MANAGEMENT'S DISCUSSION AND ANALYSIS
FOURTH QUARTER 2021

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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 Management’s Discussion and Analysis covers the Corporation’s main activities during the year ended December 31, 2021, and the major changes from the previous fiscal year. The Corporation’s consolidated financial statements for the years ended December 31, 2021, 2020 and 2019 have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

This Management’s Discussion and Analysis should be read in conjunction with the information in the consolidated financial statements for the fiscal year ended December 31, 2021. All amounts are stated in Canadian dollars.

The COVID-19 pandemic (the “pandemic”) has had a significant impact on the economic environment in Canada and around the world. In order to limit the spread of the virus, the Quebec government has imposed a number of restrictions and special preventive measures since the beginning of the health crisis, including the suspension of some business activities. Since March 2020, the health crisis has curtailed the operations of many of TVA Group’s business partners and has led at times to a significant slowdown in some of the Corporation’s segments. Among other things, the restrictions and preventive measures imposed by the Quebec government caused a decline in advertising revenues and their recovery is still hesitant in some markets and segments and, more specifically in 2020, a reduction in the sporting events broadcast on the “TVA Sports” specialty channel, a reduction in the publication frequency of some periodicals and the temporary suspension of most of our content production activities. Due to the decline in their revenues, some entities in the Corporation’s various segments qualified for the Canada Emergency Wage Subsidy (“CEWS”) amid the health crisis. For the three-month period and the fiscal year ended December 31, 2021, subsidies totalling $650,000 and $3,835,000, respectively, were recorded as a reduction in employee costs ($3,342,000 and $28,958,000 respectively for the same periods of 2020).

The impact of the health crisis created by the pandemic on the operating results of the Corporation’s business segments for the fourth quarter and fiscal 2021 are discussed in greater detail in the “Segmented Analysis” sections of this Management’s Discussion and Analysis. At this stage, it is difficult to anticipate all of the consequences of the crisis, including any significant new wave of the pandemic. The public health crisis could have a material adverse effect on the short- and medium-term growth of the Corporation’s operating results and cash flows. Therefore, the growth reported in quarters prior to the health crisis may not be indicative of future growth.

BUSINESS SEGMENTS

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 (formerly COLAB Studio Marketing Collaboratif inc.);

- 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 produces and distributes television shows, movies and television series for the world market.

HIGHLIGHTS SINCE END OF 2020

- On February 15, 2022, the Corporation renewed its $75,000,000 revolving credit facility for one year, until February 24, 2023.

- On October 28, 2021, the Corporation announced the appointment of Régine Laurent to its Board of Directors, bringing the number of directors to eight. Ms. Laurent chaired the Laurent Commission and is the former president of the Fédération interprofessionnelle de la santé du Québec. Her know-how, expertise and knowledge of media will be valuable assets for TVA Group's Board.

- On October 28, 2021, the Corporation announced that France Lauzière will be resigning from her position as President and Chief Executive Officer of TVA Group for personal reasons, after taking time off from her professional duties for the same reasons starting on April 14, 2021. Since joining the Corporation in 2001, Ms. Lauzière has helped strengthen TVA's dominant position as Québec's television leader. She remains available to work with the Corporation on strategic projects and to contribute her expertise in content. Pierre Karl Péladeau will continue to serve as acting President of TVA Group.

- On July 16, 2021, the Corporation announced the expansion of MELS' studios with the construction of MELS 4, a $53,000,000 infrastructure project, in addition to which approximately $23,000,000 will be spent on equipment over the next 10 years. With a total area of 160,000 square feet, the project will enable MELS to attract even more major film shoots. The project is scheduled for delivery in spring 2023. The Quebec government, through Investissement Québec, has extended a $25,000,000 interest-free loan to the Corporation to support the studio construction.

- On February 11, 2021, the Corporation renewed its $75,000,000 revolving credit facility for one year, until February 24, 2022.

- On January 20, 2021, France Lauzière, President and CEO of the Corporation, announced a new management structure and placed all programming for TVA, TVA+ and the Corporation's nine specialty channels under the responsibility of Martin Picard, Vice-President and Chief of Content Exploitation. A member of the TVA team since 2002 and Chief of Content Exploitation since 2017, Mr. Picard therefore adds the strategic management of TVA Nouvelles, "LCN" and "TVA Sports" to his duties, thus ensuring content development and reach across all of the group's platforms.

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 taxes 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 presents a reconciliation of adjusted EBITDA to net income disclosed in the Corporation's consolidated financial statements.

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

	Years ended December 31		Three-months ended December 31	
	2021	2020	**2021**	2020
Adjusted EBITDA (negative adjusted EBITDA):				
Broadcasting	**$ 45,200**	$ 60,976	**$ 20,502**	$ 36,739
Film Production & Audiovisual Services	**22,918**	14,079	**4,812**	7,453
Magazines	**7,488**	8,675	**1,919**	2,122
Production & Distribution	**4,362**	1,153	**1,388**	(369)
Intersegment items	**315**	423	**57**	125
	80,283	85,306	**28,678**	46,070
Depreciation and amortization	**32,107**	33,330	**7,769**	8,204
Financial expenses	**2,674**	2,535	**619**	566
Operational restructuring costs and other	**4,670**	6,197	**4,488**	1,359
Income taxes	**11,486**	11,845	**4,305**	9,095
Share of income of associates	**(1,148)**	(942)	**(596)**	(537)
Net income	**$ 30,494**	$ 32,341	**$ 12,093**	$ 27,383

2021/2020 FISCAL YEAR COMPARISON

Analysis of consolidated results of TVA Group

Operating revenues: $622,834,000, a $114,690,000 (22.6%) increase.

- $86,732,000 (21.2%) increase in the Broadcasting segment (Table 2) essentially due to a 25.2% increase in TVA Network's revenues, including a 24.7% increase in advertising revenues, a 14.0% increase in the revenues of the specialty channels, including a 45.9% increase in advertising revenues, and a 62.2% increase in Qolab's operating revenues.

- $27,357,000 (46.6%) increase in the Film Production & Audiovisual Services segment (Table 2), attributable to increased revenues from all of the segment's activities, including a 54.5% increase in revenues from soundstage, mobile and equipment rental, a 65.8% increase in postproduction and a 36.0% increase in media accessibility services.

- $663,000 (-1.4%) decrease in the Magazines segment (Table 2), due primarily to the 10.1%, decrease in financial assistance from the Canada Periodical Fund ("**CPF**"), partially offset by a 2.7% increase in subscription revenues and a 31.7% increase in brand utilization revenues.

- $4,841,000 (42.3%) increase in the Production & Distribution segment (Table 2), primarily due to international sales for films produced by Incendo.

Table 2
Operating revenues
(in thousands of dollars)

	Years ended December 31		Three-months ended December 31	
	2021	2020	**2021**	2020
Broadcasting	**$ 495,473**	$ 408,741	**$ 138,627**	$ 116,513
Film Production & Audiovisual Services	**86,021**	58,664	**21,985**	21,366
Magazines	**45,655**	46,318	**12,010**	13,419
Production & Distribution	**16,273**	11,432	**4,518**	1,926
Intersegment items	**(20,588)**	(17,011)	**(5,239)**	(5,606)
	$ 622,834	$ 508,144	**$ 171,901**	$ 147,618

Adjusted EBITDA: $80,283,000, a $5,023,000 (-5.9%) unfavourable variance.

- $15,776,000 unfavourable variance in the Broadcasting segment (Table 3) caused mainly by a 63.6% decrease in the adjusted EBITDA of the specialty services, primarily that of "TVA Sports" channel, due to the postponement of the National Hockey League ("**NHL**") 2020-2021 season to 2021, and a 7.7% decrease in TVA Network's adjusted EBITDA, partially offset by a 78.0% increase in Qolab's adjusted EBITDA.

- $8,839,000 favourable variance in the Film Production & Audiovisual Services segment (Table 3), mainly due to a 111.2% increase in adjusted EBITDA from soundstage, mobile and equipment rental activities, partially offset by the increase in negative adjusted EBITDA from visual effects and from virtual production activities, which have not yet reached their full revenue potential.

- $1,187,000 unfavourable variance in the Magazines segment (Table 3), mainly due to the reopening with a reduction in government assistance under both the CPF and the CEWS.

- $3,209,000 favourable variance in the Production & Distribution segment (Table 3), due mainly to the favourable gross margin related to international sales for films produced by Incendo, as well as distribution on streaming platforms.

Table 3
Adjusted EBITDA (negative adjusted EBITDA)
(in thousands of dollars)

	Years ended December 31		Three-months ended December 31	
	2021	2020	**2021**	2020
Broadcasting	**$ 45,200**	$ 60,976	**$ 20,502**	$ 36,739
Film Production & Audiovisual Services	**22,918**	14,079	**4,812**	7,453
Magazines	**7,488**	8,675	**1,919**	2,122
Production & Distribution	**4,362**	1,153	**1,388**	(369)
Intersegment items	**315**	423	**57**	125
	$ 80,283	$ 85,306	**$ 28,678**	$ 46,070

Net income attributable to shareholders: $30,504,000 ($0.71 per basic share), compared with $32,317,000 ($0.75 per basic share) for the same period of 2020.

- The negative variance of $1,813,000 (-$0.04 per basic share) was essentially due to:

    - $5,023,000 decrease in adjusted EBITDA;

    partially offset by:

    - $1,527,000 favourable variance in operational restructuring costs and other;

    - $1,223,000 favourable variance in the depreciation and amortization charge; and

    - $359,000 favourable variance in income tax.

- The calculation of income per share was based on a weighted average of 43,205,535 outstanding shares for the years ended December 31, 2021 and 2020.

Depreciation and amortization: $32,107,000, a $1,223,000 (-3.7%) decrease, mainly due to the decrease in the amortization expense of intangible assets, particularly websites and operational software, and fully amortized technical equipment, partially offset by the increase in the amortization expense related to equipment for rental.

Financial expenses: $2,674,000, a $139,000 increase caused essentially by the unfavourable variance in interest on the defined benefit plans, partially offset by the favourable variance in the exchange loss, as well as in interest on debt related to the lower financing cost for 2021, despite a higher average indebtedness.

Operational restructuring costs and other: $4,670,000 in fiscal 2021, compared with $6,197,000 for 2020, a $1,527,000 decrease.

- In 2021, the Corporation recorded a net amount of $4,968,000 arising primarily from the elimination of positions and the implementation of cost-reduction measures, including $4,859,000 in the Broadcasting segment, a net charge reversal of $325,000 in the Magazines segment and $427,000 in the Production & Distribution segment ($5,088,000 for 2020, including $3,606,000 in the Broadcasting segment, $1,074,000 in the Film Production & Audiovisual Services segment and $408,000 in the Magazines segment). For 2021, operational restructuring costs in the Broadcasting segment included a net amount of $4,110,000 due to the cancellation of a contract to broadcast certain sporting events.

- In 2021, the Corporation recorded a $48,000 charge reversal for business acquisitions, primarily due to the downward adjustment to the contingent consideration related to the Acquisition of Incendo (as defined below) following a review of the assumptions and the range of probabilities for the achievement of financial conditions used in the initial recognition of the transaction. In 2020, the Corporation recorded a $1,755,000 charge for business acquisitions, primarily due to the upward adjustment to the contingent consideration, which led to an additional $1,565,000 charge.

- In 2021, the Corporation also recorded a $101,000 gain on the write-off of lease liabilities, whereas for the previous year, the Corporation had recorded a $328,000 gain on the write-off of lease liabilities, as well as a $254,000 gain on disposal of assets, for proceeds on disposal of $323,000.

Income taxes: $11,486,000 (effective tax rate of 28.1%) in 2021, compared with $11,845,000 (effective tax rate of 27.4%) for 2020, a favourable variance of $359,000, due mainly to the impact of a decrease in taxable income for tax purposes. The higher effective tax rate than the Corporation's statutory tax rate of 26.5% for fiscal 2021 was mainly due to a prior-year income tax adjustment, and the recognition of foreign income taxes. The effective tax rate was higher than the Corporation's statutory rate of 26.5% for fiscal 2020 mainly because of the permanent variance generated by the remeasurement of the contingent consideration payable in connection with the Acquisition of Incendo, as noted above. Calculation of the effective tax rates is based only on taxable and deductible items.

Share of income of associates: $1,148,000 for 2021, compared with $942,000 for 2020; the $206,000 favourable variance was essentially due to the improved financial results of an associate in the television industry.

SEGMENTED ANALYSIS

Broadcasting

Operating revenues: $495,473,000, an $86,732,000 (21.2%) increase, primarily due to:

- 25.2% increase in TVA Network's revenues, mainly due to a 24.7% increase in advertising revenues, including a 78.7% increase in digital revenues, as well as greater revenues from content production sponsorships;

- 14.0% increase in the revenues of the specialty channels, due mainly to:

  - 45.9% increase in advertising revenues, including increases of 114.3% for "TVA Sports" and 14.1% for all other channels. The significant increase for the sports channel was primarily due to the fact that the Montreal Canadiens made it to the Stanley Cup finals in 2021, as well as the return to a regular NHL schedule for the 2021-2022 season, which began in the fall; and

  - 3.0% increase in subscription revenues for "TVA Sports" due mainly to the above-noted situation; and

- 62.2% increase in Qolab's revenues, due to growth in the volume of activities in commercial production and advertising services.

French-language audience share

Table 4
French-language audience share
(Market share in %)

Year 2021 vs 2020			
	2021	**2020**	**Difference**
French-language conventional broadcasters:			
TVA	**24.1**	24.2	-0.1
SRC	**14.7**	13.6	1.1
noovo	**6.1**	5.7	0.4
	44.9	43.5	1.4
French-language specialty and pay services:			
TVA	**15.8**	16.2	-0.4
Bell Media	**12.6**	11.5	1.1
Corus	**5.4**	6.2	-0.8
SRC	**5.7**	6.2	-0.5
Other	**4.8**	5.1	-0.3
	44.3	45.2	-0.9
Total English-language channels and other:	**10.8**	11.3	-0.5
TVA Group	**39.9**	40.4	-0.5

Source: Numeris - French Quebec, January 1 to December 31, Mon-Sun, 2:00 – 2:00, All 2+.

