



INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS

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CORPORATE PROFILE

TVA Group Inc. (“TVA Group,” “TVA” or the “Corporation”), a subsidiary of Quebecor Media Inc. (“QMI” or the “parent corporation”), is a communications company with operations in three business segments: Broadcasting & Production, Magazines, and Film Production & Audiovisual Services. In the Broadcasting & Production segment, the Corporation creates, produces and broadcasts entertainment, information and public affairs programming, distributes audiovisual products and films, and is engaged in commercial production. It operates North America’s largest private French-language television network as well as seven specialty services. TVA Group also holds a minority interest in the “Évasion” specialty service. In the Magazines segment, TVA Group publishes over 50 titles, making it Quebec’s largest magazine publisher. The Film Production & Audiovisual Services segment provides soundstage, mobile unit and production equipment rental services as well as postproduction, visual effects and distribution services. The Corporation’s Class B shares are listed on the Toronto Stock Exchange under the ticker symbol TVA.B.

This Interim Management’s Discussion and Analysis covers the Corporation’s main activities during the third quarter of 2018 and the major year-over-year changes. The Corporation’s Condensed Interim Consolidated Financial Statements for the three-month and nine-month periods ended September 30, 2018 and 2017 have been prepared in accordance with International Financial Reporting Standards (“IFRS”), including in particular IAS 34, *Interim Financial Reporting*.

All amounts presented in this Management’s Discussion and Analysis are in Canadian dollars. This report should be read in conjunction with the information in the annual Consolidated Financial Statements and Management’s Discussion and Analysis for the financial year ended December 31, 2017 and in the Condensed Interim Consolidated Financial Statements dated September 30, 2018.

BUSINESS SEGMENTS

The Corporation’s operations consist of the following segments:

- The **Broadcasting & Production segment**, which includes the operations of TVA Network (including the TVA Productions Inc. subsidiary and the TVA Nouvelles division), specialty services, the marketing of digital products associated with the various televisual brands, commercial production services and distribution of audiovisual products;
- The **Magazines segment**, which through its subsidiaries, notably TVA Publications inc. and Les Publications Charron & Cie inc., publishes magazines in various fields including the arts, entertainment, television, fashion and decorating; markets digital products associated with the various magazine brands; and provides custom publishing, commercial print production and premedia services;
- The **Film Production & Audiovisual Services segment (“MELS”)**, which through its subsidiaries Mels Studios and Postproduction G.P. and Mels Dubbing Inc. provides soundstage, mobile unit and production equipment rental services, as well as dubbing, postproduction, visual effects and distribution services.

HIGHLIGHTS SINCE END OF SECOND QUARTER 2018

- On September 21, 2018, the Corporation and its unionized employees in Montreal reached an agreement in principle concerning a collective bargaining agreement that expired on December 31, 2016, covering approximately 74% of the Corporation's unionized permanent employees. This agreement was ratified at a general meeting held on October 2, 2018. The new five-year collective bargaining agreement expires on December 31, 2021.
- On August 30, 2018, the Canadian Radio-Television and Telecommunications Commission ("CRTC") rendered a decision following its review of previous decisions on the renewal of the television licences of the major private French-language broadcasting groups. The CRTC added two new conditions to the Corporation's licences, which are not expected to have any significant impact.
- On August 27, 2018, the Corporation acquired all of the common shares of Audio Zone Inc. for a total acquisition price of \$2,026,000, consisting of \$2,000,000 in cash and the assumption of a \$26,000 bank overdraft. Audio Zone Inc. offers postproduction sound services. Its results have been included in the results of the Corporation's Film Production & Audiovisual Services segment since the acquisition date.
- In July 2018, the Corporation completed the sale of a building in Quebec City for net proceeds on disposal of \$3,528,000. The transaction gave rise to the recognition of a gain on disposal of \$2,936,000 in the third quarter of 2018.
- The Corporation is still awaiting the CRTC's decision on the official application filed on May 16, 2018 to transfer ultimate effective control of the "Évasion" and "Zeste" specialty channels, owned and operated by companies in the Serdy Media Inc. group. A decision is expected in the fourth quarter of 2018.

NON-IFRS FINANCIAL MEASURES

To evaluate its financial performance, the Corporation uses certain measures that are not calculated in accordance with or recognized under IFRS. The Corporation's method of calculating non-IFRS financial measures may differ from the methods used by other companies and, as a result, the financial measures presented in this Management's Discussion and Analysis may not be comparable to other similarly titled measures reported by other companies.

Adjusted EBITDA (previously adjusted operating income (loss))

In its analysis of operating results, the Corporation defines adjusted EBITDA as net income (loss) before depreciation of property, plant and equipment, amortization of intangible assets, financial expenses, impairment of goodwill and intangible assets, operational restructuring costs and others, income taxes and share of loss (income) of associated corporations. Adjusted EBITDA as defined above is not a measure of results that is consistent with IFRS. Neither is it intended to be regarded as an alternative to other financial performance measures or to the statement of cash flows as a measure of liquidity. This measure should not be considered in isolation or as a substitute for other performance measures prepared in accordance with IFRS. This measure is used by management and the Board of Directors to evaluate the Corporation's consolidated results and the results of its segments. This measure eliminates the significant level of impairment, depreciation and amortization of tangible and intangible assets and is unaffected by the capital structure or investment activities of the Corporation and its segments. Adjusted EBITDA is also relevant because it is a significant component of the Corporation's annual incentive compensation programs. The Corporation's definition of adjusted EBITDA may not be identical to similarly titled measures reported by other companies.

Table 1 below presents a reconciliation of adjusted EBITDA to net income (loss) attributable to shareholders as disclosed in the Corporation's condensed interim consolidated financial statements.

