Consolidated Financial Statements of

# TVA GROUP INC.

Years ended December 31, 2015 and 2014

# Independent auditors' report

To the Shareholders of
**TVA Group Inc.**

We have audited the accompanying consolidated financial statements of **TVA Group Inc.**, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of loss, comprehensive loss, equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TVA Group Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
February 26, 2016

[1] CPA auditor, CA, public accountancy permit no. A121006

# TVA GROUP INC.

**CONSOLIDATED FINANCIAL STATEMENTS**

Years ended December 31, 2015 and 2014

**Consolidated financial statements**


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# TVA GROUP INC.

**CONSOLIDATED STATEMENTS OF (LOSS) INCOME**

Years ended December 31, 2015 and 2014
(in thousands of Canadian dollars, except per share amounts)

| | Note | | **2015** | | 2014 |
|---|---|---|---|---|---|
| **Revenues** | 2 and 24 | **$** | **589,890** | $ | 439,340 |
| Purchases of goods and services | 3 and 26 | | **383,156** | | 283,571 |
| Employee costs | | | **159,344** | | 126,343 |
| Depreciation of property, plant and equipment and amortization of intangible assets | 14 and 15 | | **33,515** | | 22,104 |
| Financial expenses | 5 | | **4,104** | | 4,231 |
| Operational restructuring costs, impairment of assets and others | 6 | | **6,315** | | 3,594 |
| Impairment of a licence and of goodwill | 7 | | **60,107** | | 41,000 |
| **Loss before tax recovery and share of loss of associated corporations** | | | **(56,651)** | | (41,503) |
| Tax recovery | 9 | | **(7,818)** | | (8,753) |
| Share of loss of associated corporations | 13 | | **6,134** | | 8,338 |
| **Net loss** | | **$** | **(54,967)** | $ | (41,088) |
| **Net (loss) income attributable to:** | | | | | |
| Shareholders | | **$** | **(55,226)** | $ | (41,088) |
| Non-controlling interest | | | **259** | | – |
| **Basic and diluted loss per share attributable to shareholders** | 21 | **$** | **(1.42)** | $ | (1.73) |

See accompanying notes to consolidated financial statements.

# TVA GROUP INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Years ended December 31, 2015 and 2014
(in thousands of Canadian dollars)

| | Note | | 2015 | | 2014 |
|---|---|---|---|---|---|
| **Net loss** | | **$** | **(54,967)** | $ | (41,088) |
| Other comprehensive items that may be reclassified to income: | | | | | |
| Cash flow hedge: | | | | | |
| Loss on valuation of derivative financial instruments | 28 | | **(462)** | | – |
| Deferred income taxes | 9 | | **124** | | – |
| Other comprehensive items that will not be reclassified to income: | | | | | |
| Defined benefit plans: | | | | | |
| Re-measurement loss | 25 | | **(3,446)** | | (11,993) |
| Deferred income taxes | 9 | | **928** | | 3,227 |
| | | | **(2,856)** | | (8,766) |
| **Comprehensive loss** | | **$** | **(57,823)** | $ | (49,854) |
| **Comprehensive (loss) income attributable to:** | | | | | |
| Shareholders | | **$** | **(58,082)** | $ | (49,854) |
| Non-controlling interest | | | **259** | | – |

See accompanying notes to consolidated financial statements.

# TVA GROUP INC.

**CONSOLIDATED STATEMENTS OF EQUITY**

Years ended December 31, 2015 and 2014
(in thousands of Canadian dollars)

| | Equity attributable to shareholders | | | | Equity attributable to non-controlling interest | Total equity |
|---|---|---|---|---|---|---|
| | **Capital stock (note 21)** | **Contributed surplus** | **Retained earnings** | **Accumulated other comprehensive (loss) income (note 23)** | | |
| **Balance as at December 31, 2013** | $ 98,647 | $ 581 | $ 203,683 | $ 5,148 | $ – | $ 308,059 |
| Net loss | – | – | (41,088) | – | – | (41,088) |
| Other comprehensive loss | – | – | – | (8,766) | – | (8,766) |
| **Balance as at December 31, 2014** | 98,647 | 581 | 162,595 | (3,618) | – | 258,205 |
| Business acquisitions (note 8) | – | – | – | – | 417 | 417 |
| Net (loss) income | – | – | (55,226) | – | 259 | (54,967) |
| Issuance of share capital, net of transaction costs | 108,633 | – | – | – | – | 108,633 |
| Other comprehensive loss | – | – | – | (2,856) | – | (2,856) |
| **Balance as at December 31, 2015** | **$ 207,280** | **$ 581** | **$ 107,369** | **$ (6,474)** | **$ 676** | **$ 309,432** |

See accompanying notes to consolidated financial statements.

# TVA GROUP INC.

**CONSOLIDATED BALANCE SHEETS**

As at December 31, 2015 and 2014
(in thousands of Canadian dollars)

| | Note | | **2015** | | 2014 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash | | **$** | **11,996** | $ | – |
| Accounts receivable | 11 | | **150,930** | | 136,811 |
| Income taxes | | | **6,787** | | 5,256 |
| Programs, broadcast rights and inventories | 12 | | **79,495** | | 74,765 |
| Prepaid expenses | | | **4,064** | | 3,734 |
| | | | **253,272** | | 220,566 |
| **Non-current assets** | | | | | |
| Broadcast rights | 12 | | **36,321** | | 31,989 |
| Investments | 6, 13 and 26 | | **12,594** | | 12,111 |
| Property, plant and equipment | 14 | | **208,103** | | 201,429 |
| Licences and other intangible assets | 7 and 15 | | **39,770** | | 83,647 |
| Goodwill | 7 and 16 | | **77,985** | | 48,266 |
| Defined benefit plan asset | 25 | | **–** | | 2,964 |
| Deferred income taxes | 9 | | **7,069** | | 1,060 |
| | | | **381,842** | | 381,466 |
| **Total assets** | | **$** | **635,114** | $ | 602,032 |

# TVA GROUP INC.

**CONSOLIDATED BALANCE SHEETS (CONTINUED)**

As at December 31, 2015 and 2014
(in thousands of Canadian dollars)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Bank overdraft | | **$ –** | $ 4,486 |
| Accounts payable and accrued liabilities | 17 | **112,914** | 88,746 |
| Income taxes | | **1,769** | 777 |
| Broadcast rights payable | | **88,867** | 45,660 |
| Provisions | 18 | **7,107** | 4,331 |
| Deferred revenues | 24 | **28,148** | 8,690 |
| Credit facility from parent corporation | 26 | **–** | 100,000 |
| Short-term debt | 19 | **4,219** | 938 |
| | | **243,024** | 253,628 |
| **Non-current liabilities** | | | |
| Long-term debt | 19 | **68,812** | 72,757 |
| Other liabilities | 20 | **10,974** | 9,967 |
| Deferred income taxes | 9 | **2,872** | 7,475 |
| | | **82,658** | 90,199 |
| **Equity** | | | |
| Capital stock | 21 | **207,280** | 98,647 |
| Contributed surplus | | **581** | 581 |
| Retained earnings | | **107,369** | 162,595 |
| Accumulated other comprehensive loss | 23 | **(6,474)** | (3,618) |
| Equity attributable to shareholders | | **308,756** | 258,205 |
| Non-controlling interest | | **676** | – |
| | | **309,432** | 258,205 |
| Commitments, guarantees and contingencies | 18 and 27 | | |
| **Total liabilities and equity** | | **$ 635,114** | $ 602,032 |

See accompanying notes to consolidated financial statements.