TVA Group's total market share for the period of January 1 to December 31, 2021 was 39.9%, compared with 40.4% for the same period of 2020, a 0.5-point decrease.

TVA Group's specialty services had a combined market share of 15.8% for 2021, compared with 16.2% for 2020, a 0.4-point decrease. The market share of news and public affairs channel "LCN" dropped 1.9% for the year, after it recorded exceptional growth in market share in 2020 amid the pandemic. "LCN" nevertheless held its position as Quebec's most-watched specialty channel. "TVA Sports" recorded 1.2% growth in market share, primarily due to the increase in the number of sporting events broadcast by the channel in 2021, particularly the 2020-2021 NHL season, which was postponed to 2021, as well as the Stanley Cup finals, which featured the Montreal Canadiens. In addition, the sports channel performed well with nearly 1.5 million viewers during the final round of the Stanley Cup playoffs. The "addik^{TV}" channel also posted 0.4-point growth.

TVA Network remained in the lead with a 24.1% market share, more than the combined market share of its two main over-the-air rivals. *Les beaux malaises 2.0* and the new show, *Chanteurs masqués*, the Quebec version of *The Masked Singer*, which drew average audiences of nearly 1.7 million viewers each, as well as programs such as *Star Académie* and *Révolution*, with more than 1.4 million viewers each, played a major role in TVA Network's success.

Operating expenses: $450,273,000, a $102,508,000 (29.5%) increase due primarily to:

- 31.5% increase in TVA Network's operating expenses, due mainly to higher audiovisual content and labour costs, whereas employee costs for the previous year were lower as a result, among other things, of the recognition of higher CEWS amounts for employees who continued working;

- 25.7% increase in the operating expenses of the specialty services, including a 44.7% increase for "TVA Sports," due primarily to the pandemic, which led to changes in the normal sports schedules, including:
    - postponement of the NHL 2020-2021 season to early 2021, which generated increased volume of activities and higher costs this year compared with 2020, despite a downward adjustment in costs for the season due to the above-noted situation and broadcasting of a shortened season; and
    - decrease in the number of sporting events broadcast by the channel in 2020; and
- 57.5% increase in Qolab's operating expenses due to higher volume of activities.

Adjusted EBITDA: $45,200,000, a $15,776,000 unfavourable variance primarily due to:

- 63.6% decrease in the EBITDA of the specialty services, primarily "TVA Sports" as explained above; and
- 7.7% decrease in TVA Network's adjusted EBITDA due to increase in costs exceeding the increase in operating revenues;

partially offset by:

- 78.0% increase in adjusted EBITDA for Qolab as a result of higher volume of activities.

Analysis of cost/revenue ratio: Employee costs and the cost of purchasing goods and services for the Broadcasting segment's activities (expressed as a percentage of revenues) increased from 85.1% in 2020 to 90.9% in 2021, essentially because the increase in operating expenses exceeded the rise in operating revenues, mainly due to the increase in major sporting events broadcast by "TVA Sports" during the year.

Film Production & Audiovisual Services

Operating revenues: $86,021,000, a $27,357,000 (46.6%) increase, mainly attributable to the reopening since mid-September 2020, which resulted in the following variances, among others:

- 54.5% increase in revenues from soundstage, mobile and equipment rental, which were heavily affected by the public health crisis and the resulting suspension of film shoots in the second and third quarters of 2020;
- 65.8% increase in postproduction revenues;
- 36.0% increase in revenues from media accessibility services, due to increased demand for the services;
- favourable variance in revenues generated by the new virtual production activities; and
- 13.2% increase in visual effects revenues.

Operating expenses: $63,103,000, an increase of $18,518,000 (41.5%). The increase is also primarily due to the resumption of activities, which led to an increase in variable expenses, particularly compensation costs, as well as much lower CEWS levels. Note the following variances:

- 66.5% increase in operating expenses related to postproduction;
- 44.4% increase in operating expenses for media accessibility services;

- 23.7% increase in operating expenses for soundstage, mobile and equipment rental services;
- unfavourable variance in expenses for the new virtual production activities; and
- 29.9% increase in operating expenses related to visual effects.

Adjusted EBITDA: $22,918,000, an $8,839,000 favourable variance, mainly due to a 111.2% increase in adjusted EBITDA from soundstage, mobile and equipment rental activities, partially offset by the increase in negative adjusted EBITDA from visual effects, as well as from virtual production activities, which have not yet reached their full revenue potential.

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) decreased from 76.0% in 2020 to 73.4% in 2021. The decrease was caused mainly by higher operating revenues, which exceeded the increase in operating expenses.

Magazines

Operating revenues: $45,655,000, a $663,000 (-1.4%) decrease caused mainly by the following variances:

- 10.1% decrease in assistance from the CPF, which introduced a change in the method of grant allocation from its regular program starting on April 1, 2021, combined with lower amounts from the renewed enhanced one-time grant program than had been offered in 2020, as explained below;

partially offset by:

- 2.7% increase in subscription revenues, primarily for entertainment titles; and
- 31.7% increase in revenues from brand utilization, in particular the jewelry offer in *Clin d'œil* magazine as part of the Quebec Breast Cancer Foundation fundraising campaign.

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 so 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 that 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 operating revenues. It amounted to 24.5% of the segment's operating revenues for fiscal 2021 (26.9% for 2020).

Readership statistics

With nearly 3.1 million cross-platform readers for its monthly French titles, TVA Group is the top publisher of French-language monthly magazines in Quebec and a leading player in the Canadian magazine market with 7.2 million cross-platform readers.

Canada's lifestyle standard-setter *Canadian Living* reaches more than 3.3 million cross-platform readers. Its French-language counterpart *Coup de pouce* is the most-read French-language lifestyle magazine on all platforms with nearly 1.2 million cross-platform readers.

In Quebec, *Les Idées de ma Maison* is the benchmark in decorating, reaching 704,000 cross-platform readers.

In the English-language market, *Style at Home* is Canada's go-to decorating magazine, reaching more than 2.3 million cross-platform readers.

Source: Vividata, Fall 2021, Total Canada, 14+, July 1, 2020 to June 30, 2021

Operating expenses: $38,167,000, a $524,000 (1.4%) increase, mainly attributable to the reopening in a context of reduced government assistance, which resulted among other things in an increase in compensation costs as a result of more employees working and a decrease in the CEWS available to the segment, and an increase in variable costs related to the higher number of issues for some titles.

Adjusted EBITDA: $7,488,000, a $1,187,000 (-13.7%) unfavourable variance, mainly due to the reopening with a reduction in government assistance under both the CPF and the CEWS.

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 81.3% for 2020 to 83.6% for 2021. The increase was caused mainly by lower operating revenues combined with higher operating expenses for the segment.

Production & Distribution

Operating revenues: $16,273,000, a $4,841,000 (42.3%) increase, mainly due to international distribution activities, with the delivery of 10 films produced by Incendo in 2021, whereas no films produced by Incendo were delivered in 2020 as a result of the suspension of production activities in 2020 due to the lockdown, which caused a delay in deliveries.

Activities related to the distribution of films produced by Incendo accounted for 78.8% of the segment's operating revenues for 2021, compared with 76.9% for 2020. Ninety-two percent of the revenues generated by Incendo's productions stemmed from international distribution for 2021 (83% for 2020). The Incendo productions that generated operating revenues for the year consisted primarily of romantic comedies.

Operating expenses: $11,911,000, a $1,632,000 (15.9%) increase mainly due to the increase in variable expenses related to the higher revenues.

Adjusted EBITDA: $4,362,000, a $3,209,000 favourable variance, primarily due to the higher total gross margin for 2021, mainly caused by international distribution of films produced by Incendo, as well as distribution on streaming platforms.

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) decreased from 89.9% for 2020 to 73.2% for 2021, mainly because the increase in operating revenues exceeded the increase in operating expenses.

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, according to the discounted future cash flows of the future contingent adjustments. The discounted future 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 and 2021 (see "Operational restructuring costs and other" in the fiscal 2021/2020 comparison above). The Corporation made an initial payment of $3,519,000 in the fourth quarter of 2020 in relation to 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.

2021/2020 FOURTH QUARTER COMPARISON

Analysis of consolidated results of TVA Group

Operating revenues: $171,901,000, a $24,283,000 (16.4%) increase.

- $22,114,000 (19.0%) increase in the Broadcasting segment (Table 2) essentially due to a 17.5% increase in TVA Network's revenues because of 19.8% growth in advertising revenues, a 15.4% increase in the revenues of the specialty channels and an 84.9% increase in the operating revenues of Qolab.

- $619,000 (2.9%) increase in the Film Production & Audiovisual Services segment (Table 2), due primarily to a 71.4% increase in postproduction revenues and a 39.8% increase in revenues from media accessibility services, partially offset by a 21.1% decrease in soundstage, mobile and equipment rental revenues.

- $1,409,000 (-10.5%) decrease in the Magazines segment (Table 2), due primarily to the 26.8%, decrease in financial assistance from the CPF, as explained above, as well as an 8.6% decrease in newsstand revenues.

- $2,592,000 (134.6%) increase in the Production & Distribution segment (Table 2), primarily due to international sales, mainly for films produced by Incendo.

Adjusted EBITDA: $28,678,000, a $17,392,000 (-37.8%) unfavourable variance.

- $16,237,000 unfavourable variance in the Broadcasting segment (Table 3) caused mainly by a 47.0% decrease in the adjusted EBITDA of the specialty services, primarily that of "TVA Sports," and a 50.3% decrease in TVA Network's adjusted EBITDA.

- $2,641,000 unfavourable variance in the Film Production & Audiovisual Services segment (Table 3), due primarily to a decrease in adjusted EBITDA from soundstage, mobile and equipment rental and an increase in negative adjusted EBITDA from visual effects activities, partially offset by an increase in adjusted EBITDA from media accessibility services.

- $203,000 unfavourable variance in the Magazines segment (Table 3), due mainly to the above-noted decrease in operating revenues, which was not entirely offset by the savings on operating expenses.

- $1,757,000 favourable variance in the Production & Distribution segment (Table 3), resulting mainly from the favourable gross margin related to international sales, mainly for films produced by Incendo.

Net income attributable to shareholders: $12,095,000 ($0.28 per basic share) for the fourth quarter of 2021, compared with $27,380,000 ($0.63 per basic share) for the same period of 2020.

- The negative variance of $15,285,000 (-$0.35 per basic share) was essentially due to:

    - $17,392,000 decrease in adjusted EBITDA; and

    - $3,129,000 unfavourable variance in operational restructuring costs and other;

    partially offset by:

    - $4,790,000 favourable variance in income tax; and

    - $435,000 favourable variance in the depreciation and amortization charge.

- The calculation of earnings per share was based on a weighted average of 43,205,535 outstanding diluted shares for the quarters ended December 31, 2021 and 2020.

Depreciation and amortization: $7,769,000, a $435,000 decrease, mainly due to the decrease in the amortization expense of fully amortized technical equipment, partially offset by the increase in the amortization expense related to equipment for rental.

Financial expenses: $619,000, a $53,000 increase caused essentially by an increase in the interest expense related to the defined benefit plans, as well as the unfavourable variance in interest on debt related to a higher average indebtedness for the fourth quarter of 2021, net of a lower cost of financing for the same period. In addition, the Corporation recognized a foreign exchange gain for the fourth quarter of 2021, whereas a foreign exchange loss was recorded for the same period of 2020.

Operational restructuring costs and other: $4,488,000 for the three-month period ended December 31, 2021, compared with $1,359,000 for the same period of 2020, an unfavourable variance of $3,129,000.

- During the three-month period ended December 31, 2021, the Corporation recorded a $4,574,000 net charge stemming mainly from the elimination of positions and the implementation of cost-reduction measures, including $4,130,000 in the Broadcasting segment and $427,000 in the Production & Distribution segment ($1,935,000 for the same period of 2020, including $1,734,000 in the Broadcasting segment, $24,000 in the Film Production & Audiovisual Services segment and $177,000 in the Magazines segment). As noted in the fiscal 2021/2020 comparison, operational restructuring costs in the Broadcasting segment included a net amount of $4,110,000 for the cancellation of a contract.

- During the three-month period ended December 31, 2020, the Corporation reversed a $254,000 charge for business acquisitions, primarily to record a downward adjustment to the contingent consideration related to the Acquisition of Incendo.

Income taxes: $4,305,000 (effective tax rate of 27.2%) for the fourth quarter of 2021, compared with $9,095,000 (effective tax rate of 25.3%) over the same period of 2020, a favourable variance of $4,790,000, due mainly to the impact of a decrease in taxable income for tax purposes. The higher effective tax rate than the Corporation's statutory rate of 26.5% during the three-month period ended December 31, 2021 was mainly due to the recognition of foreign income taxes. The effective tax rate was lower than the Corporation's statutory rate of 26.5% during the same period of 2020, mainly because of a prior-year income tax adjustment and the recognition of foreign income taxes. Calculation of the effective tax rates is based only on taxable and deductible items.

Share of income of associates: $596,000 for the fourth quarter of 2021, compared with $537,000 for the same period of 2020, a favourable variance of $59,000 due mainly to the improved financial results of an associate in the television industry in 2021 compared with 2020.

SEGMENTED ANALYSIS

Broadcasting

Operating revenues: $138,627,000, a $22,114,000 (19.0%) increase due primarily to:

- 17.5% increase in TVA Network's revenues, mainly due to a 19.8% increase in advertising revenues, including an 82.4% increase in digital revenues;

- 34.8% increase in the revenues of "TVA Sports" mainly due to a 218.8% increase in advertising revenues, whereas for the same quarter of 2020 no NHL games were broadcast following the postponement of the 2020-2021 season to 2021 as a result of the pandemic, and a 4.3% increase in susbscription revenues stemming from a favourable retroactive adjustment related to the audit of an agreement with a cable operator;

- 84.9% increase in Qolab's revenues, due to increased volume of activities, as explained earlier in the fiscal 2021/2020 comparison; and

- 4.2% increase in advertising revenues for the specialty channels other than "TVA Sports," including 6.2% and 34.7% increases for "LCN" and "Zeste" respectively.