Table 1**Reconciliation of the adjusted EBITDA measure used in this report to the net income (loss) attributable to shareholders measure used in the condensed interim consolidated financial statements**

(in thousands of dollars)

	Three-months ended September 30		Nine-months ended September 30	
	2018	2017	2018	2017
Adjusted EBITDA:				
Broadcasting & Production	\$ 16,710	\$ 19,902	\$ 10,771	\$ 25,635
Magazines	1,727	3,189	5,061	7,538
Film Production & Audiovisual Services	8,531	9,844	9,527	10,240
	26,968	32,935	25,359	43,413
Depreciation of property, plant and equipment and amortization of intangible assets	8,602	8,767	25,709	26,509
Financial expenses	598	697	1,867	1,969
Impairment of goodwill and intangible assets	–	42,405	–	42,405
Operational restructuring costs and others	(779)	32	157	4,982
Tax expense (recovery)	4,538	(3,927)	(840)	(7,124)
Share of loss (income) of associated corporations	42	139	(610)	(328)
Non-controlling interest	(30)	81	(224)	161
Net income (loss) attributable to shareholders	\$ 13,997	\$ (15,259)	\$ (700)	\$ (25,161)

ANALYSIS OF CONSOLIDATED RESULTS**2018/2017 third-quarter comparison****Operating revenues:** \$127,418,000, a \$13,367,000 (-9.5%) decrease.

- \$5,423,000 (-5.8%) decrease in the Broadcasting & Production segment (Table 2) essentially due to a 10.1% decrease in TVA Network's advertising revenues and a 2.7% decrease in the subscription revenues of the specialty channels.
- \$6,944,000 (-27.5%) decrease in the Magazines segment (Table 2) due mainly to decreases of 44.2% in advertising revenues, 65.8% in brand licencing revenues and 13.2% in newsstand revenues, on a comparable basis, combined with the impact on revenues of the sale of *The Hockey News* magazine in the first quarter of 2018.
- \$1,161,000 (-4.7%) decrease in the Film Production & Audiovisual Services segment (Table 2) due to decreased volume in all of the segment's operations except postproduction and the addition of mobile unit rental operations following the acquisition of the assets of Mobilimage inc. in the first quarter of 2018.

Table 2
Operating revenues
(in thousands of dollars)

	Three-months ended September 30		Nine-months ended September 30	
	2018	2017	2018	2017
Broadcasting & Production	\$ 88,687	\$ 94,110	\$ 304,338	\$ 322,133
Magazines	18,274	25,218	56,881	70,376
Film Production & Audiovisual Services	23,433	24,594	49,398	50,372
Intersegment items	(2,976)	(3,137)	(9,173)	(8,430)
	\$ 127,418	\$ 140,785	\$ 401,444	\$ 434,451

Adjusted EBITDA: \$26,968,000, a \$5,967,000 (-18.1%) unfavourable variance.

- \$3,192,000 unfavourable variance in the Broadcasting & Production segment (Table 3) caused mainly by a 30.1% decrease in TVA Network's adjusted EBITDA and a 10.6% decrease in adjusted EBITDA from the specialty channels.
- \$1,462,000 unfavourable variance in the Magazines segment (Table 3), due mainly to the above-noted decrease in operating revenues, which was partially offset by the savings generated by the staff and expense rationalization plans implemented in recent quarters.
- \$1,313,000 unfavourable variance in the Film Production & Audiovisual Services segment (Table 3), due primarily to a lower volume of activities in soundstage and equipment rental and in visual effects, partially offset by a higher volume of activities in postproduction and the contribution of mobile unit rental activities to adjusted EBITDA.

Table 3
Adjusted EBITDA
(in thousands of dollars)

	Three-months ended September 30		Nine-months ended September 30	
	2018	2017	2018	2017
Broadcasting & Production	\$ 16,710	\$ 19,902	\$ 10,771	\$ 25,635
Magazines	1,727	3,189	5,061	7,538
Film Production & Audiovisual Services	8,531	9,844	9,527	10,240
	\$ 26,968	\$ 32,935	\$ 25,359	\$ 43,413

Net income attributable to shareholders: \$13,997,000 (\$0.32 per basic and diluted share), compared with a net loss attributable to shareholders of \$15,259,000 (-\$0.35 per basic and diluted share) in the same period of 2017.

- The \$29,256,000 (\$0.67 per basic and diluted share) favourable variance was essentially due to:
 - the recognition of a \$42,405,000 charge for impairment of goodwill and intangible assets in the third quarter of 2017;
partially offset by:

- a \$8,465,000 unfavourable variance in income tax; and
- a \$5,967,000 decrease in adjusted EBITDA.
- The calculation of earnings loss per share was based on a weighted average of 43,205,535 outstanding diluted shares for the quarters ended September 30, 2018 and 2017.

Depreciation of property, plant and equipment and amortization of intangible assets: \$8,602,000, a slight \$165,000 decrease.

Financial expenses: \$598,000, a slight \$99,000 decrease.

Charge for impairment of goodwill and intangible assets: Nil for the three-month period ended September 30, 2018 compared with \$42,405,000 for the three-month period ended September 30, 2017.

The continuing downward trend in operating revenues in the magazine industry led the Corporation to perform an impairment test on its Magazines cash-generating unit (“CGU”) in the third quarter of 2017. The Corporation concluded that the recoverable amount of the Magazines CGU, based on value in use, was less than its carrying amount. Accordingly, a \$29,993,000 goodwill impairment charge, including \$1,489,000 without any tax consequences, and a \$12,412,000 charge impairment on certain intangible assets, including \$3,103,000 without any tax consequences, were recognized in the third quarter of 2017.

Operational restructuring costs and others: -\$779,000 in the third quarter of 2018, compared with \$32,000 in the same period of 2017.

- In July 2018, the Corporation completed the sale of a building in Quebec City for net proceeds on disposal of \$3,528,000. The transaction gave rise to a \$2,936,000 gain on disposal in the third quarter of 2018.
- In the third quarter of 2018, the Corporation recorded a \$2,000,000 charge impairment on its investment in an associated corporation in the Magazines segment following revised guidance from that corporation’s management and the continuing downward trend in operating revenues in the industry.
- During the third quarter of 2018, the Corporation also recorded \$596,000 in operational restructuring costs in connection with the elimination of positions, including \$213,000 in the Broadcasting & Production segment, \$152,000 in the Magazines segment, and \$231,000 in the Film Production and Audiovisual Services segment (\$32,000 in the third quarter of 2017, including \$19,000 in the Broadcasting & Production segment and \$13,000 in the Magazines segment).
- In the third quarter of 2018, the Corporation recorded a \$346,000 reduction in the allowance for onerous leases extending up to June 2022 for unused premises, which was recognized in the second quarter of 2017 following implementation of rationalization plans in the Magazines segment.