On February 26, 2016, the Board of Directors approved the consolidated financial statements for the years ended December 31, 2015 and 2014.

On behalf of the Board of Directors,

(signed) (signed)

**Sylvie Lalande,** President and CEO

**Marc A. Courtois,** Chairman of Audit Committee

# TVA GROUP INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2015 and 2014
(in thousands of Canadian dollars)

| | Note | **2015** | 2014 |
|---|---|---|---|
| **Cash flows related to operating activities** | | | |
| Net loss | | **$ (54,967)** | $ (41,088) |
| Adjustments for: | | | |
| Depreciation and amortization | 5, 14 and 15 | **33,829** | 22,326 |
| Impairment of assets | 6 | **–** | 832 |
| Impairment of a licence and of goodwill | 7 | **60,107** | 41,000 |
| Share of loss of associated corporations | | **6,134** | 8,338 |
| Deferred income taxes | 9 | **(8,663)** | (9,838) |
| Loss on valuation of derivative financial instruments | | **24** | – |
| Cash flows provided by current operations | | **36,464** | 21,570 |
| Net change in non-cash balances related to operating activities | 10 a) | **58,830** | 15,116 |
| Cash flows provided by operating activities | | **95,294** | 36,686 |
| **Cash flows related to investing activities** | | | |
| Net business acquisitions | 8 | **(57,147)** | (116,616) |
| Additions to property, plant and equipment | 14 | **(23,900)** | (22,158) |
| Additions to intangible assets | 15 | **(2,642)** | (2,489) |
| Net change in investments | 13 and 26 | **(2,620)** | (6,459) |
| Cash flows used in investing activities | | **(86,309)** | (147,722) |
| **Cash flows related to financing activities** | | | |
| Change of bank overdraft | | **(4,486)** | 4,486 |
| (Repayment of) increase in credit facility from parent corporation | 26 | **(100,000)** | 100,000 |
| Repayment of term loan | 19 | **–** | (75,000) |
| (Repayment of) increase in long-term debt | 19 | **(940)** | 74,737 |
| Issuance of share capital, net of transaction costs | 21 | **108,633** | – |
| Financing costs | 19 | **–** | (904) |
| Repayment of derivative financial instruments | | **(196)** | – |
| Cash flows provided by financing activities | | **3,011** | 103,319 |
| Net change in cash | | **11,996** | (7,717) |
| Cash, beginning of year | | **–** | 7,717 |
| **Cash, end of year** | | **$ 11,996** | $ – |

See accompanying notes to consolidated financial statements.

TVA Group Inc. ("TVA Group" or the "Corporation") is governed by the Quebec *Business Corporations Act*. TVA Group is an integrated communications company engaged in the Broadcasting & Production, Film Production & Audiovisual Services, and Magazines businesses. The Corporation is a subsidiary of Quebecor Media Inc. ("Quebecor Media" or "the parent corporation") and its ultimate parent corporation is Quebecor Inc. ("Quebecor"). The Corporation's head office is located at 1600 de Maisonneuve Boulevard East, Montreal, Quebec, Canada. The Corporation's ownership interests in its main subsidiaries are as follows:

| | % of ownership |
|---|---|
| TVA Publications Inc. | 100.0% |
| Les Publications Charron & Cie Inc. | 100.0% |
| Mels Studios and Postproduction G.P. | 100.0% |
| TVA Productions Inc. | 100.0% |
| TVA Productions II Inc. | 100.0% |
| TVA Sales and Marketing Inc. | 100.0% |
| TVA Accès Inc. | 100.0% |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of presentation

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments (note 1(k)), the stock-based compensation liability (note 1(t)) and the net defined benefit asset or liability (note 1(u)), and are presented in Canadian dollars, which is the currency of the primary economic environment in which the Corporation and its subsidiaries operate ("functional currency").

The comparative figures for the year ended December 31, 2014 have been restated to conform to the presentation adopted for the year ended December 31, 2015.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All intercompany balances and transactions were eliminated on consolidation.

A subsidiary is an entity controlled by the Corporation. The Corporation controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to use its power over the entity to affect the amount of those returns.

Non-controlling interest in the net assets and results of consolidated subsidiaries is presented separately from the Corporation's interest. Non-controlling interest in the equity of a subsidiary consists of the amount of non-controlling interest calculated at the date of the original business combination and its share of changes in equity since that date. Changes in non-controlling interest in a subsidiary that do not result in a loss of control by the Corporation are accounted for as equity transactions.

### (c) Business Combinations

A business combination is 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. The results of an acquiree's operations are included in the Corporation's consolidated financial statements from the date of the business acquisition. The expenses incurred for the acquisition and integration of the acquiree are included in the consolidated statement of loss under "Operational restructuring costs, impairment of assets and other costs."

Non-controlling interest in an acquiree is initially measured at fair value and is presented in the consolidated balance sheet within equity, separately from "Equity attributable to shareholders."

### (d) Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated into the functional currency at the exchange rate in effect at the transaction date. Revenues and expenses in foreign currencies are translated into the functional currency at the average rate in effect during the year, with the exception of depreciation and amortization, which are translated at the historical rate. Translation gains and losses are included in the statements of income for the year under "Financial expenses."

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Revenue recognition

Advertising revenues

Revenues from the sale of advertising airtime and space on the Corporation's websites 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 publication date.

Subscription revenues

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.

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 soundstage and equipment leasing

Revenues from soundstage and equipment leasing are recognized over the term of the lease.

Revenues from postproduction and special effects

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

Distribution revenues

Revenues from the film and audiovisual product distribution rights are recognized when the licence period has begun and the exploitation, screening, broadcasting or selling process can begin.

Revenues from videos are recognized during the period in which the film is released on video and are based on DVD/Blu-ray deliveries, less an allowance for future returns, or based on a percentage of retail sales, provided that the above conditions have been met.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Impairment of Assets

For the purposes of assessing impairment, assets are grouped in cash-generating units ("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.

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.

