Management's Discussion and Analysis

February 10, 2021

This management's discussion and analysis (MD&A) is intended to help the reader understand and assess trends and significant changes in the results of operations and financial condition of Yellow Pages Limited and its subsidiaries for the years ended December 31, 2020 and 2019 and should be read in conjunction with our Audited Consolidated Financial Statements and accompanying notes for the years ended December 31, 2020 and 2019. Please also refer to Yellow Pages Limited's press release announcing its results for year ended December 31, 2020 issued on February 11, 2021. Quarterly reports, the Annual Report, Supplemental Disclosure and the Annual Information Form (AIF) can be found on SEDAR at www.sedar.com and under the "Investor Relations – Reports & Filings" section of our corporate website: https://corporate.yp.ca/en. Press releases are available on SEDAR and under the "News – Press Releases" section of our corporate website.

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

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

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

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

Caution Regarding Forward-Looking Information

This MD&A contains assertions about the objectives, strategies, financial condition, including potential full repayment of the Company's remaining exchangeable debentures on or shortly after May 31, 2021, at par; to its common shareholders, a cash dividend payment of $0.11 per share per quarter; and results of operations and businesses of YP. These statements are considered "forward-looking" because they are based on current expectations, as at February 10, 2021, about our business and the markets we operate in, and on various estimates and assumptions.

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

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

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

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

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

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Definitions Relative to Understanding Our Results

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

We report on our Income from operations before depreciation and amortization and restructuring and other charges (defined herein as Adjusted EBITDA) as shown in Yellow Pages Limited's consolidated statements of income. Adjusted EBITDA and Adjusted EBITDA margin are not performance measures defined under IFRS and are not considered to be an alternative to income from operations or net earnings in the context of measuring Yellow Pages performance. Adjusted EBITDA and Adjusted EBITDA margin do not have a standardized meaning under IFRS and are therefore not likely to be comparable with similar measures used by other publicly traded companies. Adjusted EBITDA and Adjusted EBITDA margin should not be used as exclusive measures of cash flow since they do not account for the impact of working capital changes, income taxes, interest payments, pension funding, capital expenditures, business acquisitions, debt principal reductions and other sources and uses of cash, which are disclosed on page 26 of this MD&A.

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

Adjusted EBITDA less CAPEX

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

The most comparable IFRS financial measure to Adjusted EBITDA less Capex is Income from operations before depreciation and amortization and restructuring and other charges (defined above as Adjusted EBITDA) as shown in Yellow Pages Limited's consolidated statements of income. Refer to page 5 and page 10 of this MD&A for a reconciliation of CAPEX and Adjusted EBITDA less CAPEX, respectively.

This MD&A is divided into the following sections:

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

1. Our Business and Customer Offerings

Our Business

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

Customer Offerings

Yellow Pages offers, through its YP segment, small and medium-sized enterprises (SMEs) across Canada full-serve access to one of the country's most comprehensive suites of digital and traditional marketing solutions, notably online and mobile priority placement on Yellow Pages digital media properties, content syndication, search engine solutions, website fulfillment, social media campaign management, digital display advertising, video production and e-commerce solutions as well as print advertising. The Company's dedicated sales force and customer care team of approximately 300 professionals offer this full suite of marketing solutions to local businesses across the country, while also supporting the evolving needs of its existing customer base of 125,400 SMEs.

Media Properties

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

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

Key Analytics

The success of our business is dependent upon continuing to improve operating profitability and capital spending efficiency. Longer-term improvements in profitability are dependent upon growth in digital revenues and retaining and growing our customer base. Key analytics for the year ended December 31, 2020 include:

- Adjusted EBITDA – Adjusted EBITDA declined to $129.4 million or 38.8% of revenues for the year ended December 31, 2020, relative to $161.3 million or 40.0% of revenues for the same period last year.
- Adjusted EBITDA less CAPEX – Adjusted EBITDA less CAPEX decreased to $123.9 million for the year ended December 31, 2020 compared to $151.6 million for the same period last year.
- YP Segment Revenues – YP Segment digital revenues decreased 17.0% year-over-year and amounted to $333.5 million for the year ended December 31, 2020.
- YP Customer Count[1] and ARPC[2] – YP Segment customer count decreased to 125 400 customers for the year ended December 31, 2020, as compared to 153,300 customers for same period last year. The customer count reduction of 27,900 for the year ended December 31, 2020 compares to a decline of 33,400 in the comparable period of the previous year. YP Segment ARPC for the year ended December 31, 2020 was $2,540 as compared to $2,567 for the year ended December 31, 2019 representing a modest decrease of 1.1% driven by decreased print spend per customer.

[1] YP Customer Count is defined as the number of customers advertising through one of our products as at the end of the reporting period on a trailing twelve-month basis excluding 411.ca customers.
[2] YP ARPC is defined as the YP average contracted revenue per customer on a trailing twelve-month basis excluding 411.ca.

CAPEX

(In thousands of Canadian dollars)

For the three-month periods and years ended December 31,	2020	2019	2020	2019
Additions to intangible assets	$ 1,386	$ 1,973	$ 5,328	$ 9,647
Additions to property and equipment	88	8	245	91
CAPEX	$ 1,474	$ 1,981	$ 5,573	$ 9,738

Headcount[1]

As at December 31,	2020	2019	Change
YP Total Headcount	686	768	(82)

[1]The Company defines headcount as total employees excluding employees on short term and long-term disability leave, and on maternity leave.

2. Results

This section provides an overview of our financial performance in 2020 compared to 2019 and 2018. We present several metrics to help investors better understand our performance, including certain metrics which are not measures recognized by IFRS. Definitions of these non-IFRS financial metrics are provided on page 3 of this MD&A and are important aspects which should be considered when analyzing our performance.

Highlights

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

For the years ended December 31,		2020		2019		2018
Revenues	**$**	**333,538**	$	403,213	$	577,195
Income from operations before depreciation and amortization, and restructuring and other charges (Adjusted EBITDA)	**$**	**129,442**	$	161,345	$	192,565
Adjusted EBITDA margin		**38.8%**		40.0%		33.4%
Net earnings	**$**	**60,298**	$	94,669	$	82,809
Basic earnings per share	**$**	**2.27**	$	3.57	$	3.13
CAPEX	**$**	**5,573**	$	9,738	$	12,036
Adjusted EBITDA less CAPEX	**$**	**123,869**	$	151,607	$	180,529
Cash flows from operating activities	**$**	**126,998**	$	144,759	$	134,659

Revenues
(In thousands of Canadian dollars)

Adjusted EBITDA
(In thousands of Canadian dollars)

Adjusted EBITDA less CAPEX
(In thousands of Canadian dollars)

Cash Flows from Operating Activities
(In thousands of Canadian dollars)

Consolidated Operating and Financial Results

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

For the years ended December 31,	2020	% of Revenues	2019	% of Revenues	2018[1]	% of Revenues
Revenues	**$ 333,538**		$ 403,213		$ 577,195	
Cost of sales	**127,789**	**38.3%**	158,674	39.4%	237,541	41.2%
Gross profit	**205,749**	**61.7%**	244,539	60.6%	339,654	58.8%
Other operating costs	**76,307**	**22.9%**	83,194	20.6%	147,089	25.5%
Income from operations before depreciation and amortization, and restructuring and other charges (Adjusted EBITDA)	**129,442**	**38.8%**	161,345	40.0%	192,565	33.4%
Depreciation and amortization	**27,664**	**8.3%**	39,109	9.7%	76,094	13.2%
Restructuring and other charges	**8,131**	**2.4%**	12,499	3.1%	15,862	2.7%
Income from operations	**93,647**	**28.1%**	109,737	27.2%	100,609	17.4%
Financial charges, net	**14,512**	**4.4%**	39,600	9.8%	54,729	9.5%
Loss (gain) on sale of businesses	**423**	**0.1%**	367	0.1%	(6,129)	(1.1%)
Earnings before income taxes	**78,712**	**23.6%**	69,770	17.3%	52,009	9.0%
Provision for (recovery of) income taxes	**18,414**	**5.5%**	(24,899)	(6.2%)	(30,800)	(5.3%)
Net earnings	**$ 60,298**	**18.1%**	$ 94,669	23.5%	$ 82,809	14.3%
Basic earnings per share	**$ 2.27**		$ 3.57		$ 3.13	
Diluted earnings per share	**$ 2.10**		$ 3.16		$ 2.78	

As at December 31,	2020	2019	2018
Total assets	**$ 367,913**	$ 326,878	$ 442,369
Senior Secured Notes (including current portion)	**$ –**	$ –	$ 167,489
Exchangeable debentures	**$ 101,115**	$ 98,537	$ 96,179
Total Senior Secured Notes and Exchangeable debentures to total assets	**27.5%**	30.1%	59.6%

[1] *Certain comparative information has been restated to conform to the 2020 presentation.*

Segmented Information

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

The YP segment provides small and medium-sized businesses across Canada digital and traditional marketing solutions, including online and mobile priority placement on Yellow Pages owned and operated media, content syndication, search engine solutions, website fulfillment, social media campaign management and digital display advertising, video production and print advertising. This segment also includes the 411.ca digital directory service helping users find and connect with people and local businesses which was integrated with the Company's wholly owned subsidiary, Yellow Pages Digital & Media Solutions Limited, as at September 30, 2019.