Income tax expense: \$4,538,000 (effective tax rate of 24.5%) in the third quarter of 2018, compared with income tax recovery in the amount of \$3,927,000 (effective tax rate of 20.7%) in the same period of 2017.

- In the third quarter of 2018, the tax rate was lower than the Corporation’s statutory tax rate of 26.7%, essentially because of a \$766,000 reduction in the Corporation’s future income tax liabilities in light of the evolution of tax auditing, jurisprudence and tax legislation.
- In the third quarter of 2017, the effective tax rate was lower than the Corporation’s statutory tax rate of 26.8%, essentially because of the non-deductible portion of the charge for impairment of goodwill and certain intangible assets.

Share of loss of associated corporations: \$42,000 in the third quarter of 2018, compared with \$139,000 in the same period of 2017; the \$97,000 favourable variance was due to the improved financial results of an associated corporation.

Non-controlling interest: -\$30,000 in the third quarter of 2018, compared with \$81,000 in the same period of 2017. The \$111,000 difference was due to the lower financial results of a corporation in which a subsidiary of the Corporation holds a 51% interest.

2018/2017 year-to-date comparison

Operating revenues: \$401,444,000, a \$33,007,000 (-7.6%) decrease.

- \$17,795,000 (-5.5%) decrease in the Broadcasting & Production segment (Table 2) essentially due to an 8.0% decrease in TVA Network's advertising revenues and an 8.6% decrease in the "TVA Sports" channel's operating revenues, partially offset by increases in advertising revenues in the other specialty channels.
- \$13,495,000 (-19.2%) decrease in the Magazines segment (Table 2) due mainly to decreases of 33.0% in advertising revenues, 8.0% in newsstand revenues, 11.2% in subscription revenues and 48.1% in brand licencing revenues, on a comparable basis, combined with the impact on revenues of the sale of *The Hockey News* magazine in the first quarter of 2018.
- \$974,000 (-1.9%) decrease in the Film Production & Audiovisual Services segment (Table 2) due to decreased volume in all of the segment's operations, with the exception of postproduction and the addition of mobile unit rental operations following the acquisition of the assets of Mobilimage inc.

Adjusted EBITDA: \$25,359,000, an \$18,054,000 unfavourable variance.

- \$14,864,000 unfavourable variance in the Broadcasting & Production segment (Table 3) caused mainly by a 31.3% decrease in TVA Network's adjusted EBITDA, a 50.4% increase in the "TVA Sports" channel's negative adjusted EBITDA, and an 8.5% decrease in the adjusted EBITDA of the other specialty channels.
- \$2,477,000 unfavourable variance in the Magazines segment (Table 3), due essentially to the above-noted decrease in operating revenues, which was partially offset by the savings generated by the staff and expense rationalization plans implemented in recent quarters.
- \$713,000 unfavourable variance in the Film Production & Audiovisual Services segment (Table 3), due primarily to an increase in negative adjusted EBITDA resulting from a lower volume of activities in visual effects and advertising postproduction, and lower adjusted EBITDA from asset management and distribution, partially offset by an increase in adjusted EBITDA from soundstage and equipment rental and postproduction, and the addition of mobile unit rental activities.

Net loss attributable to shareholders: \$700,000 (-\$0.02 per basic and diluted share) for the first nine months of 2018, compared with \$25,161,000 (-\$0.58 per basic and diluted share) in the same period of 2017.

- The \$24,461,000 (\$0.56 per basic and diluted share) favourable variance was essentially due to:
 - the recognition of a \$42,405,000 charge for impairment of goodwill and intangible assets in the third quarter of 2017; and
 - a \$4,825,000 favourable variance in operational restructuring costs and others;partially offset by:
 - a \$18,054,000 decrease in adjusted EBITDA; and
 - a \$6,284,000 unfavourable variance in income tax recovery.
- The calculation of loss per share was based on a weighted average of 43,205,535 outstanding diluted shares for the nine-month periods ended September 30, 2018 and 2017.

Depreciation of property, plant and equipment and amortization of intangible assets: \$25,709,000, a slight \$800,000 decrease essentially caused by a reduction in the amortization charge due to the write-off of certain intangible assets in the third quarter of 2017, partially offset by an increase in depreciation generated by new equipment acquired for rental purposes during the last year.

Financial expenses: Relatively stable at \$1,867,000.

Charge for impairment of goodwill and intangible assets: Nil for the nine-month period ended September 30, 2018 compared with \$42,405,000 for the same period of 2017, because of the same factor as that noted above in the 2018/2017 third-quarter comparison.

Operational restructuring costs and others: \$157,000 in the first nine months of 2018, compared with \$4,982,000 in the same period of 2017.

- In addition to the factors noted in the 2018/2017 third-quarter comparison above, the Corporation recorded the following items in the first half of 2018:
 - \$1,474,000 in operational restructuring costs in connection with the elimination of positions, including \$399,000 in the Broadcasting & Production segment, \$891,000 in the Magazines segment, and \$184,000 in the Film Production & Audiovisual Services segment (\$1,235,000 in the first half of 2017, including \$691,000 in the Broadcasting & Production segment, \$407,000 in the Magazines segment, and \$137,000 in the Film Production & Audiovisual Services segment);
 - \$1,000,000 gain on the sale of *The Hockey News* magazine; and
 - \$177,000 upward adjustment to the provision for onerous leases in the Magazines segment.

Income tax recovery: \$840,000 (effective tax rate of 35.4%) in the first nine months of 2018, compared with \$7,124,000 (effective tax rate of 22.0%) in the same period of 2017.

- In the first nine months of 2018, the effective tax rate was higher than the Corporation's statutory tax rate of 26.7% because of, among other things, a \$766,000 reduction in the Corporation's future income tax liabilities, partially offset by a non-deductible charge for impairment of an investment in an associated corporation.
- In the first nine months of 2017, the effective tax rate was lower than the Corporation's statutory tax rate of 26.8%, mainly because of the non-deductible portion of the charge for impairment of goodwill and certain intangible assets.