### (g) Barter transactions

In the normal course of business, the Corporation broadcasts and publishes advertising in exchange for goods and services. The revenues generated and expenses incurred are accounted for on the basis of the fair value of the goods and services provided.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Income taxes

Current income taxes are recognized with respect to amounts expected to be paid or recovered according to tax rates and laws enacted or substantively enacted at the balance sheet date.

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. A deferred tax expense or benefit is recognized in other comprehensive income (loss) or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive income (loss) or directly in equity in the same or a different period.

In the normal course of the Corporation’s operations, there are a number of uncertain tax positions due to the complexity of certain transactions and continuous changes in related tax interpretations and legislation. When a tax position is uncertain, the Corporation recognizes an income tax benefit or reduces an income tax liability only when it is probable that the tax benefit will be realized in the future or the income tax liability is no longer probable.

### (i) Earnings per share

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year. The Corporation uses the treasury stock method to determine the dilutive effects of options when calculating diluted earnings per share.

### (j) Leases

Assets under leasing agreements are classified at the inception of the lease as (i) finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee, or as (ii) operating leases for all other leases.

Operating lease payments are recognized in the consolidated statement of income on a straight-line basis over the period of the lease. Any lessee incentives are deferred and then recognized evenly over the lease term.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Financial instruments

Classification, recognition and measurement

Financial instruments are classified as held for trading, available for sale, loans and receivables or other financial liabilities. Measurement of financial instruments in subsequent periods depends on their classification. The Corporation has classified its financial instruments (except derivative financial instruments) as follows:

| Held for trading | Loans and receivables | Available for sale | Other financial liabilities |
|---|---|---|---|
| • Cash<br>• Bank overdraft | • Accounts receivable | • Portfolio investments included under "Investments" | • Accounts payable and accrued liabilities<br>• Broadcast rights payable<br>• Provisions<br>• Credit facility from parent corporation<br>• Long-term debt<br>• Other long-term financial liabilities included under "Other liabilities" |

Financial instruments held for trading are measured at fair value with changes recognized through income. Available-for-sale investment portfolios are measured at fair value or at cost for investments in shares that do not have a quoted market price in an active market or for which fair value cannot be reliably determined and changes in fair value are recorded in comprehensive income (loss). Financial assets classified as loans and receivables and financial liabilities classified as other financial liabilities are initially measured at fair value and subsequently at amortized cost using the effective interest method of amortization.

Interest rate swaps and hedge accounting

The Corporation does not hold or use any derivative financial instruments for speculative purposes. However, the Corporation does use a derivative financial instrument to manage its exposure to interest rate fluctuations. It is using an interest rate swap to fix future interest expenses on a tranche of its debt that bears interest at a floating rate. The Corporation has designated this interest rate swap as a cash flow hedge and, in accordance with hedge accounting, the effective portion of the hedge is reported in other comprehensive income while the ineffective portion is immediately recognized in income under financial expenses. The effective portion of the hedge is reported in other comprehensive income and recognized in income during the same period in which the hedged item affects income. Interest expense on the hedged portion of long-term debt is reported at the hedged interest rate.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Financing costs

Financing costs related to long-term debt are capitalized as a reduction of long-term debt and are amortized using the effective interest method.

### (m) Tax credits and government assistance

The Corporation is eligible for several government programs designed to support televisual product programming and production, film distribution and magazine publishing in Canada. Government financial assistance is recognized as revenue or as a reduction in related costs, whether capitalized and amortized or expensed, in the year the costs are incurred and when management has reasonable assurance that the conditions of the government programs are met.

Assistance under the Local Programming Improvement Fund ("LPIF") is recorded in revenues, whereas assistance for television productions is recorded as a reduction of production costs, which are reported in operating expenses. In the Magazines segment, government assistance for the production and distribution of Canadian content in magazines is recognized as revenue. Government assistance is initially reported in deferred revenues and amortized over the number of issues.

### (n) Trade receivables

Trade receivables are stated at their nominal value, less an allowance for doubtful accounts. The Corporation establishes an allowance for doubtful accounts based on the specific credit risk of its customers and historical trends. Individual trade receivables are written off when management deems them not collectible.

### (o) Programs, broadcast rights and inventories

Programs produced and productions in progress

Programs produced and productions in progress related to broadcasting activities are accounted for at the lower of cost and net realizable value. Cost includes direct charges for goods and services and the share of labour and overhead expenses related to each production. The cost of each program is charged to operating expenses.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Programs, broadcast rights and inventories (continued)

Broadcast rights and broadcast rights payable

Broadcast rights are contractual rights allowing limited or unlimited broadcast of televisual products or films. The Corporation recognizes an acquired broadcast rights asset and records obligations incurred under broadcast rights acquisition contracts as a liability when the broadcast period begins and the following conditions have been met:

(i) The cost of each program, film or series, or broadcast rights to a live event, is known or can be reasonably determined;

(ii) The programs, films or series have been accepted by the Corporation or the live event is broadcast in accordance with the conditions of the broadcast licence agreement;

(iii) The programs, films or series are available for first showing or broadcast or the live event is broadcast.

Prior to all the above asset recognition conditions being met, the amounts paid for broadcast rights are accounted for as prepaid broadcast rights under "Programs, broadcast rights and inventories" and "Broadcast rights."

Broadcast rights are classified as current or long-term, based on management's estimate of the broadcast period. These rights are charged to operating expenses when televisual products and films are broadcast over the contract period, using a method based on the manner in which future economic benefits from the rights will be generated.

Broadcast rights payable are classified as current or long-term liabilities based on the payment terms set out in the acquisition contracts.

Inventory

Product inventories are valued at the lower of cost, determined by the first-in, first-out method, and net realizable value.

Net realizable value

Estimates of future revenue, used to determine net realizable values of inventories related to the broadcasting or distribution of audiovisual products and films, are reviewed periodically by management and revised as necessary. The carrying value of programs produced and productions in progress, broadcast rights and distribution rights is reduced to net realizable value, as necessary, based on this assessment.

The net realizable value of product inventories is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

The amount of the impairment write-down of programs, broadcast and distribution rights and inventories is revised when the circumstances that previously caused the write-down expense no longer exist.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Investments

Investments in corporations over which the Corporation exercises significant influence are accounted for using the equity method. Under this method, the share of the income of the associated corporations is recorded in the consolidated statement of income. Other investments are recorded at cost. Carrying values of investments are reduced to estimated fair values if there is objective evidence of impairment of the investment.

### (q) Property, plant and equipment

Property, plant and equipment are initially stated at cost, which consists of acquisition costs, net of government grants and income tax credits, and/or development costs, including preparation, installation and testing costs. Expenditures, such as maintenance and repair costs, are recorded in operating expenses as incurred.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| Assets | Estimated useful life |
|---|---|
| Buildings and their components | 10-40 years |
| Equipment | 5-15 years |

Leasehold improvements are depreciated over the shorter of the term of the lease or the economic life of the leased asset.

