INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS
SECOND QUARTER 2022

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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 four business segments: Broadcasting, Film Production & Audiovisual Services, Magazines, and Production & Distribution. In the Broadcasting segment, the Corporation creates, broadcasts and produces entertainment, sports, news and public affairs programming and is engaged in commercial production. It operates North America's largest private French-language television network as well as nine specialty services. The Film Production & Audiovisual Services segment provides soundstage, mobile and equipment rental services as well as postproduction and visual effects services. In the Magazines segment, TVA Group publishes over 50 titles, making it Quebec's largest magazine publisher. The Production & Distribution segment produces and distributes television programs for the world market. 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 second quarter of 2022 and major changes from the previous financial year. The Corporation's Condensed Consolidated Financial Statements for the three-month and six-month periods ended June 30, 2022 and 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including in particular IAS 34, *Interim Financial Reporting*.

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, 2021 and in the Condensed Consolidated Financial Statements dated June 30, 2022. All amounts are stated in Canadian dollars.

COVID-19 pandemic

Since March 2020, the COVID-19 pandemic (the "pandemic") has at times affected the quarterly results of the Corporation's segments. Given the uncertainty about the future evolution of the pandemic, including any major new wave, the full future impact of the public health crisis on operating results cannot be determined with certainty. Accordingly, the results of operations for interim periods should not necessarily be considered indicative of full-year results.

BUSINESS SEGMENTS

Management made changes to the Corporation's management structure at the beginning of the year. As a result of those changes, the activities of the TVA Films division, formerly presented in the Broadcasting segment, have been combined with the Production & Distribution segment's existing distribution activities. Financial information for comparative periods has been restated to reflect the new presentation.

The Corporation's operations consist of the following segments:

- The **Broadcasting segment**, which includes the operations of TVA Network, specialty services, the marketing of digital products associated with the various televisual brands, and commercial production and custom publishing services, including those of its Communications Qolab inc. ("Qolab") subsidiary;

- The **Film Production & Audiovisual Services segment ("MELS")**, which through its subsidiaries Mels Studios and Postproduction G.P. and Mels Dubbing Inc. provides soundstage, mobile and production equipment rental services, as well as dubbing and described video ("media accessibility services"), postproduction, virtual production and visual effects;

- The **Magazines segment**, which through its TVA Publications inc. subsidiary, publishes magazines in various fields including the arts, entertainment, television, fashion and decorating, and markets digital products associated with the various magazine brands;

- The **Production & Distribution segment**, which through the companies in the Incendo group and the TVA Films division produces and distributes television shows, movies and television series for the world market.

HIGHLIGHT SINCE END OF FIRST QUARTER 2022

- On April 1, 2022, the Corporation announced that Jean Bureau, President and CEO of Incendo, will be leaving on completing his three-year transition period, as planned when the entity was acquired. Jean-Philippe Normandeau, who is staying on as Chief Operating Officer, will ensure continuity in developing Incendo, a Canadian leader in film and television production. Mr. Normandeau will also be supported by a new distribution unit under the direction of Cynthia Kennedy, who will pursue continued development and accelerated growth for the segment.

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

In its analysis of operating results, the Corporation defines adjusted EBITDA, as reconciled to net income (loss) under IFRS, as net income (loss) before depreciation and amortization, financial expenses, operational restructuring costs and other, income tax expense (recovery) and share of income of associates. Adjusted EBITDA as defined above is not a measure of results that is consistent with IFRS. It is not intended to be regarded as an alternative to other financial operating 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 EBITDA may not be the same as similarly titled measures reported by other companies.

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

Table 1
Reconciliation of the (negative adjusted EBITDA) adjusted EBITDA measure used in this report to the (net loss) net income measure used in the condensed consolidated financial statements
(in thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
(Negative adjusted EBITDA) adjusted EBITDA:				
Broadcasting	**$ (149)**	$ 6,284	**$ (15,617)**	$ 2,702
Film Production & Audiovisual Services	**2,172**	3,913	**6,016**	7,541
Magazines	**1,646**	1,758	**2,086**	3,521
Production & Distribution	**(489)**	2,007	**1,064**	2,299
Intersegment items	**55**	3	**(35)**	38
	3,235	13,965	**(6,486)**	16,101
Depreciation and amortization	**7,462**	7,944	**15,082**	16,202
Financial expenses	**94**	705	**594**	1,406
Operational restructuring costs and other	**113**	435	**133**	162
(Income tax recovery) income taxes	**(1,062)**	1,290	**(5,659)**	(406)
Share of income of associates	**(163)**	(261)	**(412)**	(663)
(Net loss) net income	**$ (3,209)**	$ 3,852	**$ (16,224)**	$ (600)

ANALYSIS OF CONSOLIDATED RESULTS

2022/2021 second-quarter comparison

Revenues: $147,469,000, an $11,953,000 (-7.5%) decrease.