The Other segment includes YP Dine digital property allowing users to discover, search for and book local restaurants in addition to offering online ordering capabilities until its sale on April 30, 2019. This segment also includes Mediative until its liquidation on January 31, 2019. Mediative's offers included dedicated marketing and performance media services to national clients Canada-wide. The operations of the businesses sold in 2018 were also included in this segment until their respective disposal date, namely:

- Totem which provided customized content creation and delivery for global brands until its sale on May 31, 2018;
- Western Media Group, magazines generating local lifestyle content specific to the Western Canada region until its sale as of May 31, 2018;
- RedFlagDeals.com™, a Canadian provider of online and mobile promotions, deals, coupons and shopping forums, until its sale on August 22, 2018;
- ComFree/DuProprio (CFDP) provided homeowners in Canada with media to sell their homes in a cost-effective manner until its sale on July 6, 2018;
- Yellow Pages NextHome until its sale on July 23, 2018; and
- JUICE Mobile's proprietary Programmatic Direct and Real-Time Bidding platforms that facilitated the automatic buying and selling of mobile advertising between brands and advertisers, until its sale on December 31, 2018.

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

Segment results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. The Company accounts for transactions between reportable segments in the same manner it accounts for transactions with external customers and eliminates them on consolidation. There were no transactions between the reportable segments for the years ended December 31, 2020 and 2019.

Analysis of Consolidated and Segmented Operating and Financial Results

Fiscal year 2020 versus 2019

Revenues

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	**2020**	2019	% Change
Digital	**$ 252,252**	$ 298,762	(15.6%)
Print	**81,286**	103,177	(21.2%)
YP	**$ 333,538**	$ 401,939	(17.0%)
Digital	–	1,274	nm
Print	–	–	nm
Other	–	1,274	nm
Digital	**$ 252,252**	$ 300,036	(15.9%)
Print	**$ 81,286**	$ 103,177	(21.2%)
Total revenues	**$ 333,538**	$ 403,213	(17.3%)

Total revenues for the year ended December 31, 2020 decreased by 17.3% year-over-year and amounted to $333.5 million as compared to $403.2 million for the same period last year.

Total digital revenues decreased 15.9% year-over-year and amounted to $252.3 million for the year ended December 31, 2020 compared to $300.0 million for the year ended December 31, 2019.

Total print revenues decreased 21.2% year-over-year and amounted to $81.3 million for the year ended December 31, 2020 as compared to print revenues of $103.2 million for the year ended December 31, 2019.

As there are no longer any operations in the Other segment subsequent to the second quarter of 2019, the lower revenues for the year ended December 31, 2020 is due to the YP Segment.

Reportable Segments Revenues

YP

Revenues for the YP segment for the year ended December 31, 2020 decreased by $68.4 million or 17.0% year-over-year and amounted to $333.5 million compared to $401.9 million for the same period last year. The decrease for the year ended December 31, 2020 is due to the decline of our higher margin YP digital media and print products and to a lesser extent to our lower margin digital services products, thereby creating pressure on our gross profit margins. Revenues for 2020 were also impacted by the COVID-19 pandemic which impacted customer spend and to a lesser extent customer renewal rates.

Digital revenues decreased 15.6% year-over-year and amounted to $252.3 million for the year ended December 31, 2020, this compares to $298.8 million for the same period last year. The revenues were adversely impacted by a decline in the number of digital customers partially offset by a tenth consecutive quarter of higher spend per customer despite pressure on spend due to the pandemic.

Print revenues decreased 21.2% year-over-year and amounted to $81.3 million for the year ended December 31, 2020. The revenues were adversely impacted by a decline in the number of print customers and lower spend per customer.

Other

Due to the divestitures there were no revenues generated by the Other segment for the year ended December 31, 2020, resulting in a year-over-year decline of $1.3 million.

Gross Profit

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,		**2020**	**% of Revenues**		2019	% of Revenues	% Change
YP	**$**	**205,749**	**61.7%**	$	243,889	60.7%	(15.6%)
Other		–	nm		650	51.0%	nm
Total gross profit	**$**	**205,749**	**61.7%**	$	244,539	60.6%	(15.9%)

Gross profit decreased to $205.7 million or 61.7% of revenues for the year ended December 31, 2020, compared to $244.5 million, or 60.6% of revenues, for the same period last year. The decrease in gross profit and increase in gross profit as a percentage of revenues is attributable to the YP segment.

Reportable Segments Gross Profit

YP

Gross profit for the year ended December 31, 2020 totalled $205.7 million or 61.7% of revenues, compared to $243.9 million, or 60.7% of revenues, for the same period in 2019. The decrease in gross profit is a result of the pressures from lower overall revenues and change in product mix which were partially offset by efficiencies in sales and operations from optimization and cost reductions resulting in an increase in gross profit as a percentage of revenues.

Other

Due to the divestitures there was no gross profit generated by the Other segment for the year ended December 31, 2020, resulting in a year-over-year decline of $0.7 million in Other gross profit for the year ended December 31, 2020.

Adjusted EBITDA

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,		2020	% of Revenues		2019	% of Revenues	% Change
YP	**$**	**129,442**	**38.8%**	$	161,014	40.1%	(19.6%)
Other		–	–		331	nm	nm
Total Adjusted EBITDA	**$**	**129,442**	**38.8%**	$	161,345	40.0%	(19.8%)

Adjusted EBITDA decreased by 19.8% to $129.4 million or 38.8% of revenues for the year ended December 31, 2020, relative to $161.3 million or 40.0% of revenues for the same period last year. The year-over-year results for the year ended December 31, 2020 were attributable to the YP Segment.

Reportable Segments Adjusted EBITDA

YP

Adjusted EBITDA for the YP segment for the year ended December 31, 2020 totalled $129.4 million or 38.8% of revenues compared to $161.0 million or 40.1% of revenues for the same period last year. The decrease in Adjusted EBITDA and Adjusted EBITDA margin for the year ended December 31, 2020 is the result of the overall revenue pressures in the segment partially offset by efficiencies in sales and operations from continued optimization and reductions in other operating costs including reductions in our workforce and associated employee expenses, reductions in the Company's office space footprint and other spending reductions across the segment. The Company received a total of $7.3 million in emergency wage subsidies during the year ended December 31, 2020. In addition, the first quarter of 2019 was favorably impacted by an adjustment to the variable compensation expense due to employee attrition and previous year performances. Revenue pressures, coupled with increased headcount in our salesforce partially offset by continued optimization, will create some pressure on margin in upcoming quarters.

Other

Due to the divestitures there was no Adjusted EBITDA generated by the Other segment for the year ended December 31, 2020, resulting in a year-over-year decline of $0.3 million.

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars, except percentage information)

For the year ended December 31,		2020		2019	% Change
Adjusted EBITDA	**$**	**129,442**	$	161,014	(19.6%)
CAPEX		**5,573**		9,460	(41.1%)
YP	**$**	**123,869**	$	151,554	(18.3%)
Adjusted EBITDA		–		331	nm
CAPEX		–		278	nm
Other		–		53	nm
Adjusted EBITDA	**$**	**129,442**	$	161,345	(19.8%)
CAPEX	**$**	**5,573**	$	9,738	(42.8%)
Total Adjusted EBITDA less CAPEX	**$**	**123,869**	$	151,607	(18.3%)

Adjusted EBITDA less CAPEX decreased by $27.7 million to $123.9 million for the year ended December 31, 2020, compared to $151.6 million during the same period last year.