Depreciation methods, residual values, and the useful lives of significant property, plant and equipment are reviewed at least once a year. Any change is accounted for prospectively as a change in accounting estimate.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Goodwill and intangible assets

Goodwill

Goodwill arising from an acquisition 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. When the Corporation acquires less than 100% of equity interests in the acquiree at the acquisition date, goodwill attributable to the non-controlling interest is also recognized at fair value.

For impairment testing purposes (note 1(f)), goodwill is allocated to a CGU as of the business acquisition date. Goodwill is allocated to the CGU or group of CGUs expected to benefit from the synergies of the business acquisition.

Intangible assets

Broadcasting licences, magazine operating licences and publishing trademarks have indefinite useful lives and are not amortized. In particular, given the low cost of renewing broadcasting licences, management considers it economically compelling to renew licences and comply with all their inherent rules and terms and conditions.

Customer lists and non-compete clauses arising from business acquisitions are recognized at fair value at the acquisition date.

Software is initially recorded at cost. Internally developed intangible assets such as software and websites are mainly comprised of internal costs incurred for the development of these assets to be used internally or for providing services to customers. Those costs are capitalized when the development stage of the software application begins and costs incurred prior to that stage are recognized as expenses.

Intangible assets with finite useful lives are amortized on a straight-line basis over the following periods:

| Assets | Estimated useful life |
|---|---|
| Software, websites and mobile applications | 3-10 years |
| Non-competition agreements and customer lists | 3-10 years |
| Favourable distribution agreement | 43 months |

Amortization methods, residual values, and the useful lives of significant intangible assets are reviewed at least once a year. Any change is accounted for prospectively as a change in accounting estimate.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (s) 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, consisting primarily of 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 re-measurements occurred.

### (t) Stock-based compensation

Stock-based awards to employees that call for settlement in cash or other assets at the option of the employee are classified as a liability and accounted for at fair value. 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.

Estimates of the fair value of stock–based awards are determined by applying an option-pricing model, taking into account the terms and conditions of the grant. The main assumptions are discussed in notes 21 and 22.

### (u) Pension plans and post-retirement benefits

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

Defined contribution pension plans

In accordance with its defined contribution pension plans, the Corporation pays fixed contributions to participating employees' pension plans and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as employee costs in the consolidated statements of income when the contributions fall due.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Pension plans and post-retirement benefits (continued)

Defined benefit pension plans and other retirement benefits

Defined benefit pension plan costs are determined using actuarial methods and are accounted for using the projected unit credit method, which incorporates management's best estimates of future salary levels, other cost escalations, employee retirement ages and other actuarial factors. Defined benefit pension costs recognized in the consolidated statements of income under employee costs primarily include the following:

(i) Cost of services in exchange for employee services rendered during the year;

(ii) Past service costs recognized on the earlier of the following dates: (a) when the benefit plan is amended, or (b) when restructuring costs are recognized.

Interest on the net defined benefit liability or asset recognized in the consolidated statements of income under financial expenses is determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation.

Re-measurements of the net defined benefit liability or asset are recognized immediately in other comprehensive income and recorded in accumulated other comprehensive income. Re-measurements 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 liabilities or assets;

(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.

Under a former plan, the Corporation also offers life, health and dental insurance plans to some of its retired employees. This post-retirement coverage is no longer offered to the Corporation's active employees. The cost of postretirement benefits is determined using an accounting methodology similar to that for defined benefit pension plans. The related expense is funded by the Corporation as the benefits fall due.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Use of estimates and judgment

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and the disclosure of contingent assets and liabilities. These estimates are determined to the best of management's knowledge based on the information available at the measurement date. Actual results could differ from these estimates.

The following significant areas require management to make the most difficult, subjective or complex estimates:

(i) Recoverable value of an asset or a CGU

When an impairment test is performed on an asset or CGU, management estimates the recoverable amount of the asset or the CGU on the basis of its fair value less costs of disposal or its value in use. These estimates are based on valuation models that require the use of certain assumptions, such as expected future cash flows, a pre-tax discount rate (WACC) or a perpetual growth rate. Those assumptions materially affect the results of the impairment tests and the impairment expense recorded in the consolidated statement of income, if any. Note 16 describes the key assumptions used in the goodwill impairment tests and presents a sensitivity analysis of recoverable amounts.

(ii) Costs and obligations related to pension plans and postretirement benefits

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 re-measurement 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. Note 25 describes the key assumptions and presents a sensitivity analysis of the discount rate.

(iii) Provisions

Recognition of provisions requires management to estimate the payments required as of the valuation date to settle the existing obligation or transfer it to a third party. An assessment of the probable outcomes of legal disputes and other contingencies is also necessary. Note 18 describes the main provisions, including management's assessment of the potential impact of the outcome of legal disputes on the consolidated financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Use of estimates and judgment (continued)

The following are the most significant judgements made by management, other than estimates:

(i) Determining useful life for the purpose of depreciation of assets with finite useful lives

For each category of assets with finite useful lives, management must determine the period over which the Corporation expects to derive future economic benefits from the assets. The determination of useful life requires judgment and has an impact on the depreciation expense recognized in the consolidated statement of income.

(ii) Determination of CGUs for the purpose of impairment tests

Determining CGUs requires the use of judgement to determine the lowest level at which there are separately identifiable cash inflows generated by a group of assets. To identify the assets to be included in a CGU, the Corporation considers, among other things, combined service offerings, sharing of broadcasting infrastructure, integration of media assets, similar market risk exposure and materiality. The determination of CGUs can have an impact on the results of impairment tests and the impairment expense recorded in the consolidated statement of income, if any.

(iii) Interpretation of acts and regulations

The interpretation of acts and regulations, including tax rules, requires management to exercise judgement, which may have an impact on the recognition of provisions for legal disputes and income taxes in the consolidated financial statements.

### (w) Recent accounting pronouncements

The Corporation has not yet completed its assessment of the impact of the adoption of these pronouncements on its consolidated financial statements.

(i) IFRS 9 – *Financial Instruments* is required to be applied retrospectively for periods beginning January 1, 2018 with early adoption permitted.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) Recent accounting pronouncements (continued)

(ii) IFRS 15 – *Revenue from Contracts with Customers* is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative disclosures. The standard provides a single, principles-based, five-step model to be applied to all contracts with customers.

(iii) IFRS 16 – *Leases* is required to be applied retrospectively for annual periods beginning on or after January 1, 2019, with early adoption permitted provided that the IFRS 15 has been applied or is applied at the same time as IFRS 16.