French-language audience share

Table 5
French-language audience share
(Market share in %)

Fourth quarter 2021 vs Fourth quarter 2020			
	2021	**2020**	**Difference**
French-language conventional broadcasters:			
TVA	**24.6**	24.1	0.5
SRC	**15.4**	15.5	-0.1
noovo	**6.8**	6.8	–
	46.8	46.4	0.4
French-language specialty and pay services:			
TVA	**14.2**	14.5	-0.3
Bell Media	**12.9**	10.6	2.3
Corus	**5.0**	5.7	-0.7
SRC	**5.3**	6.1	-0.8
Other	**4.8**	5.3	-0.5
	42.2	42.2	–
Total English-language channels and other:	**11.0**	11.4	-0.4
TVA Group	**38.8**	38.6	0.2

Source: Numeris - French Quebec, October 1st to December 31st, Mon-Sun, 2:00 – 2:00, All 2+.

TVA Group's total market share for the period of October 1 to December 31, 2021 was 38.8%, compared with 38.6% for the same period of 2020, a 0.2-point increase. The combined market share of the specialty services fell by 0.3 points from 14.5% to 14.2% while TVA Network's market share grew by 0.5 points.

The public health crisis had a greater impact on the content broadcast by two of our specialty services in 2020 and 2021. The news and public affairs channel "LCN" recorded significant growth of its market share in 2020, fuelled by the continuous coverage of the public health crisis and political events. The channel thus recorded a 1.4-point decrease in its market share for the fourth quarter of 2021 compared with the same period of 2020. For its part, "TVA Sports" registered a 1.1-point increase as a result of the increased number of sporting events, particularly NHL hockey. TVA Network remains in the lead with a 24.6% market share, more than its two main over-the-air rivals combined.

For the period from October 1 to December 31, 2021, TVA Network stood out again with the new show, *Chanteurs masqués*, as well as with its original series and productions that surpassed the one-million-viewer mark, such as *Révolution*, *Alertes*, *L'heure bleue* and *L'Échappée*.

Operating expenses: $118,125,000, a $38,351,000 (48.1%) increase due primarily to:

- 39.0% increase in TVA Network's operating expenses, due mainly to higher audiovisual content and labour costs, whereas employee costs for the fourth quarter of 2020 were lower as a result, among other things, of the recognition of higher CEWS amounts for employees who continued working and the Canadian Radio-television and Telecommunications Commission ("**CRTC**") relief measures with respect to licence fees due to the public health crisis in the fourth quarter of 2020;

- 234.2% increase in the operating expenses of "TVA Sports" mainly due to costs associated with the NHL 2021-2022 season, which began in the fall on its normal schedule, whereas the start of the season had been postponed for the same period of 2020. The increase was partially offset by a downward cost adjustment recorded in the fourth quarter of 2021 in connection with the 2020-2021 season, which was postponed and shortened amid the public health crisis; and

- 84.5% increase in Qolab's operating expenses because of higher volume of activities.

Adjusted EBITDA: $20,502,000, a $16,237,000 unfavourable variance primarily due to:

- 47.0% decrease in adjusted EBITDA of the specialty services, mainly "TVA Sports," as explained above; and

- 50.3% decrease in TVA Network's adjusted EBITDA.

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 68.5% for the fourth quarter of 2020 to 85.2% for the same period of 2021. The increase was essentially because the increase in operating expenses exceeded the increase in operating revenues, mainly due to the increase in major sporting events broadcast by "TVA Sports" during the quarter, as well as greater investments in TVA Network content.

Film Production & Audiovisual Services

Operating revenues: $21,985,000, a $619,000 (2.9%) increase due primarily to:

- 71.4% increase in postproduction revenues;

- 39.8% increase in revenues from media accessibility services; and

- favourable variance in revenues generated by the new virtual production activities;

partially offset by:

- 21.1% decrease in soundstage, mobile and equipment rental revenues, whereas the major production *Home Alone* was shooting at our studios in the fourth quarter of 2020; and

- 32.5% decrease in visual effects revenues.

Operating expenses: $17,173,000, an increase of $3,260,000 (23.4%), due mainly to higher labour costs for all segment activities, whereas employee costs were lower for the fourth quarter of 2020 as a result, among other things, of the recognition of CEWS amounts for employees who continued working, as well as higher variable costs due to the volume of postproduction, media accessibility and virtual production activities. Note the following variances:

- 97.9% increase in operating expenses related to postproduction;

- 25.8% increase in operating expenses for media accessibility services; and

- unfavourable variance in expenses for the new virtual production activities.

Adjusted EBITDA: $4,812,000, a $2,641,000 unfavourable variance mainly due to a 43.8% decrease in adjusted EBITDA from soundstage, mobile and equipment rental and an increase in negative adjusted EBITDA from visual effects activities, partially offset by an increase in adjusted EBITDA from media accessibility services.

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 65.1% for the fourth quarter of 2020 to 78.1% for the fourth quarter of 2021. The increase was caused mainly by higher operating expenses, which exceeded the increase in operating revenues for the segment.

Magazines

Operating revenues: $12,010,000, a $1,409,000 (-10.5%) decrease caused mainly by the following decreases:

- 26.8% decrease in the assistance from the CPF, due to the same factors as those noted in the fiscal 2021/2020 comparison; and

- 8.6% decrease in newsstand revenues, mainly for entertainment titles.

Operating expenses: $10,091,000, a $1,206,000 (-10.7%) decrease due mainly to savings on variable costs, including newsstand selling costs, subscription expenses and printing costs as a result of the reduction in print runs, as well as cost-reduction measures.

Adjusted EBITDA: $1,919,000, a $203,000 unfavourable variance due mainly to a decrease in operating revenues, which exceeded the decrease in operating 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 slightly from 84.2% for the fourth quarter of 2020 to 84.0% for the same period of 2021. The decrease was caused mainly by lower operating expenses as a proportion of total expenses for the segment, which exceeded the decrease in operating revenues as a proportion of total revenues.

Production & Distribution

Operating revenues: $4,518,000, a $2,592,000 (134.6%) increase, mainly due to international distribution activities with the delivery of three films produced by Incendo in the fourth quarter of 2021, whereas no films produced by Incendo were delivered in the same period of 2020, due among other things to the delay caused by the suspension of production activities in spring 2020.

Activities related to the distribution of films produced by Incendo accounted for 76.9% of the segment's operating revenues for the three-month period ended December 31, 2021, compared with 82.1% for the same period of 2020.

Operating expenses: $3,130,000, an $835,000 (36.4%) increase mainly due to the increase in variable expenses related to the higher revenues, as well as higher administrative expenses.

Adjusted EBITDA: $1,388,000, a $1,757,000 favourable variance, primarily due to the higher total gross margin for the fourth quarter of 2021, mainly caused by international distribution of films produced by Incendo.

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) decreased from 119.2% for the three-month period ended December 31, 2020 to 69.3% for the same period of 2021, mainly because the increase in operating revenues exceeded the increase in operating expenses.

2020/2019 FISCAL YEAR COMPARISON

The table below shows the Corporation's operating results for the fiscal years ended December 31, 2020 and 2019:

Table 6
Comparative consolidated results for 2020 and 2019
(in thousands of dollars)

	Years ended December 31	
	2020	2019
Operating revenues:		
Broadcasting	$ 408,741	$ 443,754
Film Production & Audiovisual Services	58,664	71,259
Magazines	46,318	56,598
Production & Distribution	11,432	13,371
Intersegment items	(17,011)	(15,072)
	$ 508,144	$ 569,910
Adjusted EBITDA:		
Broadcasting	$ 60,976	$ 44,496
Film Production & Audiovisual Services	14,079	16,253
Magazines	8,675	8,639
Production & Distribution	1,153	2,838
Intersegment items	423	214
	$ 85,306	$ 72,440

SEGMENTED TREND ANALYSIS FOR YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021

Broadcasting

Operating revenues

Over the past three years, the Broadcasting segment recorded an 11.7% increase in operating revenues. This growth is mainly due to TVA Network, which saw a 7.7% increase in advertising revenues, particularly digital revenues, as well as greater revenues from content production sponsorships. The specialty channels also posted 9.8% growth in their combined operating revenues, including a 33.7% increase in advertising revenues and a 0.7% rise in subscription revenues. This growth is attributable in part to the "TVA Sports" channel, which recorded a 59.8% increase in advertising revenues compared with 2019, largely due to the pandemic, which caused a delay in the start of the 2020-2021 NHL season to 2021, and the fact that the Montreal Canadiens made it to the Stanley Cup finals in 2021. The acquisition of the "Zeste" and "Évasion" channels in 2019 also contributed to the increase, with 13.6% growth. All the other specialty channels reported combined growth of 13.8% in their advertising revenues, whereas suscription revenues were relatively stable. Specialty services "LCN," "addik^{TV}," "Casa," "Prise 2" and "MOI ET CIE" saw revenue growth of 5.7%, 6.8%, 6.2%, 5.3% and 6.7% respectively. Qolab's commercial production services saw a 51.4% increase in revenues. Television audience fragmentation across all content delivery platforms, including digital and video on demand, is prompting the Broadcasting segment to adapt its strategies constantly in order to diversify its revenue streams across its specialty services and digital platforms, particularly TVA+. During this period, TVA Group also increased its market share by 1.5 points to 39.9%. The combined market share of the specialty services increased 1.1%, due in part to the exceptional growth in market share of the "LCN" channel during the pandemic, while TVA Network's market share increased 0.4 points.

Adjusted EBITDA

Adjusted EBITDA has remained fairly stable in this segment since 2019. Qolab's adjusted EBITDA has increased 113.6% since 2019 as a result of higher volume of activities. TVA Network's adjusted EBITDA also grew 6.2% for the same period due to the increase in its operating revenues and the decrease in the rate of commissions on advertising sales, which more than offset its increased spending on content. These increases were largely offset by a 35.9% decrease in adjusted EBITDA of the specialty services, stemming primarily from the postponement of the start of the NHL 2020-2021 season to 2021 due to the public health crisis. The specialty channels other than "TVA Sports" reported a 10.3% decrease in their adjusted EBITDA, mainly due to higher content costs, particularly for "Zeste" and "Évasion."

Film Production & Audiovisual Services

Operating revenues

The acquisition of substantially all the assets of A.R. Global Vision Ltd. on December 30, 2014 enabled the Corporation to diversify its revenue streams. Over the past three years, the Film Production & Audiovisual Services segment recorded a 20.7% increase in operating revenues. Revenues from media accessibility services increased 81.4% during that period, due to new CRTC licence conditions for described video since September 1, 2019 and increased demand for these services. Soundstage, mobile and equipment rental revenues also grew 19.7% for the period, with the addition of revenues from the new virtual production services in 2021. Postproduction and visual effects reported respective decreases in their revenues of 3.3% and 4.7%. Soundstage, mobile and equipment rental accounted for 50.0% of segment revenues in 2021, compared with 50.4% in 2019.

Adjusted EBITDA

The segment's profit margin was 22.8% for 2019, 24.0% for 2020 and 26.6% for 2021. The lower profit margin for 2019 was due to the lack of a major production in that fiscal year, while the profit margin for 2020 was affected by the pandemic, which resulted in a decrease in revenues that exceeded the decrease in operating expenses.

Magazines

Operating revenues

The Magazines segment's operating revenues have decreased by 19.3% since 2019. The decrease was caused essentially by lower advertising, newsstand and subscription revenues, which were also affected by the discontinuation of some titles. The decreases were partially offset by an increase in government assistance from the CPF, which grew by 25% and 14% respectively for the 2020-2021 and 2021-2022 reference years amid the health crisis, although the assistance available to the Corporation from the regular program decreased as of April 1, 2021.

Adjusted EBITDA

Despite a significant 19.3% drop in operating revenues, the segment's adjusted EBITDA decreased by 13.3% since 2019 due to the implementation of staff and expense rationalization plans over the past few years, as well as the government support under both the CEWS and the CPF in the current situation. TVA Group remains the largest magazine publisher in Quebec with over 50 titles.

Production & Distribution

Operating revenues

The Acquisition of Incendo also enabled the Corporation to diversify its revenue streams and expand its international presence, particularly in English-speaking markets. The new Production & Distribution segment generated revenues of $16,273,000 for 2021, $11,432,000 for 2020 and $13,371,000 for 2019.

Adjusted EBITDA

The segment's profit margin was 26.8% for 2021, 10.1% for 2020 and 21.2% for 2019. The lower profit margin for 2020 was due to lower volume of film distribution activities in light of the public health crisis, combined with higher administrative expenses because they were incurred for the full year, compared with three quarters in 2019.

CASH FLOWS AND FINANCIAL POSITION

Table 7 below shows a summary of cash flows related to operating, investing and financing activities:

Table 7
Summary of the Corporation's cash flows
(in thousands of dollars)

	Years ended December 31		Three-months ended December 31	
	2021	2020	**2021**	2020
Cash flows related to operating activities	**$ 42,885**	$ 37,918	**$ 37,705**	$ 15,122
Additions to property, plant and equipment and intangible assets	**(19,938)**	(16,144)	**(6,867)**	(4,828)
Business acquisitions	**(606)**	(3,519)	**–**	(3,519)
Disposal of property, plant and equipment	**–**	323	**–**	13
Other	**(3,162)**	(3,093)	**(755)**	(848)
Repayment of net debt	**$ 19,179**	$ 15,485	**$ 30,083**	$ 5,940

	December 31, 2021	December 31, 2020
At period end:		
Bank overdraft	**$ –**	$ 1,699
Short-term debt	**11,980**	27,117
Less: cash	**(5,181)**	(2,838)
Net debt	**$ 6,799**	$ 25,978

Operating activities

Cash flows provided by operating activities: $4,967,000 increase for fiscal 2021 due mainly to a $4,765,000 decrease in current income tax expense, a $3,304,000 favourable net variance in operating items and a $1,527,000 decrease in operational restructuring costs and other, partially offset by a $5,023,000 decrease in adjusted EBITDA.