Share of income of associated corporations: \$610,000 in the first nine months of 2018, compared with \$328,000 in the same period of 2017; the \$282,000 increase was essentially due to the improved financial results of an associated corporation.

Non-controlling interest: -\$224,000 in the nine-month period ended September 30, 2018 compared with \$161,000 in the same period of 2017. The \$385,000 difference was due to a decrease in the net income of a corporation in which a subsidiary of the Corporation holds a 51% interest.

SEGMENTED ANALYSIS

Broadcasting & Production

2018/2017 third-quarter comparison

Operating revenues: \$88,687,000, a \$5,423,000 (-5.8%) decrease caused primarily by:

- a 10.1% decrease in TVA Network's advertising revenues;
- a 2.8% decrease in the revenues of "TVA Sports"; and
- a 2.7% decrease in the subscription revenues of the other specialty channels;

partially offset by

- a 3.2% increase in the advertising revenues of the other specialty services.

French-language audience share

Table 4

French-language audience share

(Market share in %)

Third quarter 2018 vs Third quarter 2017			
	2018	2017	Difference
French-language conventional broadcasters:			
TVA	23.7	24.0	- 0.3
SRC	10.8	11.7	- 0.9
V	5.4	5.5	- 0.1
	39.9	41.2	- 1.3
French-language specialty and pay services:			
TVA	14.4	13.1	1.3
Bell Media	14.4	14.0	0.4
Corus	8.3	8.4	- 0.1
SRC	5.2	4.9	0.3
Others	6.1	5.5	0.6
	48.4	45.9	2.5
Total English-language channels and others:	11.7	12.9	- 1.2
TVA Group	38.1	37.1	1.0

Source: Numeris, French Quebec, July 1 to September 30, Mon-Sun, 2:00a.m. – 2:00a.m., All 2+.

TVA Group's market share for the period of July 1 to September 30, 2018 increased by 1.0 points to 38.1%, compared with 37.1% in the same period of 2017.

TVA Group's specialty services had a combined market share of 14.4% in the third quarter of 2018, compared with 13.1% in the same period of 2017, a 1.3-point increase. "LCN" accounted for the largest part of the increase, growing its market share by 0.7 points thanks to, among other things, its outstanding coverage of the provincial election campaign,

which attracted far more viewers than that of “RDI.” The “Casa” and “Prise 2” channels also performed strongly with growth of 0.4 and 0.3 points, respectively.

TVA Network’s market share declined slightly from the same period of 2017 to 23.7% (-0.3 points), still more than its two main over-the-air rivals combined, which also lost market share. TVA Network carried 10 of the top 15 shows in Quebec during the third quarter of 2018, including the new hit dance competition *Révolution* featuring Quebec’s best dancers.

Operating expenses: \$71,977,000, a \$2,231,000 (-3.0%) decrease due primarily to:

- a 6.7% decrease in TVA Network’s operating expenses due to various cost-reduction initiatives aimed at narrowing the gap with operating revenues;

partially offset by:

- a 2.8% increase in the combined operating expenses of the specialty services, due in part to increased spending on programming.

Adjusted EBITDA: \$16,710,000, a \$3,192,000 unfavourable variance primarily due to:

- a 30.1% decrease in TVA Network’s adjusted EBITDA;
- a decrease in the adjusted EBITDA of “TVA Sports,” essentially due to lower subscription revenues in the third quarter of 2018 compared with the same period of 2017; and
- a 16.4% decrease in the combined adjusted EBITDA of the other specialty channels.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Broadcasting & Production segment’s activities (expressed as a percentage of revenues) increased from 78.9% in the third quarter of 2017 to 81.2% in the third quarter of 2018, essentially because of the decrease in the segment’s operating revenues and the difficulty of reducing operating expenses correspondingly.

2018/2017 year-to-date comparison

Operating revenues: \$304,338,000, a \$17,795,000 (-5.5%) decrease due mainly to:

- an 8.0% decrease in TVA Network's advertising revenues;
- a 23.2% decrease in the "TVA Sports" channel's advertising revenues, due in large part to the second-quarter 2018 amounts and the Montreal Canadiens' failure to participate in the NHL playoffs; and
- a 2.9% decrease in the subscription revenues of "TVA Sports";

partially offset by:

- a 10.1% increase in the combined advertising revenues of the other specialty channels, particularly "Prise 2" and "LCN," which grew by 47.0% and 9.4%, respectively.

Operating expenses: \$293,567,000, a \$2,931,000 (-1.0%) decrease due primarily to:

- a 3.1% decrease in TVA Network's operating expenses, essentially because of the combination of:
 - operating cost savings;
 - a decrease in operating expenses related to a lower commercial production volume of activities; and
 - increased spending on programming and content;
- a 0.7% decrease in the operating expenses of the "TVA Sports" channel, mainly because of the combination of:
 - savings on rights and program production costs;
 - savings on commissions on advertising sales; and
 - increased digital platform costs;

partially offset by:

- a 5.6% increase in the operating expenses of the specialty channels other than "TVA Sports" essentially due to spending on programming and promotion, particularly at "AddikTV" for which such investment is a condition of licence.

Adjusted EBITDA: \$10,771,000, a \$14,864,000 unfavourable variance primarily due to:

- a 31.3% decrease in TVA Network's adjusted EBITDA;
- a 50.4% increase in the negative adjusted EBITDA of "TVA Sports" due primarily to the decrease in its operating revenues; and
- a 8.5% decrease in the adjusted EBITDA of the other specialty channels.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Broadcasting & Production segment's activities (expressed as a percentage of revenues) increased from 92.0% in the first nine months of 2017 to 96.5% in the same period of 2018, mainly because of the same factor as those noted above in the 2018/2017 third-quarter comparison.

Magazines

2018/2017 third-quarter comparison

Operating revenues: \$18,274,000, a \$6,944,000 (-27.5%) decrease due mainly to:

- a 44.2% decrease in the magazines' advertising revenues, on a comparable basis, partly because of fewer issues of some monthly titles;
- the sale of *The Hockey News* magazine;
- a 65.8% decrease in brand licencing revenues due to postponement of a project until the last quarter of 2018; and
- a 13.2% decrease in newsstand revenues on a comparable basis, mainly in the entertainment category.