IFRS 16 sets out the new principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard provides to lessees a single accounting model for all leases, with certain exemptions. In particular, lessees will be required to report most leases on their balance sheets by recognising right-of-use assets and related financial liabilities.

## 2. REVENUES

The breakdown of revenues between advertising services, royalties, leasing and postproduction services and other services rendered, and product sales is as follows:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Advertising services | **$** | **257,136** | $ | 225,140 |
| Royalties, leasing and postproduction services and other services rendered | | **216,664** | | 116,843 |
| Product sales | | **116,090** | | 97,357 |
| | **$** | **589,890** | $ | 439,340 |

## 3. PURCHASES OF GOODS AND SERVICES

The main components of purchases of goods and services are as follows:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Royalties, rights and production costs | **$** | **258,481** | $ | 198,332 |
| Printing and distribution | | **31,875** | | 17,012 |
| Services rendered by parent corporations | | | | |
| - Commissions on advertising sales | | **17,147** | | 11,907 |
| - Other | | **8,856** | | 10,386 |
| Building costs | | **20,173** | | 9,007 |
| Marketing, advertising and promotion | | **15,360** | | 14,842 |
| Other | | **31,264** | | 22,085 |
| | **$** | **383,156** | $ | 283,571 |

## 4. BARTER TRANSACTIONS

In the normal course of business, the Corporation broadcasts and publishes advertising in exchange for goods and services. For the year ended December 31, 2015, the Corporation recognized revenues from barter transactions totalling $6,604,000 ($5,603,000 in 2014) and operating expenses related to barter transactions totalling $6,604,000 ($5,624,000 in 2014).

## 5. FINANCIAL EXPENSES

| | Note | | **2015** | | 2014 |
|---|---|---|---|---|---|
| Interest on long-term debt | 19 | **$** | **3,078** | $ | 4,421 |
| Interest on credit facility from parent corporation | 26 | | **805** | | – |
| Amortization of financing costs | | | **314** | | 222 |
| Interest expenses (revenues) on net defined liability or benefit asset | 25 | | **51** | | (286) |
| (Gain) foreign exchange loss | | | **(342)** | | 43 |
| Other | | | **198** | | (169) |
| | | **$** | **4,104** | $ | 4,231 |

## 6. OPERATIONAL RESTRUCTURING COSTS, IMPAIRMENT OF ASSETS AND OTHERS

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Operational restructuring costs | **$** | **6,253** | $ | 140 |
| Business acquisition and integration costs | | **689** | | 2,599 |
| Gain on ligitation | | **(627)** | | – |
| Impairment of assets | | **–** | | 832 |
| Others | | **–** | | 23 |
| | **$** | **6,315** | $ | 3,594 |

Operational restructuring costs

In 2015, the Corporation recorded operational restructuring costs in connection with staff reductions and the discontinuation of the publication of six titles as follows:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Broadcasting & Production | **$** | **2,798** | $ | 109 |
| Magazines | | **2,920** | | 31 |
| Film Production & Audiovisual Services | | **535** | | – |
| | **$** | **6,253** | $ | 140 |

## 6. OPERATIONAL RESTRUCTURING COSTS, IMPAIRMENT OF ASSETS AND OTHERS (continued)

Business acquisition and integration costs

In 2015, the Corporation recognized professional fees and integration expenses in the amount of $689,000 in connection with the acquisition of substantially all of the assets of A.R. Global Vision Ltd. ("Global Vision"), now operated by the Mels Studios and Postproduction G.P. ("MELS") subsidiary, and of magazines from Transcontinental ($2,599,000 in 2014).

Gain on litigation

On October 15, 2015, the Supreme Court of Canada rejected an appeal from Bell ExpressVu Limited Partnership ("Bell ExpressVu"), a subsidiary of Bell Canada, against a Quebec Court of Appeal judgement in favour of Videotron Ltd. and TVA Group, rendered on March 6, 2015. The judgement ordered Bell ExpressVu to pay TVA Group $665,000, including interest, for having failed to implement an appropriate security system in a timely manner to prevent piracy of its satellite television signals between 1999 and 2005, harming its competitors and broadcasters. Accordingly, on October 19, 2015, Bell ExpressVu paid the amount of $933,000, including interest and professional fees, in connection with the outcome of this case. In 2015, a $627,000 gain, including interest, was recognized.

Impairment of assets

In 2014, the Corporation recognized an $832,000 impairment expense on its investment in ROC Television G.P. ("ROC Television," formerly SUN News General Partnership) (note 26).

## 7. IMPAIRMENT OF A LICENCE AND OF GOODWILL

During the third quarter of 2015, the Corporation completed the annual update of its strategic plan for the next three years. Market conditions in the television industry, particularly the continuing pressure on advertising revenues, led the Corporation to perform an impairment test on its Broadcasting & Production CGU. The Corporation concluded that the recoverable amount, based on value in use, of the Broadcasting & Production CGU was less than its carrying amount. A $60,107,000 non-cash impairment charge was recorded with respect to the broadcasting licence, including $30,054,000 without any tax consequences ($32,462,000 in 2014, including $16,231,000 without any tax consequences). In 2014, an $8,538,000 non-cash goodwill impairment charge, without any tax consequences, was also recognized. The Corporation used an 11.0% pre-tax discount rate and a 0.0% perpetual growth rate to calculate the recoverable amount (11.0% pre-tax discount rate and 1.0% perpetual growth rate in 2014).

## 8. BUSINESS ACQUISITIONS AND DISPOSALS

On April 12, 2015, the Corporation acquired from Transcontinental Inc. 14 magazines, 4 of which are owned and operated in partnership, as well as 3 websites, custom publishing contracts and book publishing operations, for a purchase price of $56,286,000 in cash, including a $786,000 final adjustment contingent upon a predetermined working capital target agreed to by the parties.

The acquisition was in keeping with the Corporation's strategy of investing in the production and dissemination of diverse, rich, high-quality entertainment content. The acquired intangible assets basically consist of customer lists and mastheads. The goodwill related to the acquisition arises mainly from the quality of the content and the expected synergies.

The final purchase price allocation between the fair value of identifiable assets and liabilities related to this acquisition breaks down as follows:

| | |
|---|---|
| **Assets acquired** | |
| Current assets | **$ 20,930** |
| Investment | **2,237** |
| Property, plant and equipment | **867** |
| Intangible assets | **19,250** |
| Goodwill | **34,162** |
| Deferred income taxes | **400** |
| | **77,846** |
| **Liabilities assumed** | |
| Current liabilities | **(21,143)** |
| | **(21,143)** |
| **Net assets acquired at fair value** | **56,703** |
| **Non-controlling interest** | **(417)** |
| **Consideration in cash** | **$ 56,286** |

## 8. BUSINESS ACQUISITIONS AND DISPOSALS (continued)

As part of this transaction, the Corporation simultaneously transferred the acquired book publishing operations to Sogides Group, a corporation under common control, for the agreed price of $720,000, including $300,000 in cash and a $420,000 balance due. The transferred net assets include $807,000 in current assets, a $127,000 publishing fund and $214,000 in current liabilities.