Working capital: $75,548,000 as at December 31, 2021, compared with $51,861,000 as at December 31, 2020, a favourable variance of $23,687,000, due primarily to a net increase in current assets, particularly accounts receivable, which exceeded the net increase in current liabilities, particularly content rights payable and accounts payable, accrued liabilities and provisions, partially offset by the decrease in short-term debt and income tax payable.

Investing activities

Additions to property, plant and equipment and intangible assets: $19,938,000 for 2021, compared with $16,144,000 for 2020, a $3,794,000 (23.5%) increase, essentially due to the suspension or slowdown of some projects at the start of the pandemic in 2020.

In fiscal 2021, the Corporation made investments in equipment for rental and for virtual production activities, computer equipment and some of its technical equipment required for postproduction activities.

Disposal of property, plant and equipment: Nil for 2021 ($323,000 for 2020). In 2020, the Corporation disposed of assets for proceeds on disposal of $323,000.

Business acquisitions: $606,000 for fiscal 2021, versus $3,519,000 for 2020 (See “Acquisition of Incendo” above).

<u>Financing activities</u>

Short-term debt (excluding deferred financing costs): $11,989,000 as at December 31, 2021, compared with $27,126,000 at December 31, 2020. The $15,137,000 decrease is essentially due to use of cash flows provided by operating activities to repay short-term debt.

<u>Financial position as at December 31, 2021</u>

Net available liquid assets: $68,081,000, consisting of a $62,900,000 unused and available revolving credit facility and $5,181,000 in cash.

As at December 31, 2021, all $11,989,000 in principal on the debt was payable during the coming fiscal year.

The weighted average term of TVA Group’s debt was approximately 0.1 year as at December 31, 2021 (0.1 year as at December 31, 2020) and is therefore presented in its entirety under current liabilities at year end. The debt consisted entirely of floating-rate debt as of December 31, 2021 and 2020.

The Corporation has a $75,000,000 revolving credit facility, which was renewed for one year on February 11, 2021 and matures on February 24, 2022. As at December 31, 2021, drawdowns 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. As at December 31, 2020, drawdowns on the revolving credit facility consisted of a $19,976,000 banker’s acceptance bearing interest at an effective rate of 1.88%, a $7,150,000 advance bearing interest at an effective rate of 2.85% and an outstanding letter of credit in the amount of $133,000.

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 L.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. The agreement provides for repayment of the loan over 10 years and includes a moratorium for the first three years. As at December 31, 2021, 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 December 31, 2021, the Corporation was in compliance with all the terms of its credit agreement.

Analysis of consolidated balance sheet as at December 31, 2021

Table 8
Consolidated balance sheets of TVA Group
Analysis of main variances between December 31, 2021 and December 31, 2020
(in thousands of dollars)

	December 31, 2021	December 31, 2020	Difference	Main reasons for difference
Assets				
Accounts receivable	**$ 210,814**	$ 154,060	$ 56,754	Impact of increased volume of activities, net of reduced tax credits and government assistance receivable.
Long-term audiovisual content	**72,541**	57,245	15,296	Impact of increased investments in audiovisual content.
Deferred taxes	**9,353**	23,923	(14,570)	Impact of recognition of a gain on remeasurement of the defined benefit plans.
Defined benefit plan asset	**21,309**	–	21,309	Impact of recognition of a gain on remeasurement of the defined benefit plans.
Liabilities				
Accounts payable, accrued liabilities and provisions	**$ 139,149**	$ 106,066	$ 33,083	Impact of increased volume of activities.
Content rights payable	**93,383**	62,252	31,131	Impact of timing difference for payment of some sports content rights and greater spending on audiovisual content.
Short-term debt	**11,980**	27,117	(15,137)	Impact of use of cash flows generated by operating activities to repay the revolving credit facility.
Other liabilities	**7,798**	38,223	(30,425)	Impact of recognition of a gain on remeasurement of the defined benefit plans, as well as recognition of the balance of purchase price and the contingent consideration payable in connection with the Acquisition of Incendo under current liabilities.

ADDITIONAL INFORMATION

Contractual obligations

As of December 31, 2021, material contractual commitments of operating activities included payment of principal and interest on debt and lease liabilities, the amount payable and 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 9.

Table 9
Material contractual obligations of TVA Group as at December 31, 2021
(in thousands of dollars)

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Short-term debt	$ 11,989	$ –	$ –	$ –	$ 11,989
Lease liabilities	2,503	3,375	2,316	2,166	10,360
Payment of interest[1]	540	591	295	147	1,573
Amount payable and contingent consideration	6,810	–	–	–	6,810
Content rights	249,354	198,394	113,256	2,343	563,347
Other commitments	15,741	9,128	1,209	59	26,137
Total	**$ 286,937**	**$ 211,488**	**$ 117,076**	**$ 4,715**	**$ 620,216**

[1] *Interest is calculated on a constant debt level equal to that at December 31, 2021 and includes standby fees on the revolving credit facility and interest on lease liabilities.*

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.

Pension plan contributions

The expected employer contributions to the Corporation's defined benefit pension plans and post-retirement benefit plans for 2022 are $3,182,000, based on the most recently filed actuarial report (contributions of $2,140,000 were paid in 2021).

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.

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 $115,679,000 ($105,622,000 for 2020).

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 associates totalling $54,050,000 ($48,681,000 for 2020).

In 2021, the Corporation also billed management fees to companies under common control in the amount of $5,633,000 ($5,070,000 for 2020). These fees are recorded as a reduction of operating expenses.

The Corporation also assumed management fees of the parent corporation amounting to $3,320,000 ($3,420,000 for 2020).

Off-balance sheet arrangements

Guarantees

The Corporation has guaranteed a portion of the residual values of certain assets under lease for the benefit of the lessor. If the fair value of the assets at the end of their respective lease terms is less than their guaranteed residual value, the Corporation is required to compensate the lessor for a portion of the shortfall, subject to certain conditions. As at December 31, 2021, the Corporation recognized no amount on the consolidated balance sheet in relation to these guarantees. In previous years, the Corporation has made no payments in respect of these guarantees.

In the normal course of business, the Corporation enters into indemnification agreements with third parties as part of certain transactions, including acquisition contracts for goods, service agreements and leases. These indemnification agreements require the Corporation to compensate the third parties for costs incurred as a result of specific circumstances. The terms of these indemnification agreements vary from transaction to transaction, based on the contract terms. The nature of these indemnification agreements prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay to third parties for all of its commitments.

Capital stock

Table 10 below presents information on the Corporation's capital stock. In addition, 369,503 Class B stock options of the Corporation were outstanding as at February 3, 2022.

Table 10
Number of shares outstanding as at February 3, 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

Risks and uncertainties

The Corporation operates in the communications industry, which has a variety of risk factors and uncertainties. Due to the risks and uncertainties outlined below, the Corporation's operating environment and financial results may be materially affected. These risks are not the only ones that may affect the Corporation. Other risks and uncertainties, of which the Corporation is unaware, or deems negligible at this time, could also have a considerable negative impact on its financial position, operating results, cash flows or its activities.

Competition risks

Competition for advertising, customers, viewers, listeners, readers, and consumers is intense and comes from conventional television stations and networks, specialty services, subscription video-on-demand services, digital platforms, radio, local, regional and national newspapers, magazines, direct mail, and other traditional and non-traditional communications and advertising media that operate in the Corporation's markets. The Corporation expects competition to persist, intensify and increase in each of its business areas in the future. Added competition in the market could result in reduced advertising sales and subscribers or an increase in costs to acquire programming and, consequently, have a negative impact on revenues and operating results. Competitors include both private companies and government-owned players, some of which have longer operating histories, greater name recognition, larger installed customer bases and greater financial, technical, marketing and other resources than the Corporation. As a result, they may be able to respond more quickly to new or changing opportunities, technologies, standards or customer requirements. This is particularly the case for unregulated subscription video-on-demand services such as Netflix, which have access to international capital to finance their exclusive original content. On September 28, 2017, the Minister of Canadian Heritage and Netflix signed an agreement whereby Netflix committed to invest at least $500.0 million in original Canadian productions over the next five years, thus competing aggressively with the Corporation in local production and content. In addition, on February 2, 2022, the Canadian government tabled Bill C-11 to amend the *Broadcasting Act* among other things to subject foreign subscription video-on-demand services to Canadian regulatory requirements. If the bill is adopted, it could force such services to promote Canadian content on their platforms and to invest significant amounts in original local productions, thus competing even more heavily with the Corporation. Moreover, publicly owned stations benefit from strong financial support from governments, while also maintaining access to the advertising market and funding available for Canadian programming. In addition, increasing consolidation in the Canadian media industry is creating competitors with interests in multiple industries and media. The resources of some competitors may also give them an advantage in acquiring other businesses or assets that the Corporation might also be interested in acquiring. For all of the foregoing reasons, there can be no assurance that the Corporation will be able to compete successfully against current or future competitors. Such competition could materially adversely affect the Corporation's business, operating results or financial condition.

Furthermore, technology developments are making more targeted advertising campaigns possible, thus changing the competitive environment. The Corporation is reviewing its marketing and sales approach to better align with customer preferences. The Corporation is using data analysis and automated marketing platforms based on careful customer segmentation according to their preferences. In addition, given the current market, pricing transparency, promotional clarity and high-value service bundles are critical factors in customer acquisition and retention. An inability to reach target sales growth due to inappropriate marketing and sales strategies, imperfect implementation of such strategies or operational difficulties could have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

Soundstage, mobile and equipment rental, postproduction and visual effects is a highly competitive, service-oriented business. The Corporation does not always have long-term or exclusive service agreements with its clients. Business is generally awarded based on customer satisfaction with reliability, availability, quality and price. There can be no assurance that the Corporation will be able to respond effectively to the various competitive factors affecting soundstage, mobile and equipment rental, postproduction and visual effects services.

The Corporation competes with a variety of soundstage, mobile and equipment rental, postproduction and visual effects firms, some of which have a national presence, and, to a lesser extent, the in-house operations of its major motion picture studio customers. This is increasingly true given the current market consolidation. Some of these firms and studios have greater financial marketing resources and have achieved a higher level of brand recognition than the Corporation has. In the future, the Corporation may not be able to compete effectively against these competitors merely on the basis of availability, quality and price or otherwise. The Corporation may also face competition from companies in related markets that could offer similar or superior services to those offered by the Corporation. An increasingly competitive environment and the possibility that customers may utilize in-house capabilities to a greater extent could lead to a loss of market share or price reductions, which could have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

In the Production & Distribution segment, the Corporation competes with other content producers and distributors, particularly for financing for new projects and the broadcast of productions. Some of these firms have greater financial marketing resources and have achieved a higher level of brand recognition than the Corporation has. In the future, the Corporation may not be able to compete effectively against these competitors. An increasingly competitive environment could lead to a loss of market share or price reductions, which could have a material adverse effect on the Corporation's financial condition, results of operations and prospects.

<u>Risks related to seasonality and fluctuation of results of operations</u>

The Corporation's business is sensitive to general economic cycles and may be adversely affected by the cyclical nature of the markets the Corporation serves, as well as by local, regional, national and global economic conditions. Seasonal variations in retail business influence the Corporation's financial results. In addition, the Broadcasting segment has experienced and is expected to continue to experience significant seasonality due to, among other things, seasonal advertising patterns and seasonal influences on people's viewing habits.

Consequently, results of operations may fluctuate materially from period to period and the results of any one period are not necessarily indicative of results for future periods. Cash flow from operations may also fluctuate and are not necessarily closely correlated with revenue recognition. In particular, results of operations in any period depend to a large extent upon the production and delivery schedule of television programs and film projects.

The operating results of the Film Production & Audiovisual Services segment have varied in the past, and may vary in the future, depending on factors such as the timing of new service introductions, the timing of revenue recognition of longer term projects, increased competition, the ability of customers to finance projects, general economic factors and other factors. The Film Production & Audiovisual Services segment's operating results have historically been significantly influenced by the volume of business from the motion picture industry, which is an industry that is subject to seasonal and cyclical downturns, and, occasionally, work stoppages by actors, writers and others. A few customers represent a large part of the Film Production & Audiovisual Services segment's operating revenues, impacting the ability to forecast revenues in a particular quarter. The same applies to the Production & Distribution segment, whose operating results may be affected by the same factors and, more specifically, by demand from global broadcasters. In addition, because the Corporation's operations are labour intensive, its cost structure is highly fixed and improvements in the flexibility and competitiveness of its cost structure may be difficult to achieve. During periods of economic contraction, revenues may decrease while the cost structure remains stable, resulting in decreased income. Similarly, fixed costs, including costs associated with grid programming and television content, leases, labour, depreciation and amortization expenses, account for a significant portion of the Corporation's business expenses. As a result of increases in grid programming and television content costs, leasing costs, labour costs or capital expenditures, the financial results of the Corporation may be adversely affected.

<u>Risks related to the Corporation's ability to adapt to fast-paced technological change and to new delivery and storage methods</u>

The arrival of new technologies and proliferation of available distribution platforms in the markets in which the Corporation operates – including subscription video-on-demand services, various digital platforms, personal video recorders, smartphones, tablet computers, and Ultra HD television – also influences its operations. The entertainment industry in general continues to undergo significant developments as advances in technologies and new product delivery and storage platforms, or certain changes in consumer behavior driven by these developments, emerge. Consumers are spending a large and growing amount of time on the Internet and mobile devices, a trend that has intensified during the pandemic as a result of the widespread adoption of telework and online training by businesses, schools and institutions, and are viewing most content on a time-delayed or on-demand basis from the Internet, on their televisions and on portable devices. These technologies and business models are increasing audience fragmentation, reducing the Corporation's ratings and adversely affecting advertising revenues from local and national audiences. If the Corporation cannot successfully exploit these and other emerging technologies, it could have a material adverse effect on its business, financial condition, results of operations, liquidity and prospects.