- Decreases in Broadcasting ($6,990,000 or -5.4% of segment revenues), Production & Distribution ($3,935,000 or -61.6%) and Magazines ($1,134,000 or -9.9%).

- Increase in Film Production & Audiovisual Services ($385,000 or 2.1%).

Adjusted EBITDA: $3,235,000, a $10,730,000 (-76.8%) decrease.

- Unfavourable variance in Broadcasting ($6,433,000 or -102.4%), Production & Distribution ($2,496,000 or -124.4%), Film Production & Audiovisual Services ($1,741,000 or -44.5%) and Magazines ($112,000 or -6.4%).

Net loss attributable to shareholders: $3,212,000 (-$0.07 per basic share), compared with net income attributable to shareholders of $3,850,000 ($0.09 per basic share) for the same period of 2021. The $7,062,000 (-$0.16 per basic share) unfavourable variance was essentially due to:

- $10,730,000 decrease in adjusted EBITDA;

partially offset by:

- $2,352,000 favourable variance in income tax recovery and income taxes;

- $611,000 favourable variance in financial expenses;

- $482,000 favourable variance in the depreciation and amortization charge; and

- $322,000 favourable variance in operational restructuring costs and other.

Depreciation and amortization: $7,462,000, a $482,000 decrease, mainly due to the decrease in the depreciation charge for technical equipment and leasehold improvements that have been fully amortized.

Financial expenses: $94,000, a $611,000 decrease caused mainly by a favourable variance in interest related to the defined benefit plans and recognition of a foreign exchange gain in the second quarter of 2022, whereas a foreign exchange loss was recognized in the same period of 2021.

Operational restructuring costs and other: $113,000 for the second quarter of 2022, compared with $435,000 for the same period of 2021.

- In the second quarter of 2022, the Corporation recorded a $622,000 charge for impairment of its investment in an associate in the Magazines segment following revised financial guidance from that corporation's management and the continuing downward trend in revenues in the industry.

- During the same period, the Corporation reversed a $587,000 charge following remeasurement of the contingent consideration payable on the acquisition of the companies in the Incendo group.

- During the three-month period ended June 30, 2022, the Corporation also recorded a $78,000 net charge stemming mainly from the elimination of positions and the implementation of cost-reduction measures, including $65,000 in the Broadcasting segment ($508,000 for the same period in 2021, including $505,000 in the Broadcasting segment).

Income tax recovery: $1,062,000 (effective tax rate of 24.0%) for the second quarter of 2022, compared with income taxes of $1,290,000 (effective tax rate of 26.4%) for the same period of 2021, a favourable variance of $2,352,000, due mainly to the recording of a loss deductible for tax purposes for the second quarter of 2022, whereas taxable income was recorded for the same period of 2021. Calculation of the effective tax rates is based only on taxable and deductible items.

Share of income of associates: $163,000 for the second quarter of 2022, compared with $261,000 for the same period of 2021, an unfavourable variance of $98,000 caused by the weaker financial results of an associate in the television industry.

2022/2021 year-to-date comparison

Revenues: $291,966,000, an $8,264,000 (-2.8%) decrease.

- Decreases in Broadcasting ($6,773,000 or -2.8% of segment revenues), Magazines ($1,980,000 or -9.0%) and Production & Distribution ($1,230,000 or -12.7%).

- Increase in Film Production & Audiovisual Services ($1,719,000 or 4.8%).

Negative adjusted EBITDA: $6,486,000, a $22,587,000 unfavourable variance.

- Unfavourable variance in Broadcasting ($18,319,000), Film Production & Audiovisual Services ($1,525,000 or -20.2%), Magazines ($1,435,000 or -40.8%), and Production & Distribution ($1,235,000 or -53.7%).

Net loss attributable to shareholders: $16,228,000 (-$0.38 per basic share) for the first six months of 2022, compared with $601,000 (-$0.01 per basic share) for the same period of 2021, an unfavourable variance of $15,627,000 (-$0.37 per basic share) primarily due to:

- $22,587,000 unfavourable variance in adjusted EBITDA;

partially offset by:

- $5,253,000 favourable variance in income tax recovery;
- $1,120,000 favourable variance in the depreciation and amortization charge; and
- $812,000 favourable variance in financial expenses.

Depreciation and amortization: $15,082,000, a $1,120,000 decrease essentially due to the same factors as those noted above in the 2022/2021 second-quarter comparison.

Financial expenses: $594,000, an $812,000 decrease caused essentially by a favourable variance in interest related to the defined benefit plans.

Operational restructuring costs and other: $133,000 for the first six months of 2022, compared with $162,000 for the same period of 2021.