The Corporation's consolidated revenues and consolidated pro forma net loss would have been $611,979,000 and $56,005,000 respectively had the net business acquisition occurred at the beginning of 2015.

Goodwill in the amount of $6,758,000 is deductible for income tax purposes.

MELS

On December 30, 2014, TVA Group acquired substantially all of the assets (including certain operating liabilities) of Vision Globale for a purchase price of $116,115,000 in cash, net of acquired cash, and a $1,161,000 post-closing adjustment paid in 2015 MELS operates in the film and television industry, offering soundstage and equipment leasing, post-production and visual effects services. The acquired assets include Mel's Cité du Cinéma in Montréal and Studios Melrose in Saint-Hubert, which facilities are used for both local and foreign film and television production, including American blockbusters. During the year, the Corporation brought all the acquired operations together under the "MELS" brand. The purpose of this acquisition is to invest in activities that are complementary to media in order to diversify the Corporation's revenue streams. The goodwill associated with this transaction stems primarily from the organization's expertise and technology, its client list, future growth and anticipated synergies.

## 8. BUSINESS ACQUISITIONS AND DISPOSALS (continued)

The final purchase price allocation between the fair value of identifiable assets and liabilities related to this acquisition breaks down as follows:

| | Preliminary allocation in 2014 | Adjustments in 2015 | Final allocation |
|---|---|---|---|
| **Assets acquired** | | | |
| Cash | $ 24 | $ – | **$ 24** |
| Current assets | 8,205 | – | **8,205** |
| Property, plant and equipment | 96,298 | **1,881** | **98,179** |
| Intangible assets | 6,933 | **3,700** | **10,633** |
| Goodwill | 12,335 | **(4,443)** | **7,892** |
| | 123,795 | **1,138** | **124,933** |
| **Liabilities assumed** | | | |
| Current liabilities | (6,332) | – | **(6,332)** |
| Non-current liabilities | (1,324) | **23** | **(1,301)** |
| | (7,656) | **23** | **(7,633)** |
| **Net assets acquired at fair value** | $ 116,139 | $ **1,161** | **$ 117,300** |
| **Consideration** | | | |
| Cash | $ 116,139 | $ **1,161** | **$ 117,300** |

Of the total goodwill, $4,700,000 is deductible for income tax purposes.

## 9. INCOME TAXES

Income tax expense (recovery) is detailed as follows:

| | **2015** | 2014 |
|---|---|---|
| Current | **$ 845** | $ 1,085 |
| Deferred | **(8,663)** | (9,838) |
| | **$ (7,818)** | $ (8,753) |

The following table reconciles income tax recovery at the Canadian statutory rate of 26.9% in 2015 and 2014 and income tax recovery reported on the consolidated statements of loss:

| | **2015** | 2014 |
|---|---|---|
| Tax recovery at Canadian statutory tax rate | **$ (15,239)** | $ (11,164) |
| Impact of provincial tax rate differences | **27** | 25 |
| | **(15,212)** | (11,139) |
| (Decrease) increase resulting from: | | |
| Tax impact of deductible losses of ROC Television | **(1,452)** | (2,323) |
| Tax impact of non-deductible charges and non-taxable revenues | **547** | 441 |
| Non-deductible impairment of a licence and goodwill | **8,084** | 5,199 |
| Other | **215** | (931) |
| **Tax recovery** | **$ (7,818)** | $ (8,753) |

## 9. INCOME TAXES (continued)

The significant items comprising the Corporation's net deferred income tax asset (liability) and their impact on deferred income tax recovery are as follows:

| | Consolidated balance sheets | | Consolidated statements of (loss) income | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Loss carryforwards | **$ 855** | $ 2,946 | **$ 2,091** | $ (2,597) |
| Accounts payable, accrued liabilities, provisions and deferred revenue | **1,604** | 1,175 | **(429)** | 334 |
| Defined benefit plans | **623** | (320) | **(15)** | 1,792 |
| Property, plant and equipment | **1,338** | 1,029 | **(309)** | (697) |
| Goodwill, licences and other intangible assets | **(4,268)** | (12,471) | **(8,203)** | (6,185) |
| Other | **4,045** | 1,226 | **(1,798)** | (2,485) |
| | **$ 4,197** | $ (6,415) | **$ (8,663)** | $ (9,838) |

Changes in net deferred income tax assets (liabilities) are as follows:

| | **2015** | 2014 |
|---|---|---|
| Balance as of beginning of the year | **$ (6,415)** | $ (19,454) |
| Recognized in statement of income | **8,663** | 9,838 |
| Recognized in other comprehensive income | **1,052** | 3,227 |
| Other | **897** | (26) |
| **Balance as of end of the year** | **$ 4,197** | $ (6,415) |
| | | |
| Deferred tax assets | **7,069** | 1,060 |
| Deferred tax liabilities | **(2,872)** | (7,475) |
| | **$ 4,197** | $ (6,415) |

The Corporation recorded no deferred tax liabilities with respect to its subsidiaries' retained earnings during the current year or in prior years either because it does not expect to sell these investments or these retained earnings will become taxable.

As at December 31, 2015, the Corporation had operating loss carryforwards for income tax purposes of approximately $2,240,000 available to reduce its future taxable income. These loss carryforwards expire between 2033 and 2034.

The Corporation also has $167,896,000 in unrecognized loss carryforwards with no expiry to be used solely to reduce future capital gains.

## 10. CASH FLOW INFORMATION

The following tables provide supplementary information regarding the consolidated statements of cash flows.

(a) Net changes in non-cash balances related to operations, net of the effect of business acquisitions, are as follows:

| | **2015** | 2014 |
|---|---|---|
| Accounts receivable | **$ 4,307** | $ 8,989 |
| Programs, broadcast rights and inventories | **(8,917)** | (12,759) |
| Accounts payable and accrued liabilities | **11,478** | 3,326 |
| Broadcast rights payable | **43,823** | 29,050 |
| Income taxes | **(536)** | (6,183) |
| Defined benefit plan asset and other liabilities | **(353)** | (7,007) |
| Other | **9,028** | (300) |
| | **$ 58,830** | $ 15,116 |

(b) Interest and income taxes paid are classified in operating activities and are detailed as follows:

| | **2015** | 2014 |
|---|---|---|
| Net interest paid | **$ 3,975** | $ 4,169 |
| Income taxes paid (net of refunds) | **1,374** | 7,266 |

## 11. ACCOUNTS RECEIVABLE

| | Note | **2015** | 2014 |
|---|---|---|---|
| Trade receivables | 28 b) | **$ 90,307** | $ 80,825 |
| Other receivables | | **19,751** | 19,991 |
| Trade and other receivables from entities under common control and affiliates | | **34,376** | 29,792 |
| Tax credits and government assistance receivable | | **6,496** | 6,203 |
| | | **$ 150,930** | $ 136,811 |

Receivables from entities under common control and affiliates are subject to the same conditions as trade accounts receivable.