Reportable Segments Adjusted EBITDA less CAPEX

YP

Adjusted EBITDA less CAPEX for the YP segment for the year ended December 31, 2020 totalled $123.9 million compared to $151.6 million for the same period last year. The decrease for the year ended December 31, 2020 is mainly due to lower Adjusted EBITDA partially offset by lower capital expenditures due to decreased spending in software development.

Depreciation and Amortization

Depreciation and amortization decreased to $27.7 million for the year ended December 31, 2020 compared to $39.1 million for the same period last year primarily due to lower software development expenditures.

Restructuring and Other Charges

(In thousands of Canadian dollars)

For the years ended December 31,		2020		2019
Severance, benefits and outplacement	**$**	**2,895**	$	10,767
Settlement of litigation		**–**		(99)
Impairment of right-of-use assets and property and equipment and provision for future operation costs related to lease contracts for offices closed		**5,512**		371
Pension settlement (recovery) costs and past service (recovery) costs, net		**–**		(980)
Other (recoveries) costs		**(276)**		2,440
Total restructuring and other charges	**$**	**8,131**	$	12,499

Yellow Pages Limited recorded restructuring and other charges of $8.1 million for the year ended December 31, 2020 consisting mainly of restructuring charges of $2.6 million associated with workforce reductions, a $2.1 million charge related to future operation costs provisioned related to lease contracts for office closures, as well as a $4.6 million charge related to the impairment of property and equipment and right-of-use assets related to vacated office space, partially offset by a $1.2 million recovery related to the surrender of vacated office space.

Restructuring and other charges of $12.5 million were recorded for the year ended December 31, 2019 consisting of restructuring charges of $12.1 million relating to workforce reductions, a $1.9 million charge related to future operation costs provisioned related to lease contracts for office closures, a $0.3 million charge related to software disposal, offset by a net recovery of $1.8 million from more favorable lease recoveries than anticipated.

Financial Charges

Financial charges decreased to $14.5 million for the year ended December 31, 2020 compared to $39.6 million for the same period last year. The decrease is primarily due to a lower level of indebtedness due to the full repayment of the Senior Secured Notes in 2019. The Company's effective average interest rate on our debt portfolio excluding lease obligations as at December 31, 2020 was 8.0% (2019 – 9.0%).

Provision for (Recovery of) Income Taxes

The combined statutory provincial and federal tax rates were 26.5% for the year ended December 31, 2020 and 26.8% for the same period in 2019. The Company recorded an expense of $18.4 million for the year ended December 31, 2020, including the recognition of previously unrecognized tax attributes and temporary differences of $2.8 million. In comparison, the company recorded a recovery of income tax of $24.9 million for the year ended December 31, 2019, including recognition of previously unrecognized tax attributes and temporary differences of $44.2 million. The Company recorded an income tax expense of 23.4% of earnings for the year ended December 31, 2020 (2019 – an income tax recovery of 35.7%). These recoveries are non-cash items.

The difference between the effective and the statutory rates for the years ended December 31, 2020 and 2019 is mainly due to recognition of previously unrecognized tax attributes and temporary differences and the non-deductibility of certain expenses for tax purposes.

Net earnings

Net earnings for the year ended December 31, 2020 amounted to $60.3 million as compared to net earnings of $94.7 million for the same period last year due to higher recognition of previously unrecognized tax attributes and temporary differences in 2019. Earnings before taxes increased from $69.8 million in 2019 to $78.7 million for the year-ended December 31, 2020 as lower Adjusted EBITDA was more than offset by lower restructuring and other charges, financial charges and depreciation and amortization expenses.

Fiscal year 2019 versus 2018

Revenues

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,		2019		2018	% Change
Digital	$	298,762	$	357,705	(16.5%)
Print		103,177		127,897	(19.3%)
YP	$	401,939	$	485,602	(17.2%)
Digital		1,274		84,534	(98.5%)
Print		–		8,043	(100.0%)
Other		1,274		92,577	(98.6%)
Digital		–		(958)	nm
Print		–		(26)	nm
Intersegment eliminations		–		(984)	nm
Digital	$	300,036	$	441,281	(32.0%)
Print	$	103,177	$	135,914	(24.1%)
Total revenues	$	403,213	$	577,195	(30.1%)

Total revenues for the year ended December 31, 2019 decreased by $174.0 million or 30.1% year-over-year and amounted to $403.2 million as compared to $577.2 million for the same period in 2018. The decline in total revenues was due to the divestitures in the Other segment as well as lower digital and print revenues in the YP segment.

Total digital revenues decreased by $141.2 million or 32.0% year-over-year and amounted to $300.0 million for the year ended December 31, 2019 compared to $441.3 million for the year ended December 31, 2018. The digital revenue decline was attributable to the divestitures in the Other segment as well as lower revenues in the YP segment.

Total print revenues decreased by $32.7 million or 24.1% year-over-year and amounted to $103.2 million for the year ended December 31, 2019. The print revenue decline for the year ended December 31, 2019 is a result of lower revenues in the YP segment and the divestitures in the Other segment.

Reportable Segments Revenues

YP

Revenues for the YP segment for the year ended December 31, 2019 decreased by $83.7 million or 17.2% year-over year and amounted to $401.9 million compared to $485.6 million for the same period in 2018. The decrease for the year ended December 31, 2019 is mainly due to the decline of our higher margin YP digital media and print products and to a lesser extent to our lower margin digital services products, thereby creating pressure on our gross profit margins.

Digital revenues decreased 16.5% year-over-year and amounted to $298.8 million for the year ended December 31, 2019, compared to $357.7 million for the same period in 2018. Digital revenues were adversely impacted by a decline in the number of digital customers partially offset by a sixth consecutive quarter of higher spend per customer. The lower digital customer count is mostly attributable to a lower level of acquisition, driven in part by our focus on profitability.

Print revenues decreased by 19.3% year-over-year to $103.2 million for the year ended December 31, 2019. The results were adversely impacted by a decline in the number of print customers and lower spend per customer.

Other

Other revenues amounted to $1.3 million for the year ended December 31, 2019 as compared to $92.6 million for the same period in 2018. The decline in other revenues is due to the divestitures.

Gross Profit[1]

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,		2019	% of Revenues		2018	% of Revenues	% Change
YP	$	243,889	60.7%	$	306,157	63.0%	(20.3%)
Other		650	51.0%		33,660	36.4%	(98.1%)
Intersegment eliminations		–	–		(163)	nm	nm
Total gross profit	$	244,539	60.6%	$	339,654	58.8%	(28.0%)

[1] *Certain comparative information has been restated to conform with the 2019 presentation.*

Gross profit for the year ended December 31, 2019 decreased to $244.5 million or 60.6% of total revenues compared to $339.7 million, or 58.8% of total revenues, for the same period last year. The decrease in gross profit is due to the pressures from lower overall revenues and change in product mix in the YP segment and to the divestitures in the Other segment. The increase in gross profit as a percentage of revenues is due to the dilutive effect on profitability of the lower margin Other segment in 2018.

Reportable Segments Gross Profit

YP

Gross profit for the year ended December 31, 2019 totalled $243.9 million, or 60.7% of revenues, compared to $306.2 million, or 63.0% of revenues, for the same period in 2018. The decrease in gross profit and gross profit as a percentage of revenues is a result of the pressures from lower overall revenues and change in product mix as well as investments in customer care starting in the second quarter of 2019 and investments in new customer acquisitions in the fourth quarter of 2019. The revenue pressures and customer care and new customer acquisition investments were partially offset by higher efficiencies in sales and operations from optimizations and cost reductions, as well as an increased focus on the profitability of our products and services. These measures included workforce reductions primarily in non-customer facing areas in the first quarter of 2018 and call center consolidations and optimization of our servicing model in the second quarter of 2018.

Other

Gross profit for the Other segment totalled $0.7 million, for the year ended December 31, 2019, as compared to $33.7 million, or 36.4% of revenues, for the same period in 2018. The decrease in gross profit margin for the year ended December 31, 2019 is due to divestitures.