- In addition to the $622,000 charge for impairment of its investment in an associate in the Magazines segment and the reversal of a $587,000 charge following remeasurement of the contingent consideration payable on the acquisition of the companies in the Incendo group, the Corporation recorded a net charge of $115,000 in the first half of 2022 resulting mainly from the elimination of positions and the implementation of cost reduction measures, including $102,000 in the Broadcasting segment ($378,000 for the same period of 2021, including $661,000 in the Broadcasting segment and a net charge reversal of $290,000 in the Magazines segment).
- For the first half of 2021, the Corporation recorded a $94,000 gain on the write-off of lease liabilities following early release from certain real estate spaces, and reversed a $49,000 charge following remeasurement of the contingent consideration payable in connection with the acquisition of the companies in the Incendo group.

Income tax recovery: $5,659,000 (effective tax rate of 25.4%) for the first six months of 2022, compared with $406,000 (effective tax rate of 24.3%) for the same period of 2021, a favourable variance of $5,253,000, due mainly to an increase in the deductible loss for tax purposes. Calculation of the effective tax rates is based only on taxable and deductible items.

Share of income of associates: $412,000 for the first half of 2022, compared with $663,000 for the same period of 2021; the $251,000 unfavourable variance was due to the same factor as that noted above in the 2022/2021 second-quarter comparison.

SEGMENTED ANALYSIS

Broadcasting

2022/2021 second-quarter comparison

Revenues: $122,168,000, a $6,990,000 (-5.4%) decrease due mainly to:

- 15.0% decrease in revenues at the specialty channels, including decreases of 30.4% in advertising revenues and 3.0% in subscription revenues, largely on account of the “TVA Sports” channel, the revenues of which had been boosted in the second quarter of 2021 by the fact that the Montreal Canadiens were in the Stanley Cup playoffs up to the finals. Advertising and subscription revenues decreased by 45.2% and 3.0%, respectively, at “TVA Sports” and by 9.5% and 2.9%, respectively, at the other specialty channels.
- decrease in royalties for distant signal retransmission received by TVA Network, compared with a favourable retroactive adjustment in the second quarter of 2021; and

- 1.7% decrease in TVA Network's advertising revenues, despite a 19.9% increase in digital revenues;

partially offset by:

- 42.5% increase in Qolab's revenues, due to continuing growth in the volume of activities in commercial production and advertising services; and

- increased revenues from content production sponsorships.

French-language audience share

Table 2
French-language audience share
(Market share in %)

Second quarter 2022 vs Second quarter 2021			
	2022	**2021**	**Difference**
French-language conventional broadcasters:			
TVA	**24.5**	23.8	0.7
SRC	**13.0**	12.3	0.7
noovo	**5.7**	5.1	0.6
	43.2	41.2	2.0
French-language specialty and pay services:			
TVA	**17.8**	18.8	- 1.0
Bell Media	**13.5**	12.4	1.1
Corus	**5.1**	5.6	- 0.5
SRC	**5.2**	5.9	- 0.7
Other	**4.7**	4.9	- 0.2
	46.3	47.6	- 1.3
Total English-language channels and other:	**10.5**	11.2	- 0.7
TVA Group	**42.3**	42.6	- 0.3

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

TVA Group's market share for the period of April 1 to June 30, 2022 decreased by 0.3 points to 42.3%, compared with 42.6% for the same period of 2021.

TVA Group's specialty services had a combined market share of 17.8% for the second quarter of 2022, compared with 18.8% for the same period of 2021, a 1.0-point decline. The "TVA Sports" channel posted a 2.5-point decline compared with the same quarter of 2021, when it benefited from the strong performance of the Montreal Canadiens in the National Hockey League ("NHL") playoffs and the change in the playoff broadcast schedule because of the pandemic. The news and public affairs channel "LCN" recorded a slight 0.1-point decrease in the same period but remained Quebec's most-watched specialty channel, even ahead of the over-the-air channel "noovo." The "addik^{TV}," "Casa" and "Zeste" channels grew their market shares significantly, by 0.6, 0.6 and 0.4 points, respectively.

TVA Network maintained its lead among over-the-air channels with a 24.5% market share, a 0.7-point increase over the same period of 2021, and more than the combined share of its two main over-the-air rivals. The TVA Network' *Star Académie* was the number two most-watched show in Quebec in the second quarter of 2022, with an average audience of more than 1.5 million viewers.