The Film Production & Audiovisual Services segment is also heavily dependent on technological change. The systems and equipment utilized by the Corporation in providing certain services to customers are subject to rapid technological change, as well as evolving customer needs and industry standards. In addition, competitors may introduce services embodying new technology, which could render the Corporation's existing services less marketable or obsolete. To remain competitive, the Corporation must ensure that its offering integrates the latest technology developed in the industry, including animation tools and techniques.

To accomplish this, it can either develop these capabilities by upgrading its proprietary software, which can result in substantial research and development costs, or it can seek to purchase third-party licences, which can also result in significant expenditures. In the event the Corporation seeks to develop these capabilities internally, there is no guarantee that it will be successful in doing so. In the event the Corporation seeks to obtain third-party licences, it cannot guarantee that they will be available or, once obtained, will continue to be available on commercially reasonable terms, or at all.

There can be no assurance that the Corporation will be able to conceive, develop, or acquire technological innovations successfully or that the Corporation's competitors will not successfully implement features or products of their own that are equivalent or superior to those of the Corporation or that make its technologies obsolete. Moreover, the cost associated with developing or acquiring new technology can be significant. There can be no assurance that the Corporation will have sufficient capital or be able to obtain sufficient financing to fund such capital expenditures, or that these costs will not have a material adverse effect on its financial condition and results of operations.

Risks related to public health emergencies, including COVID-19

The crisis surrounding the pandemic is evolving rapidly and could continue to materially affect the Corporation's operations and financial results. The magnitude of the consequences for the Corporation due to the pandemic will depend on future developments that are highly uncertain, including spread of the disease, length of the outbreak, recent developments regarding public vaccination, risks associated with potential waves or mutations of the disease, impact on consumer spending, labour shortages due to the disease, potential supply chain disruptions and effectiveness of the steps taken by government authorities to contain the pandemic.

The scale and repercussions of the current healthcare crisis are not yet fully known. The current and potential negative effects of the pandemic include but are not limited to:

- Significant variability in our revenues and content costs as a result of:
    - Live broadcasts of sporting events organized by professional leagues, as they resume their activities while cancelling some events and making significant changes to formats and broadcast schedules; and
    - Broadcast of some programs, more specifically live programs or programs requiring a live audience, whose formats, pace of production or broadcast schedules could be altered due to COVID-19 outbreaks within the teams around them;
- Reduction in advertising revenues in markets or sectors still affected by the public health crisis, which will inevitably affect the Broadcasting and Magazines segments;
- Variance in the level of activity at MELS and in the Production & Distribution segment resulting from the stoppage or a slow and complex resumption of our content production and distribution activities due to factors such as the need to comply with health precautions and physical distancing rules on set, the closing of borders with some countries, and production insurance challenges;
- Content supply chain disruption due to widespread postponement of film shoots and uncertainty about the provision of a competitive offering of original programming;
- Reduction in the publication frequency of some periodicals, which is affecting revenues in the Magazines segment;
- Increase in bad debts as a result of the precarious situation of some advertisers;
- Impact of legislation, regulations and other government action in response to the pandemic;
- Negative impact on capital markets; and
- Ability to access financial markets at a reasonable cost.

These risks and uncertainties could have a material adverse effect on the Corporation's business, prospects, results of operations and financial condition.

As a result of the pandemic, a number of financial assistance measures have been developed by governments to support Quebec and Canadian businesses and organizations. Subsidies, wage support, incentives, emergency assistance programs and easing measures, deferrals and waivers, among other things, have been introduced to help certain areas of economic activity, industries and employers. There is no guarantee the current financial assistance measures will continue to be offered or will be kept at the same levels or that TVA Group's entities will meet or continue to meet the criteria to qualify for them. If the financial assistance measures are reduced or discontinued, the Corporation's results of operations and financial condition could be adversely affected.

<u>Risks of loss of key customers in the Film Production & Audiovisual Services and Production & Distribution segments</u>

The Film Production & Audiovisual Services segment's primary customers are major motion picture studios and independent filmmakers. Historically, a material percentage of the Film Production & Audiovisual Services segment's operating revenues in each year have been derived from a limited number of customers, several of whom are foreign customers, whose loyalty to Canada may be tested when presented with more favourable production environments outside Canada. The Corporation still expects that a high percentage of the Film Production & Audiovisual Services segment's revenues for the foreseeable future will continue to come from a relatively small number of customers.

The Corporation does not always have long-term or exclusive service agreements with its Film Production & Audiovisual Services segment's customers. Business is based primarily on customer satisfaction with reliability, availability, quality and price. The Corporation is unable to predict if, or when, its customers will purchase its services. There can be no assurance that the revenues generated from key customers, individually or in the aggregate, will reach or exceed historical levels in any future period, or that the Corporation will be able to develop relationships with new customers.

Historically, a material percentage of the operating revenues of the companies in the Production & Distribution segment in each year have been derived from a limited number of customers. The Corporation still expects that a high percentage of the Production & Distribution segment's revenues for the foreseeable future will continue to come from a relatively small number of customers.

Many of the major studios and other key customers of the Corporation have substantial capabilities to perform several or all of the services performed by the Film Production & Audiovisual Services segment. These customers periodically re-evaluate their decisions to outsource these services rather than perform them in-house. A decision by key customers to move services they currently purchase from the Corporation in-house could have a material adverse effect on the Corporation's results of operations and financial condition. The Corporation can give no assurance that it will continue to maintain favourable relationships with these customers or that they will not be adversely affected by economic conditions.

<u>Risks related to the Corporation's ability to meet the demands of its customers</u>

The Corporation's Film Production & Audiovisual Services segment is dependent on its ability to meet the current and future demands of its customers, which include reliability, availability, quality and price. Any failure to do so, whether or not caused by factors within its control, could result in the loss of clients. There is no assurance that claims would not be asserted and dissatisfied customers may refuse to place further orders in the event of a significant occurrence of loss as a result of a failure by the Corporation to meet its customers' expectations with respect to reliability, availability, quality and price, which could have a material adverse effect on the Corporation's financial condition, results of operations and prospects. The Corporation's ability to deliver services within the time periods requested by customers depends on a number of factors, some of which are outside of its control, including equipment failure, public health emergencies, work stoppages or interruption in services by third-party providers, including telephone, Internet or satellite service providers. In addition, because the Corporation is dependent upon a large number of software applications and hardware for postproduction and visual effects services, an error or defect in the software, a failure in the hardware, a failure of backup facilities or a delay in delivery of products and services could result in significantly increased costs for a project, and therefore losses to the Corporation's clients.

Risks related to the launch of tie-ins and new specialty services

The Corporation has invested in the launch of tie-ins and new specialty services in the Broadcasting segment. During the period immediately following the launch of a tie-in or a new specialty service, revenues are always relatively modest, while initial operating expenses may prove more substantial. Furthermore, although the Corporation believes in the potential associated with this strategy, there is a possibility that the anticipated profitability could take several years to materialize or may never materialize.

Risks related to changes in economic conditions

The revenues and operating results of the Corporation are and will continue to be influenced by the general economic environment and depend on the relative strength of the economy in its markets, as well as local, regional and national economic factors, since those affect the levels of television and magazine advertising revenues as well as the volume of work available from the film and television industries in Canada and the U.S. An economic slowdown or a recession in the Canadian or U.S. economy could adversely affect key national advertising accounts, as buyers of advertising have historically reduced their advertising budgets during economic slowdowns. In addition, the deterioration of economic conditions could adversely affect payment patterns, which could increase the bad debt expense.

The pandemic continues to have a major impact on the economic environment in Canada and around the world. These adverse economic conditions could persist or worsen as long as the measures to limit the spread of the virus remain in place. During an economic downturn, there can be no assurance that operating results and revenues, outlook, prospects and financial condition would not be adversely affected.

Risks related to the possibility that the Corporation's content may not attract large audiences and to audience fragmentation, limiting the Corporation's ability to generate revenues

Broadcasting operating revenues are derived in large part from advertising revenues. Advertising revenues and the Production and Distribution segment's operating revenues are largely dependent upon audience acceptance, which is in large part a function of the content and quality offered, and is influenced by factors such as reviews by critics, promotions, actors and other key talent, genre and specific subject matter, audience reaction, quality and acceptance of other competing content in the marketplace, availability of alternative forms of entertainment and leisure activities, general economic conditions, public tastes in general, and other intangible factors.

In addition, the markets in which the Corporation operates are experiencing a proliferation of available distribution platforms, including the Internet, wireless telephony, subscription video-on-demand, mobile television, OTT services and other technologies that may be marketed in the future. The proliferation of cable and satellite channels, advances in mobile and wireless technology, the migration of television audiences to the Internet, including social media, and the viewing public's increased control over the manner, content and timing of their media consumption through personal video recording devices have resulted in greater fragmentation of the television viewing audience and a more difficult advertising sales environment. In addition, the increase in narrowcast programming and specialty services in Canada has caused the conventional television audience to become increasingly fragmented.

Furthermore, most households have already subscribed to video-on-demand services as a complement to conventional broadcasting services. The trend toward take-up of on-demand streaming services is expected to intensify and could adversely affect the Corporation if a large number of viewers drop conventional broadcasting services; the Corporation might not be able to offset the loss of revenues associated with this change in consumer preferences.

These factors continue to evolve rapidly and many are beyond the Corporation's control. It cannot predict the future effects of these factors on its business, financial condition and results of operations. Lack of audience acceptance for the Corporation's content, or shrinking or fragmented audiences, could limit its ability to generate advertising revenues and reduce the Production & Distribution segment's operating revenues. If the Corporation's ability to generate advertising revenues is limited, it may need to develop new or alternative revenue streams in order to be able to continue providing attractive television programming for broad audiences. There can be no assurance that the Corporation would be able to develop new revenue streams, and any such limitation on its ability to generate operating revenues, together with an inability to generate new revenue streams, could have a material adverse effect on its business, financial condition and results of operations.

Risks relating to the fact that programming content may become more expensive and more difficult to acquire and production costs may increase.

The most significant costs in television broadcasting are programming and production costs. Increased competition in the television broadcasting industry, developments affecting producers and distributors of programming content, vertical integration of distributors and broadcasters, the creation of original, exclusive programming content by various subscription video-on-demand services, changes in viewer preferences and other developments are impacting both the availability and the cost of programming content and the cost of production. In addition, on February 2, 2022, the Canadian government tabled Bill C-11 to amend the *Broadcasting Act* among other things to subject foreign subscription video-on-demand services to Canadian regulatory requirements. If the bill is adopted, it could force such services to promote Canadian content on their platforms and to invest significant amounts in original local productions, placing additional pressure on cost and availability of content. Future increases or volatility in programming and production costs could adversely affect the results of operations and financial condition of the Corporation. Developments in cable, satellite or other forms of distribution could also affect both the availability and the cost of programming and production and increase competition for advertising expenditures. As well, the value of royalties payable pursuant to the *Copyright Act* are frequently decided by the Copyright Board of Canada during or even after the applicable period, which can cause retroactive increases in content costs.

Government regulation risks

The Corporation is subject to extensive government regulation, mainly through the *Broadcasting Act*, which is administered by the CRTC. Changes to, or more aggressive enforcement of, the regulations and policies governing broadcasting or the introduction of new regulations, policies or terms of licence could have a material effect on the Corporation's business, financial condition or results of operations. Moreover, changes resulting from the CRTC's interpretations of existing policies and regulations could also be materially adverse to the Corporation's business, financial condition or results of operations. Since legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, the Corporation is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Furthermore, the CRTC is the government authority responsible for issuing and renewing broadcasting licences and for the regulations governing the Canadian broadcasting system. The Corporation is subject to the CRTC's decisions in these areas and any decision made by this organization that runs counter to the Corporation's positions and interests, including the failure to renew any of its licences on as favourable terms, may negatively affect its activities, financial condition and results of operations.

In addition, the levels of the royalties payable by the Corporation are subject to change upon application by the collecting societies and approval by the Copyright Board. The Government of Canada may, from time to time, make amendments to the *Copyright Act* to implement Canada's international treaty obligations and for other obligations and purposes. Any such amendments could result in the Corporation's broadcasting undertakings being required to pay additional royalties for these licences or be subject to additional administrative costs associated with the tariffs.

Government assistance risks

The Corporation takes advantage of several government programs designed to support production and distribution of televisual and cinematographic products and magazine publishing in Canada, including federal and provincial refundable tax credits. There can be no assurance that the local cultural incentive programs which the Corporation may access in Canada will continue to be available in the future or will not be reduced, amended or eliminated. Any future reductions or other changes in the policies or rules of application in Canada or in any of its provinces in connection with these government incentive programs, including any change in the Quebec or the federal programs providing for refundable tax credits, could increase the cost of acquiring and producing Canadian programs which are required to be broadcasted and may have a material adverse effect on the Corporation's business, financial condition and results of operations. Canadian content programming is also subject to certification by various agencies of the federal government. If programming fails to so qualify, the Corporation would not be able to use the programs to meet its

Canadian content programming obligations and the Corporation might not qualify for certain Canadian tax credits and government incentives.

To ensure that the Corporation maintains minimum levels of Canadian ownership under the *Broadcasting Act* and other legislation under which it derives the benefit of tax credits and industry incentives, it has placed constraints on the issue and transfer of its shares. The Corporation's transfer agent may refuse to issue or register the transfer of shares if this would prevent the Corporation from holding its licences. These constraints and transfer restrictions may adversely affect the liquidity of the Corporation's Class B Non-Voting Shares and may have an impact on their trading price.

In addition, the Canadian and provincial governments currently provide grants and incentives to attract foreign producers and support domestic film and television production. Many of the major studios and other key customers of the Film Production & Audiovisual Services segment, content producers for the Broadcasting segment, and the Production & Distribution segment finance a portion of their production budgets through Canadian governmental incentive programs, including federal and provincial tax credits. There can be no assurance that the government grants and incentive programs presently being offered to participants in the film and television production industry will continue at their present levels or at all. If such grants or incentives are reduced or discontinued, the level of activity in the motion picture and television industries may be reduced, as a result of which the Corporation's results of operations and financial condition might be adversely affected.