## 12. PROGRAMS, BROADCAST RIGHTS AND INVENTORIES

| | | | **2015** |
|---|---|---|---|
| | **Short-term** | **Long-term** | **Total** |
| Programs produced and productions in progress | **$ 3,186** | **$ –** | **$ 3,186** |
| Broadcast rights | **74,695** | **36,321** | **111,016** |
| Inventories | **1,614** | **–** | **1,614** |
| | **$ 79,495** | **$ 36,321** | **$ 115,816** |

| | | | 2014 |
|---|---|---|---|
| | Short-term | Long-term | Total |
| Programs produced and productions in progress | $ 1,695 | $ – | $ 1,695 |
| Broadcast rights | 71,630 | 31,989 | 103,619 |
| Inventories | 1,440 | – | 1,440 |
| | $ 74,765 | $ 31,989 | $ 106,754 |

The cost of inventories and expenses related to programs, broadcast and distribution rights included in purchases of goods and services and employee costs amounted to $367,621,000 in 2015 ($308,256,000 in 2014). In 2015, an impairment expense totalling $752,000 ($381,000 in 2014) related to inventories, programs and broadcast and distribution rights was recorded in purchases of goods and services.

## 13. INVESTMENTS

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Tele Inter-Rives Ltd., associated corporation, 45% ownership interest | $ | **9,240** | $ | 11,046 |
| Publications Senior inc., associated corporation, 50% ownership interest | | **2,289** | | – |
| Other investments | | **1,065** | | 1,065 |
| | $ | **12,594** | $ | 12,111 |

Télé Inter-Rives is a company that operates four local television stations, including two that are affiliated with TVA Network, owned by the Corporation. Its head office is in Rivière-du-Loup, Quebec, Canada.

Publications Senior inc., a company that operates magazines and websites, mainly *Le Bel Âge* and *Good Times*, was acquired in the acquisition of magazines from Transcontinental Inc., which closed on April 12, 2015 (note 8). Its head office is in Montreal, Quebec, Canada. Below is the combined financial information for significant associated corporations, including ROC Television (note 26), for the years ended December 31, 2015 and 2014:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Current assets | $ | **16,817** | $ | 16,575 |
| Non-current assets | | **8,268** | | 14,190 |
| Current liabilities | | **10,292** | | 6,123 |
| Non-current liabilities | | **638** | | 210 |
| Revenues | | **21,829** | | 24,967 |
| Net loss and comprehensive loss | | **(14,690)** | | (16,872) |
| Dividends received | | **271** | | 271 |

## 14. PROPERTY, PLANT AND EQUIPMENT

For the years ended December 31, 2015 and 2014, changes in the net carrying amount of property, plant and equipment are as follows:

| | Land, buildings and leasehold improvements | Equipment | Projects under development | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance as at December 31, 2013 | $ 102,553 | $ 167,974 | $ 6,677 | $ 277,204 |
| Acquisitions[1] | 5,058 | 10,364 | 5,456 | 20,878 |
| Business acquisitions (note 8) | 61,249 | 35,049 | – | 96,298 |
| Reclassification | 2,623 | 1,401 | (4,024) | – |
| Write-offs and disposals | (6,038) | (7,508) | – | (13,546) |
| Balance as at December 31, 2014 | 165,445 | 207,280 | 8,109 | 380,834 |
| Acquisitions[1] | 3,375 | 9,018 | 15,731 | 28,124 |
| Business acquisitions (note 8) | 2,436 | (244) | 556 | 2,748 |
| Reclassification | 303 | 1,361 | (1,434) | 230 |
| Write-offs and disposals[1] | (253) | (527) | – | (780) |
| **Balance as at December 31, 2015** | **$ 171,306** | **$ 216,888** | **$ 22,962** | **$ 411,156** |
| **Accumulated depreciation and impairment:** | | | | |
| Balance as at December 31, 2013 | $ 66,355 | $ 109,887 | $ – | $ 176,242 |
| Depreciation | 4,298 | 12,411 | – | 16,709 |
| Write-offs and disposals | (6,038) | (7,508) | – | (13,546) |
| Balance as at December 31, 2014 | 64,615 | 114,790 | – | 179,405 |
| Depreciation | 6,471 | 17,918 | – | 24,389 |
| Write-offs and disposals[1] | (214) | (527) | – | (741) |
| **Balance as at December 31, 2015** | **$ 70,872** | **$ 132,181** | **$ –** | **$ 203,053** |
| **Net carrying amount:** | | | | |
| As at December 31, 2014 | $ 100,830 | $ 92,490 | $ 8,109 | $ 201,429 |
| **As at December 31, 2015** | **100,434** | **84,707** | **22,962** | **208,103** |

[1] The net change in additions to property, plant and equipment funded by accounts payable and accrued liabilities, consisting primarily of equipment, was a $4,185,000 increase for the year ended December 31, 2015 ($1,280,000 decrease for the year ended December 31, 2014). The Corporation also disposed of equipment related to a building for a cash consideration of $39,000. The proceeds from disposal were equal to the net carrying amount.

## 15. LICENCES AND OTHER INTANGIBLE ASSETS

For the years ended December 31, 2015 and 2014, changes in the net carrying amount of licences and other intangible assets are as follows:

| | Broadcasting licences[1] | Software, websites and mobile applications | Other intangible assets[1] | Projects under development | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance as at December 31, 2013 | $ 92,569 | $ 49,032 | $ 3,844 | $ 1,152 | $ 146,597 |
| Acquisitions[2] | – | 1,642 | – | 363 | 2,005 |
| Business acquisitions (note 8) | – | 933 | 6,000 | – | 6,933 |
| Reclassification | – | 1,096 | – | (1,096) | – |
| Write-offs and disposals | – | (53) | – | – | (53) |
| Balance as at December 31, 2014 | 92,569 | 52,650 | 9,844 | 419 | 155,482 |
| Acquisitions[2] | – | 1,191 | – | 1,607 | 2,798 |
| Business acquisitions (note 8) | – | 1,852 | 20,971 | – | 22,823 |
| Reclassification | – | 151 | – | (381) | (230) |
| Write-offs and disposals[2] | – | (450) | (35) | – | (485) |
| **Balance as at December 31, 2015** | **$ 92,569** | **$ 55,394** | **$ 30,780** | **$ 1,645** | **$ 180,388** |

As at December 31, 2015, the cost of internally generated intangible assets, consisting mainly of software, websites and mobile apps, was $11,489,000 ($9,496,000 as at December 31, 2014). For the year ended December 31, 2015, the Corporation recognized additions to internally generated intangible assets totalling $2,064,000 ($923,000 in 2014), and wrote off $71,000 in fully amortized internally generated intangible assets ($53,000 in 2014).