Negative adjusted EBITDA: $149,000, a $6,433,000 unfavourable variance primarily due to:

- 81.0% decrease in TVA Network's adjusted EBITDA, essentially due to a 24.0% increase in its operating expenses resulting mainly from increased spending on content, which was reflected, among other things, in our reality and variety shows, and in our news programming;

partially offset by:

- 59.0% improvement in negative adjusted EBITDA at the specialty channels, essentially on account of "TVA Sports," which reduced its operating expenses 29.5%. The decrease was due to the fact that "TVA Sports" had to absorb higher content costs in 2021 as a result of changes to the broadcast schedule for the NHL's 2020-2021 season because of the pandemic, and the fact that Euro 2020 was broadcast in the second quarter of 2021, for the same reason. These cost reductions more than offset the decline in the specialty channels' revenues.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Broadcasting segment's activities (expressed as a percentage of revenues) increased from 95.1% for the second quarter of 2021 to 100.1% for the same period of 2022. The increase was essentially due to the decrease in revenues.

<u>2022/2021 year-to-date comparison</u>

Revenues: $236,307,000, a $6,773,000 (-2.8%) decrease due mainly to:

- 7.3% decrease in revenues at the specialty channels, including decreases of 15.1% and 2.4% in advertising and subscription revenues respectively, mainly because of "TVA Sports," which accounted for 84.7% and 35.2% of the decreases, respectively, while the "LCN" channel's advertising revenues increased by 10.0%; and

- decrease in royalties for distant signal retransmission received by the TVA Network, compared with a favourable retroactive adjustment in the second quarter of 2021;

partially offset by:

- increased revenues from content production sponsorships; and

- increased revenues at Qolab resulting from higher volume of activities, as noted in the 2022/2021 second-quarter comparison.

Negative adjusted EBITDA: $15,617,000, an $18,319,000 unfavourable variance primarily due to:

- TVA Network's decreased profitability resulting essentially from a 26.1% increase in operating expenses due to increased spending on content, which was reflected in all its programming, particularly in variety and drama, as well as in news programming;

- lower adjusted EBITDA at the specialty channels other than "TVA Sports," mainly due to the impact of the 3.8% decrease in their revenues; and

- lower adjusted EBITDA at Qolab due to lower margins on the projects delivered in the first half of 2022 compared with the first half of 2021, when the Canada Emergency Wage Subsidy ("CEWS"), introduced during the public health crisis, had a positive impact;

partially offset by:

- improvement in the negative adjusted EBITDA of "TVA Sports" as a result of a 20.4% decrease in operating expenses, more than offsetting the decrease in revenues, due to the same factors as those noted above in the 2022/2021 second-quarter comparison.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Broadcasting segment's activities (expressed as a percentage of revenues) increased from 98.9% for the first half of 2021 to 106.6% for the same period of 2022 as a result of higher operating expenses, combined with the decrease in revenues.

Film Production & Audiovisual Services

2022/2021 second-quarter comparison

Revenues: $18,334,000, a $385,000 (2.1%) increase due primarily to:

- 29.8% increase in postproduction revenues; and
- 14.1% increase in revenues from media accessibility services, which continue to grow due to the proliferation of content in the market, thus driving up demand for these services;

partially offset by:

- 40.8% decrease in visual effects revenues.

Adjusted EBITDA: $2,172,000, a $1,741,000 (-44.5%) decrease due mainly to:

- decreased profitability of visual effects services due to lower volume of activities, combined with higher operating expenses, mainly for labour costs; and
- decrease in adjusted EBITDA generated by soundstage, mobile and equipment rental services, resulting mainly from an unfavourable variance in operating expenses due to recognition in the second quarter of 2021 of a favourable retroactive adjustment following an agreement with the City of Montreal;

partially offset by:

- increased profitability of postproduction services, which are in high demand.

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 78.2% for the second quarter of 2021 to 88.2% for the second quarter of 2022, mainly as a result of higher operating expenses, which outweighed the increase in revenues.

2022/2021 year-to-date comparison

Revenues: $37,685,000, a $1,719,000 (4.8%) increase due primarily to:

- increased demand for most of our services, including:
  - 17.0% increase in postproduction revenues;
  - 4.9% increase in soundstage, mobile and equipment rental revenues;
  - 6.9% increase in revenues from media accessibility services; and

- increased revenues from virtual production activities, which were just starting up in early 2021;

partially offset by:

- 25.0% decrease in visual effects revenues.

Adjusted EBITDA: $6,016,000, a $1,525,000 (-20.2%) decrease due mainly to:

- lower profitability of visual effects, essentially due to the same factors as those noted above in the 2022/2021 second-quarter comparison; and
- 4.1% decrease in adjusted EBITDA generated by soundstage, mobile and equipment rental activities, due to the same factors as those noted above in the 2022/2021 second-quarter comparison;

partially offset by:

- increased profitability of virtual production and 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 from 79.0% for the first half of 2021 to 84.0% for the first half of 2022, essentially because the increase in operating expenses outweighed the increase in revenues.

