 30, 2022, the Company recorded \$3.6 million recovery (already included in the amounts disclosed below each table above) in operating costs in relation to the revaluations of the stock-based liabilities at September 30, 2022, driven by the decrease of the Company's share price during the third quarter as well as a decrease in the volatility parameter of the pricing model from using the historical share price volatility of its common shares as a reliable observable input to reflect expected volatility.

Share appreciation rights plan

The following table summarizes the continuity of the share appreciation rights (“SARs”) during the nine-month periods ended September 30:

	2022		2021	
	Number of SARs	Liability ¹	Number of SARs	Liability ¹
Outstanding, beginning of year	116,110	\$ 368	174,165	\$ 190
Granted	584,018	49	–	–
Settled	(58,055)	(237)	(58,055)	(322)
Variation due to change in fair value and vesting	–	12	–	447
Outstanding, end of period²	642,073	\$ 192	116,110	\$ 315

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

² The number of SARs vested as of September 30, 2022 is 63,790 (2021 – 56,442).

During the three and nine-month periods ended September 30, 2022, a recovery of \$0.1 million and an expense of \$0.1 million, respectively (2021 – an expense of \$0.1 million and \$0.5 million, respectively) was recorded in the interim condensed consolidated statement of income in operating costs in relation to the SARs plan.

10. Financial charges, net

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

For the three and nine-month periods ended September 30,	2022	2021	2022	2021
Interest on exchangeable debentures ¹	\$ –	\$ –	\$ –	\$ 4,692
Interest on lease obligations, net of interest income on investment in subleases	331	541	1,059	1,649
Net interest on the defined benefit obligations	581	812	1,744	2,435
Interest income	(811)	(141)	(1,382)	(719)
Foreign exchange (gains) losses	(117)	(213)	(332)	93
Other, net	71	133	196	(21)
Financial charges, net	\$ 55	\$ 1,132	\$ 1,285	\$ 8,129

¹ The Company fully repaid the principal amount of Exchangeable Debentures of \$107.0 million at par plus accrued and unpaid interest on May 31, 2021.

11. Financial risk management

Fair value hierarchy

The three levels of fair value hierarchy are as follows:

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

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

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

Cash, trade and other receivables, and trade and other payables are not measured at fair value in the interim condensed consolidated statement of financial position, as their carrying amount is a reasonable approximation of fair value due to their short-term maturity.

Asset-Based Loan

The Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, has an asset-based loan (ABL) with a term to September 2025 and a total commitment of \$20.0 million. The ABL is being used for general corporate purposes. Through the ABL, the Company has access to the funds in the form of prime rate loans, CDOR (Canadian Dollar Offered Rate) loans or letters of credit. The ABL is subject to a trailing twelve-month fixed charge coverage ratio when there is an event of default or when excess availability is less than 10% of the facility limit. Upon such event, the fixed charged coverage ratio must be a minimum of 1.1 times. As at September 30, 2022, the Company had \$2.3 million of letters of credit issued and outstanding and an availability of \$17.7 million under the ABL. As at September 30, 2022, the Company was in compliance with all covenants under the loan agreement governing the ABL.

12. Subsequent event

On August 4, 2022, the Board approved a distribution to shareholders of approximately \$100.0 million by way of a share repurchase from all shareholders pursuant to a statutory arrangement under the *Business Corporations Act* (British Columbia) (the "Arrangement"). Under the Arrangement, the Company will also advance the previously announced voluntary incremental cash contributions to the Defined Benefit Pension Plan's (the "Pension Plan") wind-up deficit by an amount of \$24.0 million during the year ending December 31, 2022, bringing 2022 cash payments to the Pension Plan's wind-up deficit to \$30.0 million by the end of the year. The incremental voluntary cash infusion of \$24.0 million during the year ended December 31, 2022 represents advancing the voluntary \$6.0 million contributions intended in years 2027, 2028, 2029 and 2030 that were part of the Deficit Reduction Plan announced in May of 2021 to increase the probability that the Pension Plan will be fully funded by 2030. The probability of achieving a wind-up ratio of 100% by 2030 is dependent upon certain uncontrollable factors, including, among others, market returns and discount rates. The Board will continue to review the Deficit Reduction Plan annually.

The shareholders of the Company (the "Shareholders") approved the Arrangement at a special meeting of the Shareholders held on September 23, 2022 and the Company subsequently obtained the final order from the Supreme Court of British Columbia approving the Arrangement on September 27, 2022. On October 4, 2022, the Company repurchased from shareholders *pro rata* an aggregate of 7,949,125 common shares at a purchase price of \$12.58 per share pursuant to the plan of arrangement. During October 2022, also pursuant to the plan of arrangement, the Company advanced \$12.0 million to the Pension Plan's wind-up deficit and will advance the additional \$12.0 million prior to December 31, 2022.