Adjusted EBITDA

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,		2019	% of Revenues		2018	% of Revenues	% Change
YP	$	161,014	40.1%	$	185,026	38.1%	(13.0%)
Other		331	nm		7,539	8.1%	(95.6%)
Total Adjusted EBITDA	$	161,345	40.0%	$	192,565	33.4%	(16.2%)

For the year ended December 31, 2019, Adjusted EBITDA decreased by $31.2 million or 16.2% to $161.3 million, compared to $192.6 million for the same period last year. The Company's Adjusted EBITDA margin amounted to 40.0% for the year ended December 31, 2019 compared to 33.4% for the same period in 2018. The decrease in Adjusted EBITDA was the result of the revenue pressures in the YP segment as well as the divestitures in the Other segment. The increase in Adjusted EBITDA margin

for the year ended December 31, 2019 is mainly due to the dilutive effect on profitability of the lower margin Other segment in 2018 and reductions in both our cost of sales and other operating costs. The reductions fully offset the revenue pressures in the YP segment for the year ended December 31, 2019.

Reportable Segments Adjusted EBITDA

YP

Adjusted EBITDA for the YP segment for the year ended December 31, 2019 totalled $161.0 million compared to $185.0 million for the same period in 2018. The decrease in Adjusted EBITDA is a result of lower overall revenues, pressures from the change in product mix and investments in customer care. The Adjusted EBITDA margin for the YP segment for the year ended December 31, 2019 increased to 40.1% from 38.1% for the same period in 2018. The increase in Adjusted EBITDA margin for the year ended December 31, 2019 is due to the revenue pressures and investments in customer care and investments in new customer acquisition being fully offset by an increased focus on the profitability of our products and services and reductions in both our costs of sales and other operating costs. The decrease in cost of sales was mainly due to workforce reductions primarily in non-customer facing areas in the first quarter of 2018 and to call center consolidations and optimization of our servicing model in the second quarter of 2018. The decrease in other operating costs included reductions in our workforce and associated employee expenses, reductions in the Company's office space footprint, other spending reductions across the segment as well as an adjustment to the variable compensation expense in the first quarter of 2019 mainly due to employee attrition and previous year performances.

Other

Adjusted EBITDA for the Other segment for the year ended December 31, 2019, amounted to $0.3 million. This compares to $7.5 million, or 8.1% of revenues, for the same period in 2018. The year-over-year decrease is due to the divestitures.

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,		2019		2018	% Change
Adjusted EBITDA	$	161,014	$	185,026	(13.0%)
CAPEX		9,460		9,556	(1.0%)
YP	$	151,554	$	175,470	(13.6%)
Adjusted EBITDA		331		7,539	(95.6%)
CAPEX		278		2,480	(88.8%)
Other		53		5,059	(99.0%)
Adjusted EBITDA	$	161,345	$	192,565	(16.2%)
CAPEX	$	9,738	$	12,036	(19.1%)
Total Adjusted EBITDA less CAPEX	$	151,607	$	180,529	(16.0%)

For the year ended December 31, 2019, Adjusted EBITDA less CAPEX decreased by $28.9 million or 16.0% to $151.6 million compared to $180.5 million for the same period in 2018. Adjusted EBITDA less CAPEX for the year ended December 31, 2019 was mainly impacted by lower Adjusted EBITDA partially offset by decreased spending on software development and was further negatively impacted by lease incentives received in 2018.

Reportable Segments Adjusted EBITDA less CAPEX

YP

Adjusted EBITDA less CAPEX for the year ended December 31, 2019 totalled $151.6 million compared to $175.5 million for the same period in 2018. The decrease for the year ended December 31, 2019 is mainly due to lower Adjusted EBITDA, partially offset by decreased spending on software development and was further negatively impacted by lease incentives received in 2018.

Other

Adjusted EBITDA less CAPEX for the Other segment for the year ended December 31, 2019 is minimal, as compared to $5.1 million in the same period in 2018. The year-over-year decrease is a result of the divestitures.

Depreciation and Amortization

Depreciation and amortization decreased to $39.1 million for the year ended December 31, 2019 compared to $76.1 million for the same period in 2018 primarily due to lower software development expenditures.

Restructuring and Other Charges

(In thousands of Canadian dollars, except percentage information)

For the years ended December 31,	2019	2018
Severance, benefits and outplacement	$ 10,767	$ 31,231
Settlement of litigation	(99)	(14,095)
Impairment of right-of-use assets and future operation costs (recovery) related to lease contracts for offices closed	371	(2,029)
Pension settlement (recovery) costs and past service (recovery) costs, net	(980)	755
Other costs	2,440	–
Total restructuring and other charges	$ 12,499	$ 15,862

The Company recorded restructuring and other charges of $12.5 million for the year ended December 31, 2019 consisting of restructuring charges of $12.1 million relating to workforce reductions, a $1.9 million charge related to future operation costs provisioned related to lease contracts for office closures, a $0.3 million charge related to software disposal, offset by a net recovery of $1.8 million from more favorable lease recoveries than anticipated.

During the year ended December 31, 2018, the Company recorded restructuring and other charges of $15.9 million consisting of restructuring charges of $32.0 million mainly due to workforce reductions, offset by the $14.1 million impact of a favorable litigation settlement on a contractual obligation with a vendor. Additionally, the restructuring charges were offset by a net recovery of $1.6 million from more favorable lease recoveries than anticipated partially offset by the impairment of right-of-use assets and a net recovery of $0.4 million from future operation costs related to lease contracts for office closures.

Financial Charges

Financial charges decreased to $39.6 million for the year ended December 31, 2019 compared to $54.7 million for the same period in 2018. The decrease is primarily due to a lower level of indebtedness due to repayments of the Senior Secured Notes. The Company's effective average annual interest rate on our debt portfolio excluding capital leases as at December 31, 2019 was 9.0% (2018 – 9.2%).

Provision for (Recovery of) Income Taxes

The combined statutory provincial and federal tax rates were 26.8% for the year ended December 31, 2019 and 26.9% for the same period in 2018. The Company recorded a recovery of income tax of $24.9 million for the year ended December 31, 2019, comprised of recognition of previously unrecognized tax attributes and temporary differences of $44.2 million. The Company recorded an income tax recovery of 35.7% of earnings for the year ended December 31, 2019 (2018 – an income tax recovery of 59.2%). These recoveries are non-cash items.

In comparison, the Company recorded a recovery of income taxes of $30.8 million for the year ended December 31, 2018, comprised of recognition of previously unrecognized tax attributes of $8.5 million and a resolution of uncertain tax positions of $38.6 million. These recoveries are non-cash items.

The Company recorded an income tax recovery of 35.7% of earnings for the year ended December 31, 2019 this compares to an income tax recovery of 59.2% recorded for the year ended 2018. The difference between the effective and the statutory rates for the year ended December 31, 2019 is mainly due to recognition of previously unrecognized tax attributes and temporary differences and non-deductibility of certain expenses for tax purposes. The difference between the effective and the statutory rates for the year ended December 31, 2018 is mainly due to recognition of previously unrecognized tax attributes, a resolution of uncertain tax positions and non-deductibility of certain expenses for tax purposes.

Net earnings

The Company recorded net earnings of $94.7 million for the year ended December 31, 2019 as compared to $82.8 million for the same period in 2018. The increase in net earnings for the year ended December 31, 2019 compared to the same period in 2018 is mainly due to the lower depreciation and amortization expenses and lower financial charges from a reduced level of indebtedness due to repayment of the Senior Secured Notes partially offset by lower Adjusted EBITDA and lower recovery of income taxes.

Summary of Consolidated Quarterly Results

The following table shows selected consolidated financial data of Yellow Pages for the eight most recent quarters.