Canada Periodical Fund

The Government of Canada created the Canada Periodical Fund ("CPF") on April 1, 2010. The CPF provides financial assistance to the Canadian magazine and non-daily newspaper industries so they can continue to produce and distribute Canadian content. All assistance related to this program is fully recorded under operating revenues. It amounted to 15.1% of the segment's operating revenues for the three-month period ended September 30, 2018 (11.7% in the same period of 2017).

Readership and market share statistics

With more than 3.7 million readers across all platforms for its French titles, TVA Group is the top publisher of French-language magazines in Quebec and a leading player in the Canadian magazine market with a total of nearly 9.0 million cross-platform readers. *7 Jours* is the leading entertainment and celebrity news magazine with 571,000 readers on all platforms per week.

Canada's lifestyle standard-setter *Canadian Living* reaches nearly 3.6 million cross-platform readers. Its French-language counterpart *Coup de pouce* is the most-read French-language lifestyle magazine on all platforms with more than 1.3 million cross-platform readers.

Elle Canada was the country's top fashion and beauty magazine with nearly 1.8 million readers on all platforms while *Clin d'œil* was Quebec's most popular fashion and beauty magazine with 513,000 cross-platform readers.

Source: Vividata, Fall 2018, Canada total, 14+, cross-platform readership, July 1, 2017 to June 30, 2018.

Operating expenses: \$16,547,000, a \$5,482,000 (-24.9%) decrease due mainly to:

- cost savings resulting from decreased volume of activities, fewer issues of some monthly titles, and the savings generated by expense rationalization plans implemented in recent months;
- a decrease in operating expenses resulting from the sale of *The Hockey News* magazine; and
- a 17.4% decrease attributable to subscription cost savings, largely in distribution and in recruiting campaigns, on a comparable basis.

Adjusted EBITDA: \$1,727,000, a \$1,462,000 unfavourable variance due mainly to the decrease in operating revenues, which outweighed the savings generated by the staff and expense rationalization plans.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Magazines segment's activities (expressed as a percentage of revenues) increased from 87.4% in the third quarter of 2017 to 90.5%

in the third quarter of 2018, mainly because of the decrease in the segment's operating revenues, which outweighed the decrease in operating expenses.

2018/2017 year-to-date comparison

Operating revenues: \$56,881,000, a \$13,495,000 (-19.2%) decrease due mainly to:

- a 33.0% decrease in the magazines' advertising revenues, on a comparable basis, partly because of fewer issues of some monthly titles;
- the sale of *The Hockey News* magazine;
- an 8.0% decrease in newsstand revenues on a comparable basis, largely in the entertainment category;
- an 11.2% decrease in subscription revenues on a comparable basis, largely in the women's and decorating & cooking categories; and
- a 48.1% decrease in brand licencing revenues due to postponement of a project until the last quarter of 2018.

Operating expenses: \$51,820,000, an \$11,018,000 (-17.5%) decrease due mainly to:

- cost savings resulting from decreased volume of activities, fewer issues of some monthly titles, and the staff and expense rationalization plans implemented in recent quarters;
- a decrease in operating expenses resulting from the sale of *The Hockey News* magazine; and
- a 14.2% decrease attributable to subscription cost savings, largely in distribution and in recruiting campaigns, on a comparable basis.

Adjusted EBITDA: \$5,061,000, a \$2,477,000 unfavourable variance due mainly to the decrease in operating revenues, which outweighed the savings generated by staff and expense rationalization plans.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Magazines segment's activities (expressed as a percentage of revenues) increased from 89.3% in the nine-month period ended September 30, 2017 to 91.1% in the same period of 2018, essentially because of the above-noted factors.

Film Production & Audiovisual Services

2018/2017 third-quarter comparison

Operating revenues: \$23,433,000, a \$1,161,000 (-4.7%) decrease primarily due to:

- a 12.2% decrease in soundstage and equipment rental revenues;
- a 53.9% decrease in visual effects revenues; and
- a 9.3% decrease in dubbing and subtitling revenues;

partially offset by:

- a 61.1% growth in postproduction revenues, essentially due to:
 - higher volume in the third quarter of 2018 compared with the same period of 2017; and
 - the addition of the activities of Audio Zone for the month of September 2018; and

- the addition of mobile unit rental activities following the acquisition of Mobilimage in the first quarter of 2018.

Operating expenses: \$14,902,000, a slight \$152,000 (1.0%) increase due primarily to:

- the addition of mobile unit rental activities in the first quarter of 2018; and
- a 29.6% increase in operating expenses related to postproduction because of the factors noted in the discussion of the increase in operating revenues;

partially offset by:

- a 7.5% decrease in operating expenses related to soundstage and equipment rental;
- a 20.9% decrease in operating expenses related to visual effects due to lower volume of activities; and
- a 14.6% decrease in operating expenses related to dubbing and subtitling, also as a result of lower volume of activities.

Adjusted EBITDA: \$8,531,000, a \$1,313,000 unfavourable variance mainly due to the decrease in adjusted EBITDA from soundstage and equipment rental and the increase in negative adjusted EBITDA generated by visual effects, partially offset by the increased profitability of postproduction and the addition of the adjusted EBITDA generated by mobile unit rental.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Film Production & Audiovisual Services segment's activities (expressed as a percentage of revenues) increased from 60.0% in the third quarter of 2017 to 63.6% in the third quarter of 2018, essentially due to the decrease in operating revenues.

2018/2017 year-to-date comparison

Operating revenues: \$49,398,000, a \$974,000 (-1.9%) decrease due primarily to:

- a 47.0% decrease in visual effects revenues; and
- a 9.0% decrease in dubbing and subtitling revenues;

partially offset by:

- the addition of mobile unit rental activities; and
- a 10.8% increase in postproduction revenues.

Operating expenses: \$39,871,000, a slight \$261,000 (-0.7%) decrease primarily due to:

- a 17.9% decrease in operating expenses related to visual effects;
- a 3.3% decrease in operating expenses related to soundstage and equipment rental; and
- a 10.5% decrease in operating expenses related to dubbing and subtitling;

partially offset by:

- the addition of operating expenses related to mobile unit rental; and
- a 3.7% increase in operating expenses related to postproduction in line with revenue growth.