Magazines

2022/2021 second-quarter comparison

Revenues: $10,374,000, a $1,134,000 (-9.9%) decrease primarily due to:

- 11.1% decrease in newsstand revenues, mainly in the entertainment magazines category;
- 13.3% decrease in assistance from the Canada Periodical Fund ("CPF"), which introduced a change in the grant allocation method for its regular program starting April 1, 2021, as described below, resulting in a decrease in the assistance received by the Corporation under the program; and
- 11.2% decrease in subscription revenues, mainly for the monthly titles.

Canada Periodical Fund

The Government of Canada created the CPF on April 1, 2010. The CPF provides financial assistance to the Canadian magazine and non-daily newspaper industries to ensure they can continue to produce and distribute Canadian content. In 2020, the program was enhanced for the 12-month reference period starting April 1, with additional one-time government assistance offered to help industry organizations cope with the public health crisis, resulting in a 25% increase in the grant received for that reference period. In 2021, the program was renewed for 12 months, resulting in a 14% increase in the grant received for the April 1, 2021 to March 31, 2022 reference period. The Minister of Canadian Heritage also announced in 2020 that the CPF would be modernized with the goal of placing greater emphasis on Canadian content creation, a change that would take effect with the grant period starting April 1, 2021, with a five-year transition period, at the end of which all program changes would be in effect. Since the former method of grant allocation was geared more towards distribution of titles, the change has and will continue to have an impact on the amount of government assistance received by this segment from the regular program. All assistance related to the CPF is fully recorded under revenues. It amounted to 19.9% of the segment's revenues for the three-month period ended June 30, 2022 (20.6% for the same period of 2021).

Adjusted EBITDA: $1,646,000, a $112,000 (-6.4%) decrease due mainly to:

- the decline in revenues as explained above; and
- an increase in compensation costs resulting, among other things, from the fact that in 2021 the segment received the CEWS;

partially offset by:

- savings on printing costs resulting from renegotiation of our printing agreement, which led to recognition of a favourable retroactive adjustment; and
- savings in newsstand selling costs and subscription expenses.

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) decreased from 84.7% for the second quarter of 2021 to 84.1% for the second quarter of 2022, mainly because the decrease in operating expenses was greater, in percentage terms, than the decrease in revenues.

2022/2021 year-to-date comparison

Revenues: $20,035,000, a $1,980,000 (-9.0%) decrease due mainly to:

- 19.1% decrease in assistance from the CPF due to the change in the grant allocation method for its regular program since April 1, 2021, as well as a decrease in the additional subsidy, in view of the public health crisis, received for the first quarter of 2022 compared with the same period of 2021, as explained above;
- 10.4% decrease in newsstand revenues, mainly in the entertainment magazines category; and
- 7.8% decrease in subscription revenues, mainly for the monthly titles;

partially offset by:

- 4.0% increase in advertising revenues.

Adjusted EBITDA: $2,086,000, a $1,435,000 (-40.8%) decrease, due primarily to the same factors as those noted above in the 2022/2021 second-quarter comparison.

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 84.0% for the six-month period ended June 30, 2021 to 89.6% for the same period of 2022, mainly because the decrease in revenues exceeded the decrease in operating expenses.

Production & Distribution

2022/2021 second-quarter comparison

Revenues: $2,456,000, a $3,935,000 (-61.6%) decrease due mainly to fewer deliveries of films produced by Incendo, both internationally and domestically, in the second quarter of 2022 than in the same period in 2021. Over the past two years, the pandemic had the effect of shifting the film production and delivery cycle and as a result, a number of films were delivered in the first and second quarters of 2021, whereas films are usually delivered in the second half of the year.

Activities related to the distribution of films produced by Incendo accounted for 24.6% of the segment's revenues for the three-month period ended June 30, 2022, compared with 72.9% for the same period of 2021.

Negative adjusted EBITDA: $489,000, an unfavourable variance of $2,496,000 due mainly to lower total gross margin for the three-month period ended June 30, 2022 and essentially relating to international distribution of films produced by Incendo, as explained above, as well as an unfavourable variance in administrative expenses, particularly with respect to employee compensation, and a decrease in the assistance received from both the CEWS and the Canada Emergency Rent Subsidy which were recognized in the second quarter of 2021.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Production & Distribution segment's activities (expressed as a percentage of revenues) increased from 68.6% for the three-month period ended June 30, 2021 to 119.9% for the same period of 2022, mainly because the decrease in revenues exceeded the decrease in operating expenses.

2022/2021 year-to-date comparison

Revenues: $8,436,000, a $1,230,000 (-12.7%) decrease due mainly to:

- decrease in deliveries of films produced by Incendo internationally in the first half of 2022 compared with the same period of 2021, as noted above;

partially offset by:

- increase in deliveries of films produced by Incendo in Canada; and
- increase in revenues generated by TVA Films abroad.