<u>Risks related to government incentives in locations outside of Quebec and other influences</u>

The successful tax credit model of Quebec and other provinces in Canada has been copied by other jurisdictions around the world, including by many states in the United States of America. Some producers may select locations other than Quebec to take advantage of tax credit programs they may conclude to be more or as attractive as those Quebec offers. Other factors, such as the choice of director or talent, may also cause productions to be filmed elsewhere and may therefore have a material adverse effect on the Corporation's business, financial condition and results of operations.

<u>Risks related to the Film Production & Audiovisual Services and Production & Distribution segments' dependence on revenues from customers outside Canada</u>

Many of the Film Production & Audiovisual Services and Production & Distribution segments' customers have found Canada particularly attractive because of the exchange rate of the Canadian dollar to the U.S. dollar. The Canadian to U.S. dollar exchange rate has provided certain cost savings to U.S.-based film producers and broadcasters obtaining production services and content produced in Canada. There can be no assurance that favourable exchange rates will continue. Fluctuations in currency exchange rates could decrease the production activity in Canada of the customers of the Corporation and reduce demand for the content produced by the Production & Distribution segment, adversely affecting its results of operations and financial condition. The Corporation cannot predict the effect of exchange rate fluctuations upon its future operating results and financial position.

<u>Risks related to intellectual property rights</u>

The Corporation must protect its proprietary technology and operate without infringing upon the intellectual property rights of others. The Corporation relies on a combination of patent, copyright, trademark and trade-secret laws and other intellectual property protection methods to establish and protect its proprietary technology. These steps may not protect the Corporation's proprietary information nor give it any competitive advantage. Others may independently develop substantially equivalent intellectual property or otherwise gain access to the Corporation's trade secrets or intellectual property, or disclose such intellectual property or trade secrets. If the Corporation is unable to protect its intellectual property, the Corporation's business could be materially adversely affected.

In addition, there is no assurance that intellectual property rights licensed from third parties will not be challenged, invalidated or circumvented, or that such rights would provide the Corporation with any proprietary protection. The Corporation generally enters into confidentiality or licence agreements with its employees, consultants and vendors, and generally controls access to and distribution of its software, documentation and other proprietary information.

Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use its proprietary information, products or technology without authorization, or to develop similar or superior technology independently. Policing unauthorized use of products or technology is difficult and expensive. In addition, effective copyright, patent and trade secret protection may be unavailable or limited in certain foreign countries. The Corporation cannot provide any assurances that the steps it takes will prevent misappropriation of its technology or that its confidentiality or licence agreements will be enforceable. Finally, some or all of the underlying technologies of the Corporation's products and system components may not be covered by patents or patent applications.

In addition, to produce its projects, the Corporation also relies on third-party software, which is readily available to others. Failure of its patents, copyrights and trade-secret protection, non-disclosure agreements and other measures to provide protection of its technology and the availability of third-party software may make it easier for competitors to obtain technology equivalent or superior to the Corporation's technology or that makes its technology obsolete, which could weaken its competitive position.

<u>Risks related to protecting and defending against intellectual property claims</u>

Litigation may be necessary in the future to enforce the Corporation's intellectual property rights, protect its trade secrets, trademarks and other intellectual property rights, protect and enforce its patents, determine the validity and scope of the proprietary rights of others, or defend against claims of infringement or invalidity. The Corporation has received, and is likely to receive in the future, claims of infringement of other parties' proprietary rights. If any claims or actions are asserted against the Corporation, it may seek to obtain a licence under a third party's intellectual property rights. It cannot provide any assurances, however, that under such circumstances a licence would be available on reasonable terms or at all. Irrespective of the validity or the successful assertion of such claims, any such litigation could result in substantial costs and diversion of resources, could effectively prevent the Corporation from using important technology and could have a material adverse effect on its business, operating results or financial condition.

The Corporation reviews these matters to determine what, if any, actions may be required or should be taken, including legal action or negotiated settlement. There can be no assurance that the Corporation's actions to establish and protect trademarks, copyrights and other proprietary rights will be adequate to prevent imitation or unauthorized reproduction of the Corporation's products by others or prevent third parties from seeking to block sales, licensing or reproduction of these products as a violation of their trademarks, copyrights and proprietary rights. Moreover, there can be no assurance that others will not assert rights in, or ownership of, the Corporation's trademarks, copyrights and other proprietary rights, or that the Corporation will be able to successfully resolve these conflicts. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States or Canada.

<u>Risks related to the availability of licences for third-party technology</u>

In addition to its proprietary technology, the Corporation also relies on certain technology that it licenses from third parties, including software that it uses with its proprietary software. There is no assurance that these third-party technology licences will continue to be available to the Corporation on commercially reasonable terms or at all or that the technology licences will not result in intellectual property infringement claims by third parties. The loss of or inability to maintain any of these technology licences could result in delays in projects until equivalent technology is identified, licensed and integrated to complete a given project. Any such delays or failures in projects could materially adversely affect the Corporation's business, financial condition or results of operations.

<u>Risks related to the Corporation's ability to successfully upgrade, maintain and secure information systems to support the organization's needs</u>

The Corporation relies heavily on information systems to manage operations. The reliability and capacity of information systems is critical. Despite preventative efforts, these systems are vulnerable from time to time to damage or interruption from, among other things, security breaches, computer viruses, power outages and other technical malfunctions. Any disruptions affecting information systems, or any delays or difficulties in transitioning to or in integrating new systems, could have a material adverse impact on the Corporation's businesses. In addition, the Corporation's ability to continue to operate its businesses without significant interruption in the event of a disaster or other disruption depends in part on the ability of its information systems to operate in accordance with its disaster recovery and business continuity plans. The operation of existing systems could be disrupted due to unexpected issues with hiring and retention of qualified employees, the supply chain, installation of equipment or software and related training, among other things.

Cybersecurity risks

The ordinary course of the Corporation's business involves the receipt, collection, storage and transmission of sensitive data, including its proprietary business information and that of its customers, as well as personally identifiable information on its customers and employees, whether in its systems, infrastructure, networks, or processes, or those of its suppliers. The secure processing, maintenance and transmission of this information is critical to TVA Group's operations and strategy.

Although TVA Group has implemented and regularly reviews and updates processes and procedures to protect against unauthorized access to, or use of sensitive data, including data on its customers, and although, to prevent data loss, ever-evolving cyberthreats require TVA Group to continually evaluate and adapt its systems, infrastructure, networks and processes, TVA Group cannot assure that its systems, infrastructure, networks and processes, as well as those of its suppliers, will be adequate to safeguard against all information security access by third parties or errors by employees or by third-party suppliers. If the Corporation is subject to a significant cyberattack or breach, unauthorized access, errors of third-party suppliers or other security breaches, it may incur significant costs, be subject to investigations, sanctions and litigation, including under laws that protect the privacy of personal information, and it may suffer damage to its business, competitive position and reputation.

In addition, the preventive actions the Corporation takes to reduce the risks associated with cyberattacks, including protection of its systems, infrastructure, networks and processes, as well as efforts to improve the overall governance of information security and the controls within its IT systems, may be insufficient to repel or mitigate the effects of a major cyberattack in the future.

The costs associated with a major cyberattack could include significant incentives to existing customers and business partners to retain their business, increased expenses for cybersecurity measures and the use of alternative systems, as well as loss of revenues and customers resulting from business interruption and litigation. As part of our risk mitigation strategy, contractual risk transfer in our agreements with customers and suppliers is worded to limit our liability. In addition, we carry cyber liability insurance to cover the residual liability, in accordance with standard business practices. However, our contractual transfers do not completely eliminate the risk and the potential costs associated with these attacks could exceed the scope and limits of our insurance coverage.

Risks related to protection of personal data

TVA Group stores and processes increasingly large amounts of personally identifiable information on its clients, employees, and/or business partners. The Corporation faces risks inherent in protecting the security of such personal data. In particular, TVA Group faces a number of challenges in protecting the data in, and hosted on its systems, or those belonging to its suppliers, including from advertent or inadvertent actions or inactions by its employees, as well as in relation to compliance with applicable laws, rules and regulations relating to the collection, use, disclosure or security of personal information, including any requests from regulatory and government authorities relating to such data. Although TVA Group has developed systems, processes and security controls that are designed to protect the personally identifiable information on its clients, employees and business partners, TVA Group may be unable to prevent the improper disclosure, loss, misappropriation of, unauthorized access to, or other security breach relating to such data that TVA Group stores or processes or that its suppliers store or process. As a result, TVA Group may incur significant costs, be subject to investigations, sanctions and litigation, including under laws that protect the privacy of personal information, and TVA Group may suffer damage to its business, competitive position and reputation.

In 2020, the provincial government tabled a bill designed to provide greater protection for the personal information of Quebec consumers and regulate its use by private companies. Quebec's Bill 64 was adopted in September 2021. The Act to modernize legislative provisions as regards the protection of personal information stipulates that the vast majority of the legislative amendments will come into force in September 2023, while a few provisions will come into force in September 2022. The new Act imposes new obligations on the Corporation and provides greater power to the authorities in charge of its application. The Corporation could therefore incur significant costs to update its security systems, processes and controls in order to comply with the new provincial regulatory framework or any other regulatory framework that may be adopted in future, which could have a material adverse effect on its financial condition and results of operations.

Risks related to distributors and subscription revenues

The Corporation relies on broadcasting distribution undertakings ("BDUs") (including cable and direct-to-home satellite broadcasting services, as well as multichannel multipoint distribution systems) for the distribution of its specialty services. Operating revenues could be negatively affected if affiliation agreements with BDUs are not renewed according to terms and conditions similar to those in effect at this time. Affiliation agreements with BDUs extend over several years and come to term at different times. Due to industry concentration among BDUs in recent years and with the population of Canada clustered into a small number of large urban centres, a significant percentage of the subscriber base is reached through a small number of BDUs.

The subscription revenues of the specialty services depend on the number of subscribers and the rate billed to the BDUs for carriage of the service. Growth in the Corporation's subscriber base is uncertain and is dependent upon the ability and willingness of BDUs to deploy and expand their digital technologies, their marketing efforts and the packaging of their services' offerings, as well as upon the willingness of subscribers to adopt and pay for the specialty services. In addition, the broadcast signals of the Corporation's specialty services may sometimes be stolen, representing a risk of loss of subscription revenues.

Risks related to the impact on the Corporation's business of the loss of key management and other personnel, or inability to attract, retain and motivate management and other personnel

The Corporation depends on its management team and other key personnel to run its business. The loss of any of these individuals could adversely affect the Corporation's operations. Due to the specialized nature of its business, the Corporation believes that its future success will also depend, in a large part, upon its ability to continue to attract, retain and motivate highly skilled management, programming, creative, technical and marketing personnel. Retaining key employees and managers is particularly important because it enables the Corporation to remain competitive and avoid losing knowledge critical to its continued growth. Competition for highly skilled individuals is intense, particularly when there is a shortage of skilled labour, and there can be no assurance that the Corporation will be successful in attracting, retaining and motivating such individuals in the future.

Known and unknown environmental risks

The Corporation is subject to various federal, provincial and local environmental requirements which govern certain of its activities, operations or properties and which may impose substantial costs of investigation, removal and remediation. A breach of these acts and regulations ("Environmental Laws") may result in the imposition of fines and penalties. In addition, these Environmental Laws typically include responsibility and liability in certain circumstances without regard to whether the owner or operator knew of or caused the presence of certain contaminants or other environmental violations. Environmental Laws may require the owner or operator to undertake or pay for remedial action or to pay damages regardless of fault. Environmental Laws may also impose liability with respect to sold, transferred or terminated operations, even if the operations were terminated, sold or transferred many years ago. Compliance with Environmental Laws may involve substantial costs and significant obligations for the Corporation. Future Environmental Laws may entail stricter standards, more aggressive enforcement, higher fines, and higher costs for compliance, corrective measures and remediation. All these factors may have a material adverse effect on the Corporation's financial condition and results of operations.

Evolving public expectations with respect to the environment and the adoption of increasingly stringent laws and regulations could entail additional compliance costs. Failure to comply could result in penalties or greater regulatory control and have a material effect on the Corporation's reputation and brands.

The Corporation owns certain soundstages and vacant lots, some of which are located on a former landfill, with the presence of gas emitting waste. As a result, the operation and ownership of these soundstages and vacant lots carries an inherent risk of environmental and health and safety liabilities for personal injuries, property damage, release of hazardous materials, remediation and clean up costs, and other environmental damages (including potential civil actions, compliance or remediation orders, fines and other penalties), and may result in being involved from time to time in administrative and judicial proceedings relating to such matters, which could have a material adverse effect on its business, financial condition and results of operations. The Corporation may be liable for environmental damage caused by previous owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, and the payment of such liabilities could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Furthermore, there can be no assurance that various permits which the Corporation may require in the normal course of its current and anticipated future operations or in relation to certain development and construction projects, or in relation to gas emitting waste disposal, will be obtainable on reasonable terms or on a timely basis or that the applicable environmental and health and safety laws and regulations would not have a material adverse effect on operations or on development and construction projects which the Corporation might undertake. In addition, the release of harmful substances in the environment or other environmental damage caused by the Corporation's properties or activities may result in the suspension or revocation of operating and environmental permits.

Risks related to litigation and other claims

The Corporation is involved in various legal proceedings, including class actions, and other claims in the normal course of business. As a distributor of media content, it may also face potential liability for defamation, invasion of privacy, negligence, and other claims based on the nature and content of the materials distributed. These types of claims have been brought, sometimes successfully, against producers and distributors of media content. A negative outcome in respect of any such claim or litigation could have an adverse effect on the Corporation's results, liquidity or financial position. Moreover, irrespective of the validity or the successful assertion of such claims or lawsuits, the Corporation could incur significant costs and diversion of resources and of management's attention in defending against them, which could have a material adverse effect on its business, financial condition, operating results, liquidity and prospects.