Adjusted EBITDA: \$9,527,000, a \$713,000 unfavourable variance primarily due to:

- an increase in negative adjusted EBITDA from visual effects; and
- a lower adjusted EBITDA from advertising postproduction and from asset management and distribution;

partially offset by:

- an increase in adjusted EBITDA from soundstage and equipment rental; and
- a higher profit margin on postproduction activities.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Film Production & Audiovisual Services segment's activities (expressed as a percentage of revenues) increased slightly from 79.7% in the first nine months of 2017 to 80.7% in the same period of 2018, essentially due to the decrease in operating revenues.

Acquisition of the assets of Mobilimage inc.

On January 22, 2018, Mels Studios and Postproduction G.P. acquired the assets of Mobilimage inc., consisting mainly of mobile production vehicles and equipment, for a cash purchase price of \$2,705,000, consisting of the agreed price of \$2,750,000 less a \$45,000 adjustment related to a pre-established working capital target agreed to by the parties. The results of the HD and 4K mobile unit rental and operation business have been included in the Film Production & Audiovisual Services segment's results since the acquisition date. The acquisition was consistent with the Corporation's strategic objective of offering an array of production equipment and services in order to meet producers' needs and reduce the use of outsourced services for its own production needs.

Acquisition of the shares of Audio Zone Inc.

On August 27, 2018, the Corporation signed an agreement to acquire all of the shares of Audio Zone Inc., a postproduction sound company, for a total cash purchase price of \$2,026,000 consisting of the agreed price of \$2,000,000 and assumption of a \$26,000 bank overdraft. This purchase price is subject to an adjustment that will be known by the end of the year, based on a predetermined working capital target agreed to by the parties. The preliminary purchase price allocation essentially includes accounts receivable, property, plant and equipment, the client list, a non-compete clause, goodwill, and accounts payable and accrued liabilities. The postproduction sound service's results have been included in the results of the Film Production & Audiovisual Services segment since the acquisition date. The acquisition was consistent with the Corporation's strategic objective of offering an array of production services that meet the needs of producers and customers.

CASH FLOWS AND FINANCIAL POSITION

Table 5 below shows a summary of cash flows related to operating activities, investing activities and financing activities:

Table 5
Summary of the Corporation's cash flows
(in thousands of dollars)

	Three-months ended September 30		Nine-months ended September 30	
	2018	2017	2018	2017
Cash flows related to operating activities	\$ 20,033	\$ 45,833	\$ 20,654	\$ 30,916
Additions to property, plant and equipment and intangible assets	(5,005)	(7,053)	(13,294)	(18,977)
Disposal of property, plant and equipment and intangible assets	3,723	–	3,723	–
Business acquisitions	(2,026)	–	(4,731)	–
Net change in investments	293	293	195	350
Others	(49)	–	(838)	10
Reimbursement of net debt	\$ 16,969	\$ 39,073	\$ 5,709	\$ 12,299

	September 30, 2018	December 31, 2017
At period end:		
Long-term debt	\$ 44,372	\$ 52,708
Short-term debt	11,250	9,844
Less: cash	(20,037)	(21,258)
Net debt	\$ 35,585	\$ 41,294

Operating activities

Cash flows provided by operating activities: \$25,800,000 decrease in the three-month period ended September 30, 2018 compared with the third quarter of 2017 due mainly to the unfavourable net change in operating assets and liabilities, particularly accounts receivable, and a \$5,967,000 decrease in adjusted EBITDA.

Cash flows provided by operating activities: \$10,262,000 decrease in the nine-month period ended September 30, 2018 compared with the same period of 2017, due mainly to:

- an \$18,054,000 decrease in adjusted EBITDA; and
 - a \$16,048,000 unfavourable net change in current tax assets and liabilities;
- partially offset by:
- a favourable net change in operating assets and liabilities:
 - accounts receivable in the amount of \$9,639,000; and
 - rights payable in the amount of \$8,379,000; and
 - a \$4,825,000 favourable variance in operational restructuring costs and others.

Working capital: \$30,504,000 as of September 30, 2018, compared with \$32,368,000 at December 31, 2017. The \$1,864,000 reduction was mainly due to decreases in programs, broadcast rights and inventories, and in accounts receivable, partially offset by decreases in accounts payable and accrued liabilities, and in current tax liabilities.

Investing activities

Additions to property, plant and equipment and to intangible assets: \$5,005,000 for the third quarter of 2018 compared with \$7,053,000 for the same period of 2017. The \$2,048,000 (-29.0%) decrease was essentially due to a decrease in budgeted capital projects for the current year.

Additions to property, plant and equipment and to intangible assets: \$13,294,000 for the first nine months of 2018 compared with \$18,977,000 for the same period of 2017. The \$5,683,000 (-29.9%) decrease was essentially due to the same factor as that noted above in the 2018/2017 third quarter comparison.

During the nine-month period ended September 30, 2018, the Corporation made investments in technical equipment, production equipment for rental, and its digital infrastructure.

Disposal of property, plant and equipment and of intangible assets: \$3,723,000 for the three-month and nine-month periods ended September 30, 2018 (nil in the same periods of 2017). In July 2018, the Corporation closed the sale of a building in Quebec City for net proceeds on disposal of \$3,528,000.

Business acquisitions: \$2,026,000 in the three-month period ended September 30, 2018 (see “Acquisition of the shares of Audio Zone Inc.” above).

Business acquisitions: \$4,731,000 in the nine-month period ended September 30, 2018 (see “Acquisition of the assets of Mobilimage inc.” and “Acquisition of the shares of Audio Zone Inc.” above).

Net change in investments: \$293,000 in the third quarters of 2018 and 2017, consisting in receipt by the Corporation of dividends related to an investment in an associated corporation.

Net change in investments: \$195,000 for the first nine months of 2018 compared with \$350,000 for the same period of 2017. In addition to the above-noted items, the Corporation made a \$98,000 capital contribution to ROC Television during the nine-month period ended September 30, 2018, whereas it received a \$57,000 liquidation dividend related to a portfolio investment during the nine-month period ended September 30, 2017.