Activities related to the distribution of films produced by Incendo accounted for 56.7% of the segment's revenues for the six-month period ended June 30, 2022, compared with 67.4% for the same period of 2021.

Adjusted EBITDA: $1,064,000, a $1,235,000 (-53.7%) decrease due mainly to:

- lower gross margin on international distribution;
- higher administrative expenses, essentially due to the same factors as those noted above in the 2022/2021 second-quarter comparison; and
- decrease in TVA Films' adjusted EBITDA due to the sale of lower-margin products in the first half of 2022 compared with the same period of 2021;

partially offset by:

- higher gross margin on Canadian distribution.

Analysis of cost/revenue ratio: Employee costs and the cost of purchases of goods and services for the Production & Distribution segment's activities (expressed as a percentage of revenues) increased from 76.2% for the six-month period ended June 30, 2021 to 87.4% for the same period of 2022, mainly because of the decrease in revenues.

Acquisition of the shares of the companies in the Incendo group ("Acquisition of Incendo")

On April 1, 2019, the Corporation closed an agreement reached on February 22, 2019 to acquire the shares of the companies in the Incendo group, which is engaged in the production and distribution of high-quality television programming for the worldwide marketplace. The purchase price was subject to adjustments related to the achievement of financial conditions in the three years following the acquisition date. The contingent consideration was set at $1,739,000 on that date, based on the estimated present value of the future contingent adjustments. That value is determined according to significant inputs not based on observable market data, assumptions and a range of probabilities for the achievement of financial conditions. The contingent consideration was remeasured in 2020, in the first quarter of 2021 and in the second quarter of 2022 (see "Operational restructuring costs and other" in the 2022/2021 second-quarter comparison and the 2022/2021 year-to-date comparison under "Analysis of consolidated results" above). The Corporation made an initial payment of $3,519,000 in the fourth quarter of 2020 and a second payment of $3,750,000 in the second quarter of 2022 on the balance payable recorded on the acquisition date, and a payment of $606,000 in the first quarter of 2021 in respect of the contingent consideration.

CASH FLOWS AND FINANCIAL POSITION

Table 3 below shows a summary of cash flows related to operating activities, investing activities and financing activities:

Table 3
Summary of the Corporation's cash flows
(in thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Cash flows related to operating activities	**$ 3,323**	$ (23,847)	**$ (7,279)**	$ (16,410)
Additions to property, plant and equipment and intangible assets	**(7,417)**	(3,496)	**(13,036)**	(8,237)
Business acquisitions	**(3,750)**	–	**(3,750)**	(606)
Other	**(728)**	(762)	**(1,537)**	(1,754)
(Increase in) repayment of net debt	**$ (8,572)**	$ (28,105)	**$ (25,602)**	$ (27,007)

	June 30, 2022	December 31, 2021
At period end:		
Bank overdraft	**$ 2,996**	$ –
Short-term debt	**31,828**	11,980
Less: cash	**(2,423)**	(5,181)
Net debt	**$ 32,401**	$ 6,799

Operating activities

Quarterly cash flows related to operating activities: $27,170,000 increase compared with the second quarter of 2021, due mainly to a $33,995,000 net favourable variance in operating assets and liabilities, including favourable variances in accounts receivable, content rights payable and audiovisual content, net of the $10,730,000 decrease in adjusted EBITDA.

Year-to-date cash flows related to operating activities: $9,131,000 increase compared with the first half of 2021, due mainly to a $25,766,000 net favourable variance in operating assets and liabilities, and a favourable variance of $4,395,000 in current income tax recovery, net of a $22,587,000 unfavourable variance in adjusted EBITDA. The favourable net change in operating assets and liabilities was essentially due to favourable variances in accounts receivable, audiovisual content and current tax assets and liabilities, partially offset by unfavourable variances in accounts payable, accrued liabilities and provisions, and in content rights payable.

Working capital: $50,060,000 as at June 30, 2022, compared with $75,548,000 as at December 31, 2021. The $25,488,000 unfavourable variance was due primarily to the decrease in accounts receivable and the increase in short-term debt, partially offset by decreases in accounts payable, accrued liabilities and provisions, and in content rights payable.

Investing activities

Quarterly additions to property, plant and equipment and to intangible assets: $7,417,000 compared with $3,496,000 for the second quarter of 2021, a $3,921,000 (112.2%) increase, essentially due to the start of construction on MELS 4.

Year-to-date additions to property, plant and equipment and to intangible assets: $13,036,000 compared with $8,237,000 in the first half of 2021, a $4,799,000 (58.3%) increase also due primarily to the start of construction on MELS 4.