Financing risks

The Corporation currently has adequate financing to pursue its current activities and has access to a credit facility. However, risk factors such as capital market upheavals, particularly in the context of public health emergencies, could reduce the amount of capital available or increase the cost of this capital in future years. There is no guarantee that additional funds will be made available to the Corporation or, if they are, that they will be provided within a time frame and under conditions that are acceptable to the Corporation. Not being able to obtain this additional financing at the required time and as necessary could have a significant negative effect on the Corporation. Finally, there is no guarantee that, when this facility is refinanced, market conditions will be favourable or that terms comparable to those the Corporation now enjoys will be available.

Risks related to labour relations and health of the Corporation's employees

As at December 31, 2021, approximately 44% of permanent employees were unionized. Labour relations with employees are governed by seven collective agreements, of which three, representing 72% of the Corporation's permanent unionized employees, had expired as at December 31, 2021.

On October 31, 2018, the Corporation and the union representing Montreal employees, which covered about 71% of the Corporation's permanent unionized employees at the time, signed a new five-year collective agreement, which expired on December 31, 2021.

The Corporation has in the past experienced labour disputes which have disrupted its operations and impaired its growth and operating results. The Corporation cannot predict the outcome of current or future negotiations with respect to labour disputes, union representation, or the renewal of collective agreements. Nor can the Corporation assure that it will not experience work stoppages, strikes, property damage or other forms of labour protests pending the outcome of any current or future negotiations. If the Corporation's unionized workers engage in a strike or if there is any other form of work stoppage, the Corporation could experience a significant disruption in its operations, damage to its properties or service interruption, which could adversely affect its business, assets, financial position, and results of operations. Even if the Corporation does not experience strikes or other forms of labour protests, the outcome of labour negotiations could adversely affect its business, including if current or future labour negotiations or contracts were to further restrict the Corporation's ability to maximize the efficiency of its operations. In addition, the Corporation's ability to make short-term adjustments to control compensation and benefit costs is limited by the terms of its collective bargaining agreements.

In addition, many individuals associated with the film and television industry are members of guilds or unions that bargain collectively with producers on an industry-wide basis from time to time. A strike or other form of labour protest affecting those guilds or unions could affect the level of production activity in the Corporation and the industry, and restrict the ability of the Corporation to service its customers, which in turn would adversely affect the Corporation's results of operations and financial condition.

Furthermore, epidemics, pandemics and other risks to employee health, including COVID-19, could have an adverse effect on the Corporation's results of operations, financial condition and reputation.

The pandemic also led the Corporation to adopt a telework policy establishing guidelines for employees who work away from their usual workplaces. Telework by employees and some of the Corporation's suppliers and partners could create new operational risks, including but not limited to risks related to information security. This could also lead to an increase in lawsuits and claims related to the Corporation's continued performance of activities away from the usual working environments.

Risks related to pension plan obligations

Economic cycles, labour force demographics and regulatory changes could also have a negative impact on the funding of the Corporation's defined benefit pension plans and the related expenditures. There is no guarantee that the expenditures and contributions required to fund these pension plans will not increase in the future and therefore negatively impact the Corporation's operating results and financial position. Risks related to the funding of defined benefit plans may materialize if total obligations with respect to a pension plan exceed the total value of its trust fund's assets. Shortfalls may arise due to lower-than-expected returns on investments, changes in the assumptions used to assess pension plan obligations, and actuarial losses.

Reputation risks

Generally speaking, the Corporation has always enjoyed a strong reputation in the general public. Its ability to maintain good relations with its current customers and attract new customers depends to a large extent on its reputation. Although it has developed certain mechanisms to mitigate the risk of damage to its reputation, including strong governance practices and a code of ethics, there is no guarantee that it will continue to effectively prevent actual or perceived breaches of the law or ethical business practices. A loss of or damage to its reputation could have a material adverse effect on the Corporation's business, prospects, financial condition and operating results.

Risks related to an increase in paper, printing and postage costs

A significant proportion of the Magazines segment's operating expenses is comprised of paper, printing and postage costs. The segment is dependent on external suppliers for its entire paper supply and has no control over paper prices, which may vary considerably. The Magazines segment uses third parties for all of its printing services, and printing costs accounted for approximately 26% of operating expenses for the fiscal year ended December 31, 2021. Further, distribution of its publications to subscribers is handled in part by Canada Post Corporation. Any interruption in distribution services could negatively affect the Magazines segment's operating results and its financial position, and a significant increase in paper or postage costs could be detrimental to the segment's activities and operating results.

Risks related to non-amortizable intangible assets and goodwill

As noted under "Critical Accounting Policies and Estimates - Asset Impairment" below, the Corporation's non-amortizable intangible assets and goodwill are not amortized but tested for impairment annually, or more frequently if events or changes in conditions indicate that it is more likely than not that the asset has been impaired. The fair value of the non-amortizable intangible assets and of goodwill is and will continue to be influenced by assumptions based on the general economic situation, which are used to support the calculation of future discounted cash flows performed by the Corporation in order to determine the fair value of its non-amortizable intangible assets and of goodwill. There is no guarantee that the value of the non-amortizable intangible assets and of goodwill will not be negatively affected by changes to these assumptions in the event of an economic slowdown. The Corporation is constantly monitoring the value of its non-amortizable intangible assets and goodwill, and any change in their fair value would be recognized as a non-cash impairment charge (or reversal of the charge) in the consolidated statements of income.

Risks related to QMI's ability to exert a significant degree of control over the Corporation as the holder of a majority of the Class A Shares

QMI, which owned 99.97% of all the issued and outstanding Class A Shares as of the date of this Management's Discussion and Analysis, can exercise its voting power to elect all of the members of the Board of Directors. QMI can also exercise its majority voting power to unilaterally pass any resolution submitted to a vote of the Corporation's shareholders, including in respect of the approval of certain significant corporate transactions, except for resolutions for which holders of Class B Non-Voting Shares are entitled to vote as provided by or in respect of which QMI is an interested party and for which disinterested shareholder approval is required. Such concentration of ownership may have the effect of delaying, deterring or preventing a change in control of the Corporation that might otherwise be beneficial to its shareholders, discouraging bids for the Class B Non-Voting Shares or limit the amount certain investors may be willing to pay for the Class B Non-Voting Shares.

Risks related to acquisitions, sale of assets, business combinations, or joint ventures

From time to time, the Corporation engages in discussions and activities with respect to possible acquisitions, sales of assets, business combinations, or joint ventures intended to complement or expand its business, some of which may be significant transactions and involve significant risks and uncertainties. The Corporation may not realize the anticipated benefit from any of the transactions it pursues, and may have difficulty incorporating or integrating any acquired business. Regardless of whether it consummates any such transaction, the negotiation of a potential transaction (including associated litigation), as well as the integration of any acquired business, could entail significant costs and cause diversion of management's time and resources and disrupt business operations. Moreover, some acquisitions entail post-closing price adjustments that could result in higher-than-anticipated payments. The Corporation could face several challenges in the consolidation and integration of information technology, accounting systems, personnel and operations.

If the Corporation determines to sell individual properties or other assets or businesses, it will benefit from the net proceeds realized from such sales. However, revenues may be affected in the long term due to the disposition of a revenue-generating asset, the timing of such dispositions may be poor, causing the Corporation to fail to realize the full value of the disposed asset, or the terms and conditions of dispositions could be overly restrictive or entail unfavourable post-closing price adjustments if certain conditions are not met, all of which may diminish its ability to repay its indebtedness at maturity.

Risks related to significant capital expenditures

There can be no assurance that the Corporation will be able to generate or otherwise obtain funds to implement its business strategies and finance its significant capital expenditures or other investment requirements, whether through cash from operating activities, additional borrowings or other sources of funding.

If the Corporation is unable to generate sufficient funds or obtain additional financing on acceptable terms, it may be unable to implement its business strategies or proceed with the capital expenditures and investments required for its activities or projects, and its financial condition, results of operations, liquidity and prospects could be materially adversely affected.

Moreover, in 2021 the Corporation initiated a major infrastructure project, with the construction of the MELS 4 studio (the "MELS 4 project"). The new, 160,000 square foot building will require substantial capital as well as allocation of human resources from the Corporation, which could entail significant costs and cause diversion of management's time and resources towards priorities other than normal day-to-day management, as well as disrupt business operations. In addition, poor human, material and financial resource management could entail significant costs and may not meet the Corporation's goals, which could have a material adverse effect on its financial condition and results of operations.

The Corporation uses third parties for building construction and project management. Any omission or failure on the part of the service providers could result in losses, fines or lawsuits, as well as damage to the Corporation's reputation, which could have a material adverse effect on its financial condition and results of operations.

Delays and cost overruns may arise during the MELS 4 project construction, notably due to delays in obtaining permits, withdrawal of a key supplier, increase in building costs, modification of engineering concepts, labour conflicts, bad weather and availability of financing. Even once completed, the MELS 4 project may not generate the anticipated benefits or design and manufacturing flaws may occur. Any of these situations could have a material adverse effect on the Corporation's financial condition and results of operations.

Moreover, additional investments in the MELS 4 project may not translate into the anticipated incremental revenues, cash flows or profitability, which could materially adversely affect the Corporation's financial condition and results of operations.

Each of these factors could have a material adverse effect on the Corporation's business, financial condition, results of operations, liquidity and prospects.

Financial instruments and financial risks

The Corporation's risk management policies have been established in order to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and in the Corporation's activities.

As the Corporation and its subsidiaries use financial instruments, they are exposed to credit risk, liquidity risk and market risk related to foreign exchange and interest rate fluctuations.

<u>Fair value of financial instruments</u>

In accordance with IFRS 13, *Fair Value Measurement*, the Corporation has considered the following fair value hierarchy. This hierarchy reflects the significance of the inputs used in measuring the financial instruments accounted for at fair value on the consolidated balance sheet:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: Inputs that are not based on observable market data (unobservable inputs).

The fair value of short-term debt is estimated based on a valuation model using Level 2 inputs. The fair value is based on discounted cash flows using year-end market yields or the market value of similar instruments with the same maturity.

The fair value of short-term debt corresponds to its carrying amount as at December 31, 2021 and 2020.

Credit risk management

Credit risk is the risk of the Corporation incurring a financial loss on bad debts should a client or another party to the contract fail to meet its contractual obligations and arises mainly from amounts receivable from clients.

The carrying amounts of financial assets represent the Corporation's maximum credit exposure. As at December 31, 2021, the gross carrying amount of trade receivables, excluding companies under common control and associates, was $86,614,000 ($71,649,000 as at December 31, 2020).

In the normal course of business, the Corporation regularly evaluates the financial position of its clients and reviews the credit history of each new client. The Corporation uses its clients' historical terms of payment and acceptable collection periods for each client class, as well as changes in its clients' credit profiles, to define default to collect amounts receivable from clients. As at December 31, 2021 and 2020, no clients had balances representing a significant portion of the Corporation's consolidated trade receivables. The Corporation uses the expected credit losses method to estimate the allowance. It is based on the specific credit risk of its customers, the expected life of the financial assets, historical trends and economic conditions. The Corporation has trade accounts receivable from numerous clients, primarily advertising agencies. As a result, the Corporation does not believe that it is exposed to an unusual or significant level of credit risk. As at December 31, 2021, 8.8% of trade receivables, excluding companies under common control and associates, had been outstanding for more than 120 days after the billing date (7.3% as at December 31, 2020), of which 22.4% were covered by an allowance for doubtful accounts (43.0% as at December 31, 2020).

The table below shows the variance in the allowance for expected credit losses for the years ended December 31, 2021 and 2020:

Table 11
Changes in allowance for expected credit losses
(in thousands of dollars)

	December 31, 2021	December 31, 2020
Balance as at beginning of year	**$ 1,977**	$ 1,766
Changes in expected credit losses	**(371)**	342
Write-off	**(87)**	(131)
Balance as at end of year	**$ 1,519**	$ 1,977

Liquidity risk management

Liquidity risk is the risk that the Corporation and its subsidiaries will be unable to meet financial obligations as they fall due or will be required to meet them at excessive cost. The Corporation and its subsidiaries ensure that they have sufficient cash flows from continuing operations and available sources of financing to meet future cash requirements for long-term investments, working capital, interest payments, income tax payments and debt servicing, pension plan contributions, dividends, share redemptions, commitments and guarantees.

Market risk

Market risk is the risk that changes in market prices due to fluctuations in foreign exchange rates and interest rates could affect the Corporation's revenues or the value of its financial instruments. The objective of market risk management is to mitigate and control exposures within acceptable parameters while optimizing the return on risk.

Foreign exchange risk

The Corporation is exposed to limited foreign exchange risk on revenues and expenses due to the low volume of transactions made in currencies other than the Canadian dollar. The most frequently used foreign currency is the U.S. dollar, which is primarily used to make capital expenditures and collect income from certain clients. In light of the insubstantial volume of foreign currency transactions, the Corporation has determined foreign exchange hedging to be unwarranted. Accordingly, the Corporation has limited sensitivity to changes in foreign exchange rates.

Interest rate risk

The Corporation is exposed to interest rate risk associated with its secured revolving credit facility. As at December 31, 2021, the Corporation's short-term debt consisted entirely of floating-rate debt.

The Corporation regularly reviews its position to ensure that its exposure to these risks has not changed.

Capital management

The Corporation's primary objectives in managing capital are to:

- Safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders;
- Maintain an optimal capital base in order to meet the capital requirements of its various operating segments, including growth opportunities and maintaining investor and creditor confidence.

The Corporation manages its capital structure in accordance with the characteristics of the risks associated with its segments' underlying assets and applicable requirements, if any. The Corporation manages its capital structure by issuing new debt or repaying existing debt with cash flows provided by operating activities, distributing amounts to shareholders through dividends or share redemptions or issuing capital stock in the marketplace and making adjustments to its capital expenditure program. The Corporation's strategy remains unchanged from last year.

The Corporation's capital structure consists of shareholders' equity, short-term debt, lease liabilities and a bank overdraft, less cash.