Financing activities

Long-term debt (excluding deferred financing costs): \$55,761,000 as at September 30, 2018, compared with \$62,839,000 at December 31, 2017. The \$7,078,000 reduction essentially reflects quarterly capital repayments on the term loan.

Financial position as at September 30, 2018

Net available liquid assets: \$170,037,000, consisting of a \$150,000,000 unused and available revolving credit facility and \$20,037,000 in cash.

As of September 30, 2018, minimum principal payments on debt in the coming 12-month periods were as follows:

Table 6
TVA Group minimum principal payments on debt
12-month periods ending September 30
(in thousands of dollars)

<hr/>	
2019	11,250
2020	44,511
Total	\$ 55,761

The weighted average term of TVA Group's debt was approximately 1.0 year as of September 30, 2018 (1.6 years as of December 31, 2017). The debt consisted entirely of floating-rate debt as of September 30, 2018 and December 31, 2017.

The Corporation also has a \$150,000,000 revolving credit facility, which was renewed on November 3, 2014 and matures on February 24, 2019. No amounts were drawn on the facility as of September 30, 2018 and December 31, 2017.

The Corporation's management believes that the cash flows generated on an annual basis by continuing operating activities and by available sources of financing should be sufficient to meet future cash requirements in regard to capital investments, working capital, interest payments, income tax payments, debt repayment, pension plan contributions, share redemptions and dividend payments (or distribution of capital), and to meet its commitments and guarantees.

Under its credit agreements, the Corporation is subject to certain covenants, including maintenance of certain financial ratios. As at September 30, 2018, the Corporation was in compliance with all of the terms and conditions of its credit agreements.

Analysis of consolidated balance sheet at September 30, 2018

Table 7

Consolidated balance sheets of TVA Group

Analysis of main variances between September 30, 2018 and December 31, 2017

(in thousands of dollars)

	Sept. 30, 2018	Dec. 31, 2017	Difference	Main reasons for difference
<u>Assets</u>				
Accounts receivable	\$ 133,758	\$ 144,913	\$ (11,155)	Impact of current and seasonal variations in activities and of decrease in operating revenues.
Programs, broadcast rights and inventories	67,167	79,437	(12,270)	Impact of current and seasonal variations in activities and of difference between broadcast rights payments and amount charged to income.
Property, plant and equipment	190,781	200,510	(9,729)	Impact of decreased investment in first nine months of 2018.
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 92,260	\$ 104,505	\$ (12,245)	Impact of current and seasonal variations in activities.
Income tax	238	6,314	(6,076)	Impact of payment of outstanding 2017 income tax balances.
Long-term debt	44,372	52,708	(8,336)	Impact of quarterly capital repayments on term loan.

ADDITIONAL INFORMATION

Contractual obligations

As of September 30, 2018, material contractual commitments of operating activities included capital repayment and interest on debt, payments under broadcast rights acquisition contracts, and payments under other contractual commitments, such as operating leases for services and office space. These contractual obligations are summarized in Table 8.

Table 8
Material contractual obligations of TVA Group as of September 30, 2018
(in thousands of dollars)

	Less than		More than		
	1 year	1-3 years	3-5 years	5 years	Total
Long-term debt	\$ 11,250	\$ 44,511	\$ –	\$ –	\$ 55,761
Payment of interest ¹	2,024	388	–	–	2,412
Broadcast rights	178,491	170,189	145,478	200,572	694,730
Other commitments	18,902	16,355	4,285	2,370	41,912
Total	\$ 210,667	\$ 231,443	\$ 149,763	\$ 202,942	\$ 794,815

¹ Interest is calculated on a constant debt level equal to that at September 30, 2018 on the revolving credit facility and includes standby fees on that facility.

In 2013, QMI and TVA Group reached a 12-year agreement with Rogers Communications Inc. for Canadian French-language broadcast rights to NHL games. Operating expenses related to that contract are recognized in the Corporation's operating expenses and total commitments related to the contract have been included in the Corporation's commitments.

Related party transactions

The Corporation entered into the following transactions with related parties in the normal course of business. These transactions were accounted for at the consideration agreed between parties.

In the third quarter of 2018, the Corporation sold advertising space and content to, recognized subscription revenues from, and provided production, postproduction and other services to corporations under common control and associated corporations in the aggregate amount of \$21,934,000 (\$23,585,000 in the third quarter of 2017).

In the third quarter of 2018, the Corporation recorded telecommunications service costs, advertising space acquisition costs, professional service fees, commissions on sales and newsgathering costs arising from transactions with corporations under common control and associated corporations totalling \$12,223,000 (\$10,783,000 in the third quarter of 2017).

In the third quarter of 2018, the Corporation also billed management fees to corporations under common control in the amount of \$2,416,000 (\$1,068,000 in the third quarter of 2017). These fees are recorded as a reduction of operating expenses.

As well, the Corporation paid management fees to the parent corporation in the amount of \$855,000 in the third quarter of 2018 (\$855,000 in the third quarter of 2017).

During the first nine months of 2018, the Corporation sold advertising space and content, recorded subscription revenues and provided production, postproduction and other services to corporations under common control and associated corporations in the aggregate amount of \$72,994,000 (\$72,983,000 during the first nine months of 2017).

In the first nine months of 2018, the Corporation recorded telecommunications service costs, advertising space acquisition costs, professional service fees, commissions on sales and newsgathering costs arising from transactions

with corporations under common control and associated corporations totalling \$42,142,000 (\$35,679,000 in the first nine months of 2017).

In the nine-month period ended September 30, 2018, the Corporation also billed management fees to corporations under common control in the amount of \$7,869,000 (\$2,918,000 in the same period of 2017).

As well, the Corporation paid management fees to the parent corporation in the amount of \$2,565,000 in the first nine months of 2018 (\$2,565,000 in the first nine months of 2017).

Capital stock

Table 9 below presents information on the Corporation's capital stock. On October 10, 2018, 270,000 Class B stock options of the Corporation were granted to senior managers of the Corporation and its parent corporation. Accordingly, 330,000 Class B stock options of the Corporation were outstanding as of October 18, 2018.