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

				2020				2019
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
YP revenues	**$ 76,669**	$ 80,281	$ 88,280	$ 88,308	$ 93,507	$ 98,147	$ 106,610	$ 103,675
Other revenues and Intersegment Eliminations	**–**	–	–	–	–	–	162	1,112
Total revenues	**$ 76,669**	$ 80,281	$ 88,280	$ 88,308	$ 93,507	$ 98,147	$ 106,772	$ 104,787
Operating costs	**49,030**	52,969	46,352	55,745	58,751	60,361	63,350	59,406
Income from operations before depreciation and amortization, and restructuring and other charges (Adjusted EBITDA)	**27,639**	27,312	41,928	32,563	34,756	37,786	43,422	45,381
Adjusted EBITDA margin	**36.0%**	34.0%	47.5%	36.9%	37.2%	38.5%	40.7%	43.3%
Depreciation and amortization	**6,249**	6,624	7,190	7,601	8,678	9,221	10,082	11,128
Restructuring and other charges	**221**	4,461	134	3,315	5,719	2,347	1,571	2,862
Income from operations	**21,169**	16,227	34,604	21,647	20,359	26,218	31,769	31,391
Financial charges, net	**2,014**	4,196	4,121	4,181	7,360	7,019	11,456	13,765
(Gain) loss on sale of businesses	**–**	(79)	4	498	10	160	197	–
Earnings before income taxes	**19,155**	12,110	30,479	16,968	12,989	19,039	20,116	17,626
Provision for (recovery of) income taxes	**2,340**	3,069	8,440	4,565	(40,608)	5,200	5,543	4,966
Net earnings	**$ 16,815**	$ 9,041	$ 22,039	$ 12,403	$ 53,597	$ 13,839	$ 14,573	$ 12,660
Basic earnings per share	**$ 0.63**	$ 0.34	$ 0.83	$ 0.47	$ 2.02	$ 0.52	$ 0.55	$ 0.48
Diluted earnings per share	**$ 0.58**	$ 0.34	$ 0.73	$ 0.44	$ 1.70	$ 0.49	$ 0.51	$ 0.45

Year-over-year the quarterly revenues have decreased principally due to revenue declines in the YP segment associated with overall lower customer count partially offset by an increasing ARPC over the nine quarters prior to the fourth quarter of 2020. The decline in ARPC in the fourth quarter of 2020 was driven by the lower print spend per customer, while digital spend per customer continued to increase. Revenues were also affected by the COVID-19 pandemic starting in the second quarter of 2020, impacting customer spend and to a lesser extent customer renewal rates. The decline in revenues of the Other segment is a result of the divestitures or liquidation of unprofitable or non-synergistic businesses completed in the second quarter of 2019.

Operating costs decreased over the quarters due to lower Cost of sales, driven by an increased focus on the profitability of our products and services and reductions in our cost structure from efficiencies in sales and operations, as well as lower Other operating costs from reductions in our workforce and associated employee expenses, reductions in the Company's office space footprint and other spending reductions across the YP segment. The second quarter of 2020 benefited from the receipt of a $4.8 million emergency wage subsidy and paused campaign spending related to the COVID-19 pandemic while the third quarter was impacted by a $4.0 million increase for the expense related to the vesting of the CEO's long term incentive plan (LTIP) upon completion of his first contract term, resulting from the increase in the Company's share price, resumed spending mainly for the fulfillment of paused campaigns related to the COVID-19 pandemic partially offset by a $1.2 million emergency wage subsidy. The Company also received a $1.3 million emergency wage subsidy in the fourth quarter of 2020, Furthermore in 2019, the first quarter benefited from an

adjustment to the variable compensation expense, mainly due to employee attrition and previous year performances, while operating costs reduced subsequent to the completion of the liquidation of Mediative division in the first quarter and the sale of YP Dine and Bookenda in the second quarter.

The Adjusted EBITDA margin declined through the quarters mainly due to lower revenue and pressures from the change in product mix partially offset by reductions in our cost structure and emphasis on the profitability of our products and services. Furthermore in 2020, the second quarter benefited from the receipt of a $4.8 million emergency wage subsidy and paused campaign spending related to the COVID-19 pandemic while the third quarter was impacted by a $4.0 million increase for the expense related to the vesting of the CEO's long term incentive plan (LTIP) and resumed spending mainly for the fulfillment of paused campaigns related to the COVID-19 pandemic partially offset by a $1.2 million emergency wage subsidy. The Company also received a $1.3 million emergency wage subsidy in the fourth quarter of 2020. Furthermore in 2019, the first quarter benefited from an adjustment to the variable compensation expense, mainly due to employee attrition and previous year performances.

Depreciation and amortization have been decreasing due to lower intangible assets resulting from decreasing software development expenditures as well as lower intangible assets following the impairment recorded in the fourth quarter of 2017.

The Company's restructuring and other charges mainly relate to workforce reductions and impairments of right-of-use assets and future operating costs related to lease contracts for offices closed. The second quarter of 2020 benefited from a net recovery of $1.2 million relating to the surrender of some of the previously vacated office space.

The financial charges have been declining as a result of lower indebtedness. Financial charges in the fourth quarter of 2020 were further impacted by the recognition of the $2.6 million change in fair value of the redemption option for cash for the Company's exchangeable debentures ("Redemption Option").

Earnings before income taxes has been relatively stable as decreasing Adjusted EBITDA was offset by decreasing restructuring and other charges, financial charges and depreciation and amortization expense. Net earnings for the fourth quarters of 2019 and 2020 benefited from the recording of previously unrecognized tax attributes and temporary differences of $44.2 million and $2.8 million in the provision for income taxes, respectively.

Analysis of Fourth Quarter 2020 Results

Revenues

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2020	2019	% Change
Digital	**$ 58,904**	$ 70,162	(16.0%)
Print	**17,765**	23,345	(23.9%)
YP	**$ 76,669**	$ 93,507	(18.0%)
Digital	**–**	–	–
Print	**–**	–	–
Other	**–**	–	–
Digital	**$ 58,904**	$ 70,162	(16.0%)
Print	**$ 17,765**	$ 23,345	(23.9%)
Total revenues	**$ 76,669**	$ 93,507	(18.0%)

Total revenues for the fourth quarter ended December 31, 2020 decreased by 18.0% year-over-year and amounted to $76.7 million as compared to $93.5 million for the same period last year. The decrease for the quarter ended December 31, 2020 is due to the decline of our higher margin YP digital media and print products and to a lesser extent to our lower margin digital services products, thereby creating pressure on our gross profit margins. Revenues for the fourth quarter of 2020 were also impacted by the COVID-19 pandemic which impacted customer spend and to a lesser extent customer renewal rates.

Total digital revenues decreased 16.0% year-over-year and amounted to $58.9 million during the fourth quarter of 2020 compared to $70.2 million for the same period last year. The revenues were adversely impacted by a decline in the number of digital customers partially offset by a tenth consecutive quarter of higher spend per customer despite pressure on spend during the quarter due to the pandemic.

Total print revenues decreased 23.9% year-over-year and amounted to $17.8 million during the fourth quarter of 2020 as compared to print revenues of $23.3 million in the fourth quarter of 2019. The revenues were adversely impacted by a decline in the number of print customers and lower spend per customer.

Gross Profit

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2020	% of Revenues	2019	% of Revenues	% Change
YP	**$ 46,424**	**60.6%**	$ 54,799	58.6%	(15.3%)
Other	–	**–**	–	–	–
Total gross profit	**$ 46,424**	**60.6%**	$ 54,799	58.6%	(15.3%)

Gross profit totalled $46.4 million or 60.6% of revenues for the three-month period ended December 31, 2020, compared to $54.8 million, or 58.6% of revenues, for the same period last year. The decrease in gross profit for the three-month period ended December 31, 2020 is a result of the pressures from lower overall revenues and change in product mix which were partially offset by efficiencies in sales and operations from optimization and cost reductions, resulting in an increase in gross profit as a percentage of revenues.

Adjusted EBITDA

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2020	% of Revenues	2019	% of Revenues	% Change
YP	**$ 27,639**	**36.0%**	$ 34,756	37.2%	(20.5%)
Other	–	–	–	–	–
Total Adjusted EBITDA	**$ 27,639**	**36.0%**	$ 34,756	37.2%	(20.5%)

Adjusted EBITDA decreased to $27.6 million or 36.0% of revenues in the fourth quarter ended December 31, 2020, relative to $34.8 million or 37.2% of revenues for the same period last year. The decrease in Adjusted EBITDA and Adjusted EBITDA margin in the three-month period ended December 31, 2020 is the result of the revenue pressures partially offset by efficiencies in sales and operations from optimization and reductions in other operating costs including reductions in our workforce and associated employee expenses, reductions in the Company's office space footprint and other spending reductions across the segment. The Company also received a $1.3 million emergency wage subsidy during the three-month period ended December 31, 2020. Revenue pressures, coupled with increased headcount in our salesforce partially offset by continued optimization, will create some pressure on margin in upcoming quarters.