For the six-month period ended June 30, 2022, in addition to investing in MELS 4, the Corporation replaced some technical equipment required for broadcasting operations.

Quarterly business acquisitions: $3,750,000 (nil for the second quarter of 2021) (see "Acquisition of Incendo" above).

Year-to-date business acquisitions: $3,750,000 ($606,000 for the first six months of 2021) (see "Acquisition of Incendo" above).

Financing activities

Short-term debt (excluding deferred financing costs): $31,864,000 as at June 30, 2022, compared with $11,989,000 as at December 31, 2021. The $19,875,000 increase was essentially due to the use of revolving credit to finance investing and operating activities, particularly payment of content rights.

Financial position as at June 30, 2022

Net available liquid assets: $42,452,000, consisting of a $43,025,000 unused and available revolving credit facility and $2,423,000 in cash, less a $2,996,000 bank overdraft.

As at June 30, 2022, the entire $31,864,000 in principal was payable on the debt during the next 12-month period.

The weighted average term of TVA Group's debt was approximately 0.6 years as at June 30, 2022 (0.1 years as at December 31, 2021). The debt consisted entirely of floating-rate debt as at June 30, 2022 and December 31, 2021.

The Corporation has a $75,000,000 revolving credit facility, which matures on February 24, 2023. As at June 30, 2022, drawings on the revolving credit facility consisted of a bankers' acceptance in the amount of $22,964,000 bearing interest at an effective rate of 3.40%, an $8,900,000 advance bearing interest at an effective rate of 4.10% and an outstanding letter of credit in the amount of $111,000. As at December 31, 2021, drawings on the revolving credit facility consisted of an $11,989,000 banker's acceptance bearing interest at an effective rate of 1.85% and an outstanding letter of credit in the amount of $111,000.

On February 15, 2022, the Corporation amended its $75,000,000 secured revolving credit facility to extend its term from February 24, 2022 to February 24, 2023 and amend certain other terms and conditions.

In December 2021, Investissement Québec extended an unsecured, interest-free loan for a maximum amount of $25,000,000 to Mels Studios et Postproduction G.P. in order to support the construction of a fourth production studio. The loan contains certain restrictive covenants, as well as typical representations and warranties for such loans. The agreement provides for repayment of the loan over 10 years and includes a moratorium for the first three years. As at June 30, 2022, no disbursement had been made on the loan by Investissement Québec.

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 fulfill its commitments with respect to investment in property, plant and equipment, working capital, interest payments, income tax payments, repayment of debt and lease liabilities, pension plan contributions, share redemptions and shareholder dividends and to meet its commitments and guarantees.

Under its credit agreement, the Corporation is subject to certain covenants, including the maintenance of certain financial ratios. As at June 30, 2022, the Corporation was in compliance with all the terms of its credit agreements.

Analysis of consolidated balance sheet as at June 30, 2022

Table 4
Consolidated balance sheets of TVA Group
Analysis of main variances between June 30, 2022 and December 31, 2021
(in thousands of dollars)

	June 30, 2022	Dec. 31, 2021	Difference	Main reasons for difference
Assets				
Accounts receivable	**$ 183,859**	$ 210,814	$ (26,955)	Impact of the collection of certain receivables from entities under common control.
Long-term audiovisual content	**83,840**	72,541	11,299	Impact of investments in audiovisual content and film and series acquisitions.
Defined benefit plan asset	**47,542**	21,309	26,233	Impact of recognition of a gain on remeasurement of the defined benefit plans.
Liabilities				
Accounts payable, accrued liabilities and provisions	**$ 127,630**	$ 139,149	$ (11,519)	Impact of a timing difference in tax remittances and payment of the amount due in connection with the Acquisition of Incendo.
Content rights payable	**83,688**	93,383	(9,695)	Impact of the payment of certain sports content rights.
Short-term debt	**31,828**	11,980	19,848	Impact of the use of revolving credit to finance investing and operating activities, particularly payment of content rights.

ADDITIONAL INFORMATION

Contractual obligations

As at June 30, 2022, material contractual commitments of operating activities included capital repayment and interest on debt and lease liabilities, the contingent consideration in connection with the Acquisition of Incendo, payments under audiovisual content acquisition contracts, and payments under other contractual commitments. These contractual obligations are summarized in Table 5.

Table 5
Material contractual obligations of TVA Group as at June 30, 2022
(in thousands of dollars)

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Short-term debt	$ 31,864	$ –	$ –	$ –	$ 31,864
Lease liabilities	2,258	2,914	1,929	1,911	9,012
Payment of interest[1]	1,326	500	235	182	2,243
Contingent consideration	2,573	–	–	–	2,573
Content rights	249,589	190,139	73,693	1,953	515,374
Other commitments	20,254	6,544	820	37	27,655
Total	**$ 307,864**	**$ 200,097**	**$ 76,677**	**$ 4,083**	**$ 588,721**

[1] *Interest is calculated on a constant debt level equal to that at June 30, 2022 and includes standby fees on the revolving credit facility and interest on lease obligations.*

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 second quarter of 2022, 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 associates in the aggregate amount of $27,370,000 ($27,382,000 in the second quarter of 2021).