Table 9
Number of shares outstanding as at October 18, 2018
(in shares and dollars)

	Issued and outstanding	Carrying amount
Class A common shares	4,320,000	\$ 0.02
Class B shares	38,885,535	\$ 5.33

Changes in accounting policies

IFRS 9 – *Financial Instruments*

On January 1, 2018, the Corporation adopted the new IFRS 9 requirements, which simplify the measurement and classification of financial assets by reducing the number of measurement categories in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities.

Under the new requirements, financial assets and liabilities are now all classified as subsequently measured at amortized cost.

The Corporation also uses the expected credit losses method outlined in IFRS 9 to estimate the allowance for expected credit losses on its financial assets.

The adoption of IFRS 9 by the Corporation had no impact on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

On January 1, 2018, the Corporation also adopted IFRS 15, which specifies how and when an entity should recognize revenue and the additional disclosures such entities are to provide to users of financial statements.

The standard provides a single, principles-based five-step model to be applied to all contracts with customers. Accordingly, the Corporation now recognizes a contract with a customer only when all of the following criteria are satisfied:

- The parties to the contract have approved the contract - in writing, orally or in accordance with other customary business practices - and are committed to performing their respective obligations;
- The entity can identify each party's rights regarding the goods or services to be transferred;
- The entity can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- It is highly probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The adoption of IFRS 15 by the Corporation had no impact on the consolidated financial statements.

Disclosure controls and procedures

The purpose of internal controls over financial reporting is to provide reasonable assurance as to the reliability of the Corporation's financial reporting and the preparation of its financial statements in accordance with IFRS. Management has identified no changes in internal control over financial reporting during the three-month period ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Additional information

The Corporation is a reporting issuer under the securities acts of all the provinces of Canada. It is therefore required to file financial statements, an information circular and an annual information form with the various securities regulatory authorities. Copies of those documents are available free of charge from the Corporation on request, and on the Web at www.sedar.com and www.groupe TVA.ca.

Forward-looking information disclaimer

The statements in this Management's Discussion and Analysis that are not historical facts may be forward-looking statements and are subject to important known and unknown risks, uncertainties and assumptions which could cause the Corporation's actual results for future periods to differ materially from those set forth in the forward-looking statements. Forward-looking statements generally can be identified by the use of the conditional or by forward-looking terminology such as "propose," "will," "expect," "may," "anticipate," "intend," "estimate," "plan," "foresee," "believe" or the negative of those terms or variations of them or similar terminology. Certain factors that may cause actual results to differ from current expectations include seasonality, operational risks (including pricing actions by competitors and the risk of loss of key customers in the Film Production & Audiovisual Services segment), programming, content and production cost risks, credit risk, government regulation risks, government assistance risks, changes in economic conditions, fragmentation of the media landscape, risk related to the Corporation's ability to adapt to fast-paced technological change and to new delivery and storage methods, and labour relation risks.

The forward-looking statements in this document are made to give investors and the public a better understanding of the Corporation's circumstances and are based on assumptions it believes to be reasonable as of the day on which they were

made. Investors and others are cautioned that the foregoing list of factors that may affect future results is not exhaustive and that undue reliance should not be placed on any forward-looking statements.

For more information on the risks, uncertainties and assumptions that could cause the Corporation's actual results to differ from current expectations, please refer to the Corporation's public filings, available at www.sedar.com and www.groupevta.ca including in particular the "Risks and Uncertainties" section of the Corporation's annual Management's Discussion and Analysis for the year ended December 31, 2017 and the "Risk Factors" section in the Corporation's 2017 annual information form.

The forward-looking statements in this Management's Discussion and Analysis reflect the Corporation's expectations as of November 1, 2018, and are subject to change after that date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do under the applicable securities laws.

Montreal, Quebec

November 1, 2018

Table 10
SELECTED QUARTERLY FINANCIAL DATA
(in thousands of dollars, except for per-share data)

	2018			2017	
	September 30	June 30	March 31	December 31	December 31
Operations					
Operating revenues	\$ 127,418	\$ 140,190	\$ 133,836	\$ 155,256	
Adjusted EBITDA (negative adjusted EBITDA)	\$ 26,968	\$ (3,902)	\$ 2,293	\$ 22,968	
Net income (loss) attributable to shareholders	\$ 13,997	\$ (9,706)	\$ (4,991)	\$ 9,210	
Basic and diluted per-share data					
Basic and diluted earnings (loss) per share	\$ 0.32	\$ (0.22)	\$ (0.12)	\$ 0.21	
Weighted average number of outstanding shares (in thousands)	43,206	43,206	43,206	43,206	
2017					
	September 30	June 30	March 31	December 31	December 31
Operations					
Operating revenues	\$ 140,785	\$ 152,542	\$ 141,124	\$ 169,522	
Adjusted EBITDA (negative adjusted EBITDA)	\$ 32,935	\$ 11,072	\$ (594)	\$ 21,984	
Net (loss) income attributable to shareholders	\$ (15,259)	\$ (1,870)	\$ (8,032)	\$ 5,717	
Basic and diluted per-share data					
Basic and diluted (loss) earnings per share	\$ (0.35)	\$ (0.04)	\$ (0.19)	\$ 0.13	
Weighted average number of outstanding shares (in thousands)	43,206	43,206	43,206	43,206	

- The Corporation's businesses experience significant seasonality due to, among other factors, seasonal advertising patterns, consumers' viewing, reading and listening habits, and demand for production services from international and local producers. Because the Corporation depends on the sale of advertising for a significant portion of its revenues, operating results are also sensitive to prevailing economic conditions, including changes in local, regional and national economic conditions, particularly as they may affect advertising expenditures.
- Operating expenses in the Broadcasting & Production segment vary, mainly as a result of programming costs, which are directly related to programming strategies and to live sports broadcasts, while in the Magazines segment operating costs fluctuate according to publication schedules, which may vary from quarter to quarter. In the Film Production & Audiovisual Services segment, operating expenses vary according to demand for production services from international and local producers.

Accordingly, adjusted EBITDA for interim periods may vary from one quarter to the next.