Adjusted EBITDA less CAPEX

(In thousands of Canadian dollars, except percentage information)

For the three-month periods ended December 31,	2020	2019	% Change
Adjusted EBITDA	**$ 27,639**	$ 34,756	(20.5%)
CAPEX	**1,474**	1,981	(25.6%)
YP	**$ 26,165**	$ 32,775	(20.2%)
Adjusted EBITDA	–	–	–
CAPEX	–	–	–
Other	–	–	–
Adjusted EBITDA	**$ 27,639**	$ 34,756	(20.5%)
CAPEX	**$ 1,474**	$ 1,981	(25.6%)
Total Adjusted EBITDA less CAPEX	**$ 26,165**	$ 32,775	(20.2%)

Adjusted EBITDA less CAPEX decreased by $6.6 million to $26.2 million during the fourth quarter of 2020, compared to $32.8 million during the same period last year. The decrease in Adjusted EBITDA less CAPEX for the three-month period ended December 31, 2020 is mainly due to lower Adjusted EBITDA partially offset by lower capital expenditures due to decreased spending in software development.

Depreciation and Amortization

Depreciation and amortization decreased to $6.2 million for the three-month period ended December 31, 2020 compared to $8.7 million for the same period last year. The decrease is primarily due to lower software development expenditures.

Restructuring and Other Charges

(In thousands of Canadian dollars)

For the three-month periods ended December 31,		2020		2019
Severance, benefits and outplacement	$	926	$	5,844
Impairment of right-of-use assets and property and equipment and provision for future operation costs (recovery) related to lease contracts for offices closed		(752)		(336)
Pension settlement costs and past services costs (recovery), net		–		(980)
Other costs		47		1,191
Total restructuring and other charges	$	221	$	5,719

Restructuring and other charges of $0.2 million were recorded for the three-month period ended December 31, 2020 consisting mainly of restructuring charges of $1.0 million associated with workforce reductions, a $1.1 million recovery for future operation costs provisioned related to lease contracts for offices closured, as well as a $0.3 million charge related to the impairment of property and equipment and right-of-use assets related to vacated office space. For the three-month period ended December 31, 2019, the Company recorded restructuring and other charges of $5.7 million consisting of restructuring charges of $6.0 million relating to workforce reductions, and a $0.8 million charge relating to future operation costs provisioned related to lease contracts for office closures, offset by a $1.1 million recovery from more favorable lease recoveries than anticipated.

Financial Charges

Financial charges decreased to $2.0 million for the three-month period ended December 31, 2020 compared to $7.4 million for the same period last year. The decrease is due to the recognition of a $2.6 million change in fair value of the Redemption Option in the quarter ended December 31, 2020 and a lower level of indebtedness due to the full repayment of the Senior Secured Notes in 2019.

Provision for (Recovery of) Income Taxes

The combined statutory provincial and federal tax rates were 26.5% and 26.8% for the three-month periods ended December 31, 2020 and 2019, respectively. The Company recorded an expense of $2.3 million, including a recovery for the recognition of previously unrecognized tax attributes and temporary differences of $2.8 million for the three-month period ended December 31, 2020. In comparison, the company recorded a recovery for income taxes of $40.6 million, including a recovery for the recognition of previously unrecognized tax attributes and temporary differences of $44.2 million for the three-month period ended December 31, 2019. These recoveries were non-cash items.

The difference between the effective and the statutory rates during the three-month period ended December 31, 2020 and 2019 is mainly due to recognition of previously unrecognized tax attributes and temporary differences and the non-deductibility of certain expenses for tax purposes.

Net earnings

Net earnings for the three-month ended December 31, 2020 amounted to $16.8 million as compared to net earnings of $53.6 million for the same period last year due to higher recognition of previously unrecognized tax attributes and temporary differences in 2019. Earnings before taxes increased from $13.0 million for the fourth quarter of 2019 to $19.2 million for the three-month period ended December 31, 2020, as lower Adjusted EBITDA was more than offset by lower restructuring and other charges, financial charges and depreciation and amortization expenses.

3. Liquidity and Capital Resources

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

Capital Structure

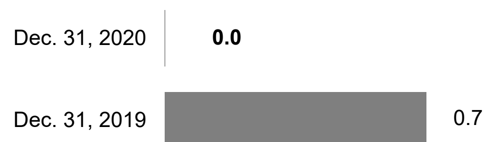
(In thousands of Canadian dollars, except percentage information)

As at December 31,		2020		2019
Cash	$	**153,492**	$	44,408
Exchangeable debentures		**101,115**		98,537
Lease obligations		**52,874**		57,885
Total debt	$	**153,989**	$	156,422
Equity (deficiency)		**29,301**		(16,660)
Total capitalization	$	**183,290**	$	139,762
Total debt net of cash to total capitalization		**0.3%**		80.1%

As at December 31, 2020, Yellow Pages had $0.5 million of total debt net of cash, compared to $112.0 million as at December 31, 2019.

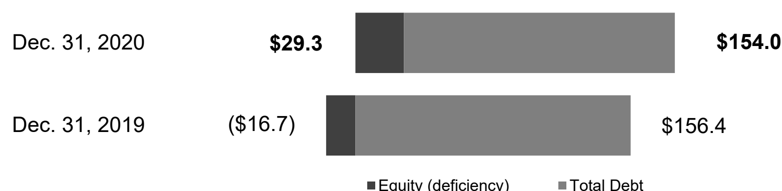
The total debt net of cash to latest Twelve-Month Adjusted EBITDA[1] ratio as at December 31, 2020 was nil compared to 0.7 times as at December 31, 2019. The decrease is mainly due to a higher cash balance at December 31, 2020 entirely offsetting the lower Adjusted EBITDA.

Total Debt Net of Cash to Latest Twelve-Month Adjusted EBITDA[1] Ratio



Capital Structure

(In millions of Canadian dollars)



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

Asset-Based Loan

On October 19, 2017, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, renewed its five-year $50.0 million asset-based loan (ABL) and extended the term of the ABL to August 2022. At the request of the Company, the ABL agreement was amended on November 18, 2019 to reduce the total commitment from $50.0 million to $25.0 million. The ABL is being used for general corporate purposes. Through the ABL, the Company has access to the funds in the form of prime rate loans, Banker's acceptance (BA) equivalent loans or letters of credit. The ABL is subject to an availability reserve of $5.0 million if the Company's trailing twelve-month fixed charge coverage ratio is below 1.1 times. As at December 31, 2020, the Company's fixed charge coverage ratio was 3.5 times. The Company had $3.4 million of letters of credit issued and outstanding under the ABL. As such, $21.6 million of the ABL was available as at December 31, 2020.

The loan agreement governing the ABL contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions (to the extent permitted by the Exchangeable Debentures indenture, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets, and certain transactions with affiliates and its business activities.

As at December 31, 2020, the Company was in compliance with all covenants under the loan agreement governing the ABL.

Exchangeable Debentures

On December 20, 2012, the Company, through its subsidiary Yellow Pages Digital & Media Solutions Limited, issued $107.5 million of senior subordinated exchangeable debentures (the Exchangeable Debentures) due November 30, 2022. As at December 31, 2020, and December 31, 2019, the face value of the Exchangeable Debentures was $107.0 million and $107.1 million, respectively. As at December 31, 2020, the value of the Exchangeable Debentures less unaccreted interest was $101.1 million compared to $98.5 million as at December 31, 2019.

Interest on the Exchangeable Debentures accrues at a rate of 8% per annum if, for the applicable interest period, it is paid in cash or 12% per annum, for the applicable interest period, if the Company makes a Payment in Kind election to pay interest in respect of all or any part of the then outstanding Exchangeable Debentures in additional Exchangeable Debentures. Interest on the Exchangeable Debentures is payable semi-annually in arrears in equal instalments on the last day of May and November of each year.

The indenture governing the Exchangeable Debentures contains restrictive covenants, including restrictions on the incurrence of additional indebtedness, the payment of dividends and other payment restrictions, the creation of liens, sale and leaseback transactions, mergers, consolidations and sales of assets and certain transactions with affiliates. The indenture does not contain the obligation to maintain financial ratios. Financial ratio restrictions only apply upon incurrence of indebtedness and other transactions.

The indenture permits the Company to make restricted payments, including payment of dividends and common stock buybacks and certain payments associated with management's equity-based compensation, in an aggregate amount not to exceed $20.0 million since the date of the indenture. As at December 31, 2020, the Company has made a cumulative total of $14.5 million of restricted payments, comprised of $8.8 million of dividend payments, $3.3 million related to common stock buyback and $2.4 million related to certain management equity-based compensation payments, since the indenture went into effect. As at December 31, 2020, the Company was in compliance with all covenants under the indenture governing the Exchangeable Debentures.