The capital structure as at December 31, 2021 and 2020 was as follows:

Table 12
TVA Group capital structure
(in thousands of dollars)

	December 31, 2021	December 31, 2020
Bank overdraft	**$ –**	$ 1,699
Short-term debt	**11,989**	27,126
Lease liabilities	**10,360**	12,149
Less: cash	**(5,181)**	(2,838)
Net liabilities	**17,168**	38,136
Equity	**$ 379,254**	$ 311,399

Excluding maintenance of certain financial ratios under its credit agreement, the Corporation is not subject to any other externally imposed capital requirements. As at December 31, 2021, the Corporation was in compliance with the terms of its credit agreement.

Contingencies and legal disputes

In the normal course of business, the Corporation is involved in various lawsuits and claims. The Corporation believes that the outcome of such lawsuits and claims (which are, in some cases, covered by insurance policies, subject to applicable deductibles) should not have a material adverse effect on its business, financial condition or results of operations.

Lawsuits were brought by and against the Corporation, and against Quebecor and some of its subsidiaries, in connection with business disputes with a cable operator. At this stage in the proceedings, the management of the Corporation does not expect their outcome to have a material adverse effect on the Corporation's results or on its financial position.

Critical Accounting Policies and Estimates

Revenue recognition

The Corporation recognizes operating revenues from a contract with a customer only when all of the following criteria are met:

- 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 Corporation can identify each party's rights regarding the goods or services to be transferred;
- The Corporation 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 Corporation's future cash flows is expected to change as a result of the contract); and
- It is highly probable that the Corporation will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

<u>Advertising revenues</u>

Revenues from the sale of advertising airtime and space on the Corporation's websites and mobile apps are recognized when the advertisement airs or is displayed online. Revenues from the sale of advertising space in magazines are recognized when the advertisement is published, i.e. at the magazine release date.

<u>Subscription revenues</u>

Revenues from specialty television channel subscriptions are recognized on a monthly basis when the service is rendered.

Amounts received for magazine subscriptions are accounted for as deferred revenues and are amortized over the subscription term at publication.

<u>Revenues from soundstage, mobile and equipment rental</u>

Revenues from soundstage, mobile and equipment rental are recognized on a linear basis over the term of the lease.

<u>Revenues from postproduction and visual effects</u>

Revenues from postproduction and visual effects are recognized when the service is rendered.

Revenues from newsstand magazine sales

Revenues from newsstand magazine sales are recognized when the magazines are delivered to newsstands and are calculated using an amount of revenue less an allowance for future returns.

Revenues from production and distribution

Revenues from production and distribution are recognized when the production is completed, delivered and accepted by the customer in accordance with the terms of the license or the distribution agreement, and when the customer can begin to exploit and broadcast the content. Revenues from production services are recognized when the service is rendered.

Audiovisual content

For the recognition of television rights, management uses assumptions to estimate future revenues for the purpose of determining net realizable value and the manner in which future economic benefits from the rights will be generated. These assumptions take into account, among other factors, viewership and subscriber statistics, the advertising market, the broadcast strategy and the type of content. The estimates can materially affect the audiovisual content costs recognized in the statement of income and the carrying amount of audiovisual content recognized on the balance sheet.

Impairment of assets

For the purposes of assessing impairment, assets are grouped in CGUs, which are the smallest groups of assets that generate separately identifiable cash inflows. The Corporation reviews at each balance sheet date whether events or circumstances have occurred to indicate that the carrying amounts of long-lived assets with finite useful lives may be less than their recoverable amounts. Goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use are tested for impairment each fiscal year, as well as whenever there is an indication that the carrying amount of the asset, or the CGU to which an asset has been allocated, exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the value in use of the asset or the CGU. Fair value less costs of disposal is the amount obtainable by an entity at the valuation date from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU.

The Corporation uses the discounted cash flow method to estimate value in use, consisting of future cash flows derived primarily from the most recent budget and the three-year strategic plan approved by the Corporation's management. These forecasts consider each CGU's past operating performance and market share as well as economic trends, along with specific market and industry trends and corporate strategies. The perpetual growth rate is used for cash flows beyond the three-year period in the strategic plan. The discount rate used by the Corporation is a pre-tax rate derived from the weighted average cost of capital pertaining to each CGU, which reflects the current market assessment of (i) the time value of money, and (ii) the risk specific to the assets for which the future cash flow estimates have not been risk-adjusted. The perpetual growth rate was determined with regard to the specific markets of each CGU. In some cases, the Corporation can also estimate the fair value less cost of disposal with a market approach based on multiples of operating performance of comparable entities, transaction metrics and other available market information, instead of using primarily the discounted cash flow method.

An impairment loss is recognized in the amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount. When the recoverable amount of a CGU to which goodwill has been allocated is lower than the CGU's carrying amount, the related goodwill is impaired first. Any excess amount of impairment is recognized and allocated to the assets in the CGU, prorated to the carrying amount of each asset in the CGU.

An impairment loss recognized in prior periods for long-lived assets with finite useful lives and intangible assets with indefinite useful lives, other than goodwill, can be reversed through the consolidated statement of income when the carrying amount does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods.

When determining the value less costs of disposal, the appraisal of the information available at the valuation date, such as the operational performance multiples of comparable entities, is based on management's judgment, and may involve estimates and assumptions. As well, the discounted expected future cash flows method involves the use of estimates, such as the amount and timing of a series of expected future cash flows, expected variations in the amount or timing of the cash flows, the time value of money as represented by the risk-free interest rate and the risk premium associated with the asset or CGU.

Therefore, the judgment used in determining the recoverable amount of an asset or a CGU may affect the amount of the impairment loss of the asset or CGU to be recorded, as well as the potential reversal of the impairment charge in the future.

Based on the data and assumptions used in its most recent impairment tests, the Corporation believes that there are no long-lived assets with finite useful lives, or goodwill and intangible assets with indefinite useful lives, on its books at this time that could suffer significant impairment.

Pension plans and post-retirement benefits

The Corporation offers employees defined-contribution pension plans and defined benefit pension plans.

Defined benefit pension plan costs and obligations are estimated on the basis of a number of assumptions, including the discount rate, future salary levels, the retirement age of employees, health care costs, and other actuarial factors. Some of these assumptions could materially affect the employee costs and financial expenses recognized in the consolidated statement of income, the gain or loss on remeasurement of defined benefit plans recognized in the consolidated statement of comprehensive income and the carrying amount of defined benefit assets and other liabilities recognized in the consolidated balance sheet. Pension plan assets, based on fair value, consist of equities as well as corporate and government fixed-income securities.

Remeasurements of the net defined benefit asset or liability are recognized immediately in other comprehensive income and recorded in accumulated other comprehensive income. Remeasurements include the following items:

i) Actuarial gains and losses arising from changes in the financial and demographic actuarial assumptions used to determine defined benefit obligations or resulting from experience adjustments on liabilities;

ii) The difference between the actual rate of return on plan assets and the expected interest revenues on plan assets considered in the calculation of interest on net defined benefit assets or liabilities;

iii) Changes in the net defined benefit asset limit or the minimum funding liability.

Recognition of a net benefit asset is limited under certain circumstances to the amount recoverable, which is primarily based on the extent to which the Corporation can unilaterally reduce future contributions to the plan. In addition, an adjustment to the net defined benefit asset or liability can be recorded to reflect a minimum funding liability in some of the Corporation's pension plans.

The Corporation considers the assumptions used to be reasonable in view of the information available at this time. However, variances from these assumptions could have a material impact on the costs and obligations of pension plans and post-retirement benefits in future periods.

Stock-based compensation

Stock-based awards to officers or directors that call for settlement in cash, such as Deferred Stock Units, or that call for settlement in cash or other assets at the holder's option, such as stock option awards, are accounted for at fair value and classified as a liability. The compensation cost is recognized in expenses over the vesting period. Changes in the fair value of stock-based awards between the grant date and the measurement date result in a change in the liability and compensation expense.

The fair value of the Deferred Stock Units is based on the underlying share price as of the measurement date. Estimates of the fair value of stock options are determined by applying an option-pricing model, taking into account the terms and conditions of the grant and assumptions such as the risk-free rate, distribution yield, expected volatility and the expected remaining life of the option.

Provisions

Provisions are recognized when (a) the Corporation has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and when (b) the amount of the obligation can be reliably estimated. Restructuring costs, including termination benefits, are recognized when a detailed plan for the restructuring exists and a valid expectation has been raised in those affected that the plan will be carried out.

Provisions are reviewed at each balance sheet date and changes in estimates are reflected in the consolidated statement of income in the reporting periods in which the remeasurements occurred.

The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the balance sheet date or to transfer it to third parties at that time, and it is adjusted for the effect of time value when material. The amount recognized for an onerous contract is the lower of the cost of fulfilling the obligation, less the financial benefits receivable under the contract, and any compensation or penalties arising from non-performance.

No amounts are recognized for obligations that are possible but not probable, or those for which an amount cannot be reasonably estimated.

Business acquisitions

Business acquisitions are accounted for by the acquisition method. The cost of an acquisition is measured at the acquisition-date fair value of the consideration given in exchange for control of the acquiree. This consideration may comprise cash payments, asset transfers, financial instrument issues or future contingent payments. The identifiable assets acquired and liabilities assumed from the acquiree are recognized at acquisition-date fair value. Goodwill is measured and recognized as the excess of the fair value of the consideration paid over the fair value of the recognized identifiable assets acquired and liabilities assumed.

Determining the fair value of certain acquired assets, assumed liabilities and future contingent payments requires judgment and involves complete and absolute reliance on estimates and assumptions. The Corporation primarily uses the discounted future cash flows method to estimate the value of acquired intangible assets.

The estimates and assumptions used in the allocation of the purchase price at the date of acquisition may also have an impact on the amount of an impairment charge to be recognized, if any, after the date of acquisition, as discussed above under “Impairment of assets.”

Income tax

Deferred taxes are accounted for using the liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred tax assets and liabilities are valued at the enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in enacted or substantively enacted tax rates on deferred tax assets and liabilities is recognized in income in the period during which the substantive enactment date falls. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to the amount that is more probable than not to be realized.

The assessment of deferred income taxes is judgmental in nature and is dependent on assumptions and estimates as to the availability and character of future taxable income. The ultimate amount of deferred income tax assets realized could be slightly different from that recorded, since it is influenced by the Corporation's future operating results.

The Corporation is at all times under audit by various tax authorities in each of the jurisdictions in which it operates. A number of years may elapse before a particular matter for which management has established a reserve is audited and resolved. The number of years between each tax audit varies depending on the tax jurisdiction. Management believes that its estimates are reasonable and reflect the probable outcome of known tax contingencies, although the final outcome is difficult to predict.

Disclosure controls and procedures

In accordance with Multilateral Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, an evaluation was conducted of the effectiveness of the Corporation's disclosure controls and procedures (DC&P) and its internal control over financial reporting (ICFR).

Based on this evaluation, the President and Chief Executive Officer and the Vice-President, Finance have concluded that DC&P and ICFR were effective as at year-end December 31, 2021, and that the DC&P design provides reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared, and the information that the Corporation must present in its annual documents, its interim documents or in other documents it files or submits under securities regulations is recorded, processed, condensed and presented within the time frames prescribed by this legislation. Further, the ICFR design provides reasonable assurance that the Corporation's financial information is reliable and that its financial statements have been prepared, for the purpose of publishing financial information, in accordance with IFRS.

Lastly, no changes to the ICFR that have had or could reasonably be expected to have a material effect were made during the accounting period beginning October 1, 2021 and ended December 31, 2021.

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 the risks related to public health emergencies, including COVID-19, as well as any urgent steps taken 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 "Risks and Uncertainties" section of this Management's Discussion and Analysis and other public filings available at www.sedar.com and www.groupetva.ca.

The forward-looking statements in this Management's Discussion and Analysis reflect the Corporation's expectations as of February 17, 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

February 17, 2022

Table 13
SELECTED FINANCIAL DATA
Years ended December 31, 2021, 2020 and 2019
(in thousands of dollars, except for per-share data)

	2021	2020	2019
Operations			
Operating revenues	**$ 622,834**	$ 508,144	$ 569,910
Adjusted EBITDA	**$ 80,283**	$ 85,306	$ 72,440
Net income attributable to shareholders	**$ 30,504**	$ 32,317	$ 16,452
Basic and diluted per-share data			
Basic earnings per share	**$ 0.71**	$ 0.75	$ 0.38
Diluted earnings per share	**0.70**	0.75	0.38
Weighted average number of outstanding shares (in thousands)	**43,206**	43,206	43,206
Weighted average number of diluted shares (in thousands)	**43,327**	43,206	43,206
Total assets	**$ 661,091**	$ 589,191	$ 575,146
Non-current liabilities	**$ 22,029**	$ 53,945	$ 32,492

Table 14
SELECTED QUARTERLY FINANCIAL DATA
(in thousands of dollars, except for per-share data)

				2021
	December 31	**September 30**	**June 30**	**March 31**
Operations				
Operating revenues	**$ 171,901**	**$ 150,703**	**$ 159,422**	**$ 140,808**
Adjusted EBITDA	**$ 28,678**	**$ 35,504**	**$ 13,965**	**$ 2,136**
Net income (loss) attributable to shareholders	**$ 12,095**	**$ 19,010**	**$ 3,850**	**$ (4,451)**
Basic and diluted per-share data				
Basic and diluted earnings (loss) per share	**$ 0.28**	**$ 0.44**	**$ 0.09**	**$ (0.10)**
Weighted average number of outstanding shares (in thousands)	**43,206**	**43,206**	**43,206**	**43,206**
Weighted average number of diluted shares (in thousands)	**43,339**	**43,466**	**43,430**	**43,206**

				2020
	December 31	September 30	June 30	March 31
Operations				
Operating revenues	$ 147,618	$ 119,537	$ 103,855	$ 137,134
Adjusted EBITDA	$ 46,070	$ 23,363	$ 7,366	$ 8,507
Net income (loss) attributable to shareholders	$ 27,380	$ 8,404	$ (2,744)	$ (723)
Basic and diluted per-share data				
Basic and diluted earnings (loss) per share	$ 0.63	$ 0.19	$ (0.06)	$ (0.02)
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, 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.