In the second quarter of 2022, the Corporation recorded content acquisition costs, telecommunications service costs, advertising space acquisition costs, professional service fees and commissions on sales and newsgathering services arising from transactions with corporations under common control and associates totalling $29,854,000 ($15,078,000 for the second quarter of 2021).

In the second quarter of 2022, the Corporation billed management fees to corporations under common control in the amount of $1,457,000 ($1,414,000 for the second quarter of 2021). These fees are recorded as a reduction of operating expenses.

The Corporation also assumed management fees of the parent corporation in the amount of $945,000 for the second quarter of 2022 ($855,000 for the same period of 2021).

In the first six months of 2022, 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 associates in the aggregate amount of $55,186,000 ($54,507,000 for the first six months of 2021).

In the first six months of 2022, the Corporation recorded content acquisition costs, 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 associates totalling $47,468,000 ($29,697,000 in the first six months of 2021).

In the first six months of 2022, the Corporation also billed management fees to corporations under common control in the amount of $2,883,000 ($2,832,000 for the first half of 2021).

As well, the Corporation assumed management fees of the parent corporation in the amount of $1,890,000 in the first six months of 2022 ($1,710,000 in the first six months of 2021).

Capital stock

Table 6 below presents information on the Corporation's capital stock. In addition, 519,503 Class B stock options of the Corporation were outstanding as at July 15, 2022.

Table 6
Capital stock outstanding as at July 15, 2022
(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

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. There have not been any changes in internal controls over financial reporting during the three-month period ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls 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.groupetva.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, the use of forward-looking terminology such as "propose," "will," "expect," "may," "anticipate," "intend," "estimate," "plan," "foresee," "believe" or the negative of these 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 and Production & Distribution segments), 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, labour relation risks, and risks related to public health emergencies, including COVID-19, and emergency measures implemented by government.

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.groupetva.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, 2021.

The forward-looking statements in this Management's Discussion and Analysis reflect the Corporation's expectations as of July 28, 2022, 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 so by the applicable securities laws.

Montreal, Quebec

July 28, 2022

Table 7
SELECTED QUARTERLY FINANCIAL DATA
(in thousands of dollars, except for per-share data)

	2022	2021		
	June 30	March 31	Dec. 31	Sept. 30
Operations				
Revenues	**$ 147,469**	$ 144,497	$ 171,901	$ 150,703
Adjusted EBITDA (negative adjusted EBITDA)	**$ 3,235**	$ (9,721)	$ 28,678	$ 35,504
Net (loss) income attributable to shareholders	**$ (3,212)**	$ (13,016)	$ 12,095	$ 19,010
Basic and diluted per-share data				
Basic and diluted (loss) earnings per share	**$ (0.07)**	$ (0.30)	$ 0.28	$ 0.44
Weighted average number of outstanding shares (in thousands)	**43,206**	43,206	43,206	43,206
Weighted average number of diluted shares (in thousands)	**43,206**	43,206	43,339	43,466

	2021		2020	
	June 30	March 31	Dec. 31	Sept. 30
Operations				
Revenues	$ 159,422	$ 140,808	$ 147,618	$ 119,537
Adjusted EBITDA	$ 13,965	$ 2,136	$ 46,070	$ 23,363
Net income (loss) attributable to shareholders	$ 3,850	$ (4,451)	$ 27,380	$ 8,404
Basic and diluted per-share data				
Basic and diluted earnings (loss) per share	$ 0.09	$ (0.10)	$ 0.63	$ 0.19
Weighted average number of outstanding shares (in thousands)	43,206	43,206	43,206	43,206
Weighted average number of diluted shares (in thousands)	43,430	43,206	43,206	43,206

- The Corporation's businesses experience significant seasonality caused, among other factors, by seasonal advertising patterns, consumers' viewing, reading and listening habits, demand for production services from international and local producers, demand for content from global broadcasters, and the related delivery schedules. 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 spending.

- In the Broadcasting segment, operating expenses vary mainly as a result of programming costs, which are directly related to programming strategies and to live sports broadcasts. In the Film Production & Audiovisual Services segment, operating costs fluctuate according to demand for production services from international and local producers. In the Magazines segment, operating expenses fluctuate according to publication schedules, which may vary from quarter to quarter. In the Production & Distribution segment, operating expenses fluctuate according to delivery schedules and estimated future revenues.

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