Exchange Option

The Exchangeable Debentures are exchangeable at the holder's option into common shares at any time at an exchange price per common share equal to $19.04, subject to adjustment for specified transactions.

Optional Redemption

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

- In the case of a redemption occurring prior to May 31, 2021, 110% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; or
- In the case of a redemption occurring on or after May 31, 2021, 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

The Redemption Option is recorded at fair value in Financial and other assets on the consolidated statements of financial position with changes in fair value recognized in financial charges. The fair value as at December 31,2020 was $2.6 million and was insignificant as at December 31, 2019.

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

prevailing market price at the time of acquisition. All Exchangeable Debentures will be purchased for cancellation. As at December 31, 2020, YP purchased Exchangeable Debentures under this NCIB program, with a carrying value of $52 thousand for cash and a face value of $56 thousand.

As announced on February 13, 2020, the Company intends to make an optional redemption payment to fully repay the remaining balance of its Exchangeable Debentures on or shortly after May 31, 2021, according to the terms above (i.e., at redemption price of 100%).

Credit Ratings

Standard and Poor's Global Ratings
B-/Corporate credit rating – stable outlook
B/Credit rating for Exchangeable Debentures

Liquidity

The Company's principal source of liquidity is cash generated from operations and cash on hand. The Company expects to generate sufficient liquidity in the short term and the long term to fund capital expenditures, working capital requirements and current obligations, and service its outstanding debt obligations. As at December 31, 2020, the Company had $153.5 million of cash and $21.6 million available under the ABL. As at January 31, 2021, the Company had approximately $163.7 million of cash and $21.6 million available under the ABL

Options

On December 20, 2012, as part of the implementation of Yellow Pages Limited's 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 of Yellow Pages Limited 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 Limited through the 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. On May 11, 2018, an amendment to the Stock Option Plan was approved, increasing the maximum number of common shares authorized for issuance upon the exercise of options, from 1,290,612 to 2,806,932. 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.

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

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

Share Data

Outstanding Share Data

As at	February 10, 2021	December 31, 2020	December 31, 2019
Common shares outstanding	27,786,487	27,828,906	28,075,308
Exchangeable Debentures outstanding[1]	5,621,481	5,621,481	5,624,422
Common share purchase warrants outstanding	2,995,483	2,995,484	2,995,484
Stock options outstanding[2]	2,717,779	2,717,779	1,983,102

[1] *As at February 10, 2020, Yellow Pages had $107.0 million principal amount of Exchangeable Debentures outstanding, which amount is exchangeable into 5,621,481 common shares of Yellow Pages Limited at an exchange price of $19.04, subject to adjustment for specified transactions pursuant to the indenture governing the Exchangeable Debentures.*

[2] *Included in the stock options outstanding balance of 2,717,779 as at February 10, 2021 and December 31, 2020, nil stock options were exercisable as at those dates. Included in the stock options outstanding balance of 1,983,102 as at December 31, 2019, of which nil stock options exercisable as at that date.*

The Company entered into a normal course issuer bid ("NCIB"), commencing August 10, 2020, to purchase up to $5.0 million of Common Shares in the open market for cancellation, on or before August 9, 2021. As at December 31, 2020, the Company had purchased under this NCIB program 273,190 common shares for cash of $3.3 million. The related historical carrying value of these shares was reclassified from shareholder's capital to deficit.

Dividend policy

On May 12th, 2020, the Company's Board of Directors adopted a dividend policy of paying a quarterly cash dividend to its common shareholders of $0.11 per share. YP's dividend payout policy and the declaration of dividends on any of the Company's outstanding common shares are subject to the discretion of the Board and, consequently, there can be no guarantee that the dividend payout policy will be maintained or that dividends will be declared. Dividend decisions will continue to be dependent on YP's operations and financial results subject to the Board's assessment on a quarterly basis which are, in turn, subject to various assumptions and risks, including those set out in this MD&A.

During the year-ended December 31, 2020, the Company declared three quarterly dividends of $0.11 per common share. The dividends were paid on June 15, September 15 and December 15 of 2020 for a total consideration of $8.8 million to common shareholders.

On February 10, 2021, the Board of Directors declared a cash dividend of $0.11 per common share, payable on March 15, 2021 to shareholders of record as at February 26, 2021. Future quarterly dividends will be subject to Board approval.

Contractual Obligations and Other Commitments

(in thousands of Canadian dollars)

			Payments due for the years following December 31, 2020			
	Total		**1 year**	**2 – 3 years**	**4 – 5 years**	**Thereafter**
Lease obligations[1,2]	**$ 52,874**		$ 3,011	$ 6,330	$ 7,578	$ 35,955
Exchangeable Debentures (2022)[1]	**107,033**		–	107,033	–	–
Operating portion of lease obligations	**49,280**		3,691	7,539	7,639	30,411
Other	**30,260**		15,680	12,314	1,204	1,062
Total contractual obligations	**$ 239,447**		$ 22,382	$ 133,216	$ 16,421	$ 67,428

1 *Principal amount.*
2 *Net present value.*

Lease obligations

We entered into finance lease agreements for premises. As at December 31, 2020, minimum payments under these finance leases up to 2033 total $52.9 million.

Operating portion of lease obligations

We rent our premises and office equipment under various leases for which an operating portion is recognized. As at December 31, 2020, minimum payments for the operating portion under these leases up to 2033 total $49.3 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 2021 and 2032. We also have purchase obligations under service contracts for both operating and capital expenditures. As at December 31, 2020, we have an obligation to purchase services for $30.3 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, 2020, the DB component of the YP Pension Plan's assets market value totalled $503.7 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 14.17% for 2020, 0.17% above our benchmark portfolio.

The most recent actuarial valuation of the DB component of the YP Pension Plan for funding purposes was performed as at December 31, 2019. The valuation was prepared consistent with the Ontario funding basis, which requires no solvency deficit contribution if the plan is above 85% solvent. It also includes a requirement to fund on a going-concern basis a Provision for Adverse Deviation ("PfAD"), which is determined based on plan characteristics. There is no resulting solvency contribution, as it was determined that the plan was above the 85% solvency threshold, but the annual required contribution to cover the PfAD will increase to $4.7 million from $1.8 million for a 10-year period starting in 2021. The next actuarial valuation for funding purposes will be prepared no later than as of December 31, 2022. For the benefit of our retirees, as of June 2020 the Company doubled the monthly contributions to fund the deficit in our Defined Benefit Pension Plan, bringing the Company's contribution for the year ended December 31, 2020 from the required $1.8 million to $2.8 million.

As of December 31, 2019, the Company's Defined Benefit Plan had a Prior Year Credit Balance ("PYCB") of $7.3 million. During 2020, the Company drew down $1.4 million, thereby reducing cash payments required and leaving a PYCB of $5.9 million as of December 31, 2020. The total cash payments for pension and other benefit plans made by the Company in 2020 were $9.2 million (2019 – $10.2 million). Total cash payments for pension and other benefit plans expected in 2021 amount to approximately $9.5 million.

Sources and Uses of Cash

(In thousands of Canadian dollars)

For the years ended December 31,		2020		2019
Cash flows from operating activities				
Cash flows from operations, excluding change in operating assets and liabilities	$	105,463	$	113,346
Change in operating assets and liabilities		21,535		31,413
	$	126,998	$	144,759
Cash flows used in investing activities				
Additions to intangible assets	$	(5,328)	$	(9,647)
Additions to property and equipment		(245)		(91)
Payments received from net investment in subleases		1,002		466
Proceeds on sale of businesses		1,564		1,936
Business acquisition		–		(400)
	$	(3,007)	$	(7,736)
Cash flows used in financing activities				
Repayment of senior secured notes	$	–	$	(170,231)
Repurchase of exchangeable debentures		(56)		–
Repurchase of common shares		(3,277)		–
Issuance of lease obligations		223		–
Payment of lease obligations		(2,989)		(3,836)
Dividends paid		(8,808)		–
	$	(14,907)	$	(174,067)
NET INCREASE IN CASH	$	109,084	$	(37,044)
CASH AND RESTRICTED CASH, BEGINNING OF PERIOD		44,408		81,452
CASH, END OF PERIOD	$	153,492	$	44,408

Cash flows from operating activities

Cash flows from operating activities decreased by $17.8 million to $127.0 million for the year ended December 31, 2020 from $144.8 million for the same period last year. The decrease is mainly due to lower Adjusted EBITDA of $31.9 million and a reduction of $9.9 million from the change in operating assets and liabilities offset by the lower interest paid of $16.1 million and lower payments for restructuring and other charges of $8.0 million.

Cash flows used in investing activities

Cash flows used in investing activities decreased by $4.7 million year-over-year mainly due to lower investments in software development.

Cash flows used in financing activities

Cash flows used in financing activities decreased by $159.2 million to $14.9 million for the year ended December 31, 2020 compared to $174.1 million for the same period last year due to the repayment of senior secured notes in 2019 partially offset by the $8.8 million of dividends paid over the last three quarters of the year ended December 31, 2020 and $3.3 million paid to repurchase its common shares in 2020 under the NCIB program.

Financial and Other Instruments

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

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

As at December 31, 2020, the fair value of the Redemption Option was $2.6 million and was insignificant as at December 31, 2019. The fair value is calculated, using a binomial option pricing model based on year-end markets rates and prices as well as historical volatility data.

4. Critical Assumptions and Estimates

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.

Significant estimates

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

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

Allowance for revenue adjustments

The Company records an allowance for revenue adjustments as a reduction to revenue. This reflects an estimate of claims expected from customers. The Company updates its estimate of the allowance for revenue adjustments based on historical experience related to claims, as well as client-related factors. The Company updated its assumptions related to its estimate of the allowance for revenue adjustments to reflect the potential impact of the COVID-19 pandemic on the rate of claims expected from customers. This significant estimate could affect Yellow Pages Limited's future results if actual claims are higher or lower than previously anticipated.

Estimate of the lease term

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and assesses whether it will extend the lease at the end of the lease contract, or exercise an early termination option. The Company determined that the term of its leases is the original lease term as it is not reasonably certain that the extension of termination options will be exercised. This significant estimate could affect Yellow Pages Limited's future results if the Company extends the lease or exercises an early termination option.

Assessment of whether a right-of-use asset is impaired

The Company assesses whether a right-of-use asset is impaired, particularly when it vacates an office space and it must determine the recoverability of the asset, depending on its capacity to sublease the assets or surrender the lease and recover its costs. The Company will examine its lease conditions as well as local market conditions and estimate its recoverability potential for each vacated premise. The determination of the lease cost recovery rate involves significant management estimates based on market availability of similar office space and local market conditions. This significant estimate could affect Yellow Pages Limited's future results if the Company succeeds in subleasing their vacated offices at a higher or lower rate or at different dates than initially anticipated.

Measurement of the ECL allowance on trade receivables

In relation to the impairment of trade receivables (including contract assets), the Company uses the expected credit losses ("ECL") model, which requires the Company to account for the ECL and changes in the ECL at each reporting date to reflect changes in credit risk since initial recognition of the trade receivable. The ECL related to doubtful accounts for trade receivables (also referred to as allowance for doubtful accounts) is established based on various factors, including amongst others the age of the exposure and in some case the customer's solvency. As a result of the COVID-19 pandemic the Company applied the policy as described above using an additional factor in assessing the credit risk applied to the ECL, based on the customer's line of business and an estimation of the degree they may have been impacted by the

pandemic. This significant estimate could affect the Company's future results if there is a further significant change in economic conditions or customer solvency or any new information that may impact our assumptions.

Determining the discount rate for leases

IFRS 16 requires the Company to discount the lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate ("IBR"). The Company generally used its IBR rate when recording leases initially, since the implicit rates were not readily available due to information not being available from the Lessor regarding the fair value of underlying assets and directs costs incurred by the Lessor related to the leased assets. The IBR for each lease was based on the commencement date of the lease and recalculated at the remeasurement date where applicable.

Useful lives of intangible assets and property and equipment

Yellow Pages Limited reviews the estimated useful lives of its intangible assets and property and equipment at the end of each reporting period. At the end of the current reporting period, management determined that the useful lives of its intangible assets and property and equipment were adequate.

Employee future benefits

The present value of the defined benefit obligation is determined by employing the projected benefit method prorated on service 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 net benefit costs (recovery) requires assumptions such as the discount rate to measure defined benefit obligations and expected return on plan assets, the projected age of employees upon retirement, the expected rate of future compensation and the expected healthcare cost trend rate. Actual results may differ from results which are estimated based on assumptions.

COVID-19 may have various impacts on all benefit plans such as on mortality rates, volatile discount rates, and return on plan assets from the resulting global financial turbulence. It may also have specific impacts on post-retirement benefits such as on claiming patterns of covered members and trend rates. The assumptions used to remeasure the defined benefit obligation reflect current known market conditions. The effect of the outbreak on the mortality incidence for the plans is unknown at this time and therefore no adjustments to the mortality assumptions or to any other assumptions have been made as of December 31, 2020.

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of Yellow Pages Limited's ability to utilize the underlying future tax deductions against future taxable income before they expire. Yellow Pages Limited's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of Yellow Pages Limited's ability to utilize the underlying future tax deductions changes, Yellow Pages Limited 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. The carrying value of deferred tax assets is reviewed at each reporting date, remeasured to the extent that probable sufficient taxable profits will be available, or reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future. The Company updated its assumptions related to the carrying value of the deferred tax assets to reflect the estimated impact of the COVID-19 pandemic as well as other factors to determine whether an adjustment would be required to its valuation allowance as at December 31, 2020.

New significant accounting policies

Government grant

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

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

Accounting standards

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

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

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

5. Risks and Uncertainties

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.

Failure by the Corporation to stabilize or grow its revenues and customer base 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 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.

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 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 the 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 impact 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 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 characterized 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 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.

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 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 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.

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.

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 three billing and collection services agreements. The agreement with Bell Canada ("Bell") expires on December 31, 2023 and the agreement with Northwestel Inc., an affiliate of Bell expires, November 29, 2032. The agreement with TELUS Communications Inc. (TELUS) expires in 2031. Through these agreements, our billing is included as a separate line item on the telephone bills of Bell and TELUS customers who use our services. Bell and TELUS (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 Partner 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.

Successfully prosecuted legal action against the Corporation, could adversely affect the results of operations and financial condition of the Corporation.

From time to time, the Corporation may be the subject of litigation arising out of its operations. The Corporation is not currently a party to any material litigation. However, if any legitimate cause of action arose which was successfully prosecuted against the Corporation, the results of operations and financial condition could be adversely affected. Claims under such litigation may be material or may be indeterminate. Various types of claims may be made including, without limitation, breach of contract, negligence, tax and employment matters. The outcome of such litigation is uncertain and may materially impact the Corporation's financial condition or results of operations and the Corporation may be required to incur significant expenses or devote significant resources in defense against any such litigation. Moreover, unfavorable outcomes or settlements of litigation could encourage the commencement of additional litigation.

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. The Corporation currently has seven union agreements. Each of the union agreements have been successfully renegotiated, four of which expire on December 31, 2021, two others on June 30, 2022 and the last on March 31, 2023. If the Corporation is unable to renew the agreements with its unionized staff as they come up for renegotiation from time to time, it could result in additional work stoppages and other labour disturbances, which could have a material adverse effect on our business.

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 cyber-attacks, or 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.

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.

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 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 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.

An outbreak or escalation of a contagious disease may adversely affect the Corporation's business

A local, regional, national or international outbreak or escalation of a contagious disease, including the COVID-19 virus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu or any other similar illness, or fear of the foregoing, could adversely impact the ability of the Corporation's sales force to interact with customers and potential customers, cause economic uncertainty decreasing the willingness of customers to purchase services from the

Corporation, cause labour shortages for the Corporation, interrupt supplies from third parties upon which the Corporation relies, increase operating costs, result in governmental regulation adversely impacting the Corporation's business and otherwise have an adverse effect on the Corporation's business, financial condition and results of operations.

6. Controls and Procedures

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

Disclosure Controls and Procedures (DC&P)

The evaluation of the design and effectiveness of DC&P (as defined in National Instrument 52-109) was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They concluded that the Company's DC&P were effective, as at December 31, 2020.

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, 2020.

During the quarter beginning on October 1, 2020 and ended on December 31, 2020, no changes were made to the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.