## 15. LICENCES AND OTHER INTANGIBLE ASSETS (continued)

| | Broadcasting licences[1] | Software, websites and mobile applications | Other intangible assets[1] | Projects under development | Total |
|---|---|---|---|---|---|
| **Accumulated amortization and impairment:** | | | | | |
| Balance as at December 31, 2013 | $ – | $ 33,141 | $ 890 | $ – | $ 34,031 |
| Amortization | – | 5,054 | 341 | – | 5,395 |
| Impairment (note 7) | 32,462 | – | – | – | 32,462 |
| Write-offs and disposals | – | (53) | – | – | (53) |
| Balance as at December 31, 2014 | 32,462 | 38,142 | 1,231 | – | 71,835 |
| Amortization | – | 5,203 | 3,923 | – | 9,126 |
| Impairment (note 7) | 60,107 | – | – | – | 60,107 |
| Write-off and disposals[2] | – | (450) | – | – | (450) |
| **Balance as at December 31, 2015** | **$ 92,569** | **$ 42,895** | **$ 5,154** | **$ –** | **$ 140,618** |
| **Net carrying amount:** | | | | | |
| As at December 31, 2014 | $ 60,107 | $ 14,508 | $ 8,613 | $ 419 | $ 83,647 |
| **As at December 31, 2015** | **–** | **12,499** | **25,626** | **1,645** | **39,770** |

[1] Intangible assets with indefinite useful lives, including the broadcasting licences assigned to the Broadcasting & Production group of CGUs, as well as the magazine operating licence and mastheads assigned to the Magazines group of CGUs, are not amortized.

[2] The net change in additions to intangible assets funded by accounts payable and accrued liabilities, consisting primarily of software, was a $121,000 increase for the year ended December 31, 2015 ($484,000 decrease for the year ended December 31, 2014). The Corporation also disposed of an intangible asset for a cash consideration of $35,000. The proceeds from disposal were equal to the net carrying amount.

As at December 31, 2015, the accumulated amortization and impairment of internally generated intangible assets, consisting primarily of software, websites and mobile apps, amounted to $8,175,000 ($6,920,000 as at December 31, 2014). For the year ended December 31, 2015, the Corporation recognized an amortization expense arising from internally generated intangible assets of $1,326,000 ($1,580,000 in 2014).

As at December 31, 2015, internally generated intangible assets had a net carrying amount of $3,314,000 ($2,576,000 $ at December 31, 2014).

## 16. GOODWILL

Goodwill as at December 31, 2015 and 2014 is detailed as follows:

| | Note | | 2015 | | 2014 |
|---|---|---|---|---|---|
| Cost | 8 | **$** | **197,559** | $ | 167,840 |
| Accumulated amortization and impairment | 7 | | **119,574** | | 119,574 |
| **Net carrying amount** | | **$** | **77,985** | $ | 48,266 |

At December 31, 2015, the carrying amount of the goodwill allocated to the Film Production & Audiovisual Services CGU was $7,892,000 ($12,335,000 in 2014). The $70,093,000 balance was attributed to the Magazines CGU ($35,931,000 in 2014).

*Recoverable amounts*

Recoverable amounts of CGUs were determined based on the higher of value in use or fair value less costs of disposal with respect to the impairment tests performed. The Corporation uses the discounted cash flow method to estimate recoverable value, consisting of future cash flows derived primarily from the most recent budget and from the three-year strategic plan approved by the Corporation's management and presented to the Board of Directors. 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. In particular, specific assumptions are used for each type of revenue generated by a CGU or for each type of expense as well as for future property, plant and equipment expenditures. As such, assumptions take into account, among other things, subscriber, readership and viewer statistics, advertising market trends, the competitive landscape, evolving product and service offering, proliferation of media platforms, technological development, programming strategy, collective agreements, Canada's GDP and operating cost structures.

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 that consists of estimating fair value less costs of disposal by using multiples of operating performance of comparable entities, transaction metrics and other available market information, instead of using primarily the discounted cash flow method.

## 16. GOODWILL (continued)

*Recoverable amounts* (continued)

The following key assumptions were used to determine recoverable amounts in the most recent impairment tests:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| **CGUs** | **Pre-tax discount rate (WACC)** | **Perpetual growth rate** | Pre-tax discount rate (WACC) | Perpetual growth rate |
| Magazines[1] | **16.0 %** | **0.0 %** | 16.0 % | 1.0 % |
| Film Production & Audiovisual Services[1] | **11.0 %** | **2.0 %** | – % | – % |

[1] The recoverable amount for these CGUs is based on value in use in 2015 and in 2014 if applicable.

For the Magazines segment CGU, the increase in the pre-tax discount rate (WACC) or the decrease in the perpetual growth rate used in the most recently performed test that would have been required for the recoverable amount to equal the carrying amount of the CGU group at the time of the most recent impairment test in 2015 is 2.0% or 1.5% respectively.

## 17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | Note | **2015** | 2014 |
|---|---|---|---|
| Accounts payable and accrued liabilities | | **$ 54,722** | $ 43,516 |
| Employee salaries and benefits | | **20,839** | 18,352 |
| Accounts payable to companies under common control and affiliated companies | | **36,332** | 23,916 |
| Stock-based compensation | 21 and 22 | **692** | 2,714 |
| Interest payable and other | | **329** | 248 |
| | | **$ 112,914** | $ 88,746 |

## 18. PROVISIONS AND CONTINGENCIES

| | Operational restructuring costs | Contingencies, legal disputes and other | Total |
|---|---|---|---|
| Balance as at December 31, 2014 | $ 195 | $ 4,136 | $ 4,331 |
| Net change in income | 6,253 | 924 | 7,177 |
| Payments | (4,384) | (17) | (4,401) |
| **Balance as at December 31, 2015** | **$ 2,064** | **$ 5,043** | **$ 7,107** |

Recognition of provisions requires judgement, as to both the period and the amount, based on relevant circumstances and situations, which may change in the future. Provisions are made primarily for the following purposes:

Restructuring of operations

Provisions for operational restructuring costs include termination benefits related to staff reductions in the Corporation's three business segments, including a voluntary retirement program in the Broadcasting & Production segment and discontinuation of the publication of six titles in the Magazines segment.

Contingencies, legal disputes and other

There are a number of legal proceedings against the Corporation and its subsidiaries that are pending. In the opinion of the management of the Corporation and its subsidiaries, the outcome of those proceedings is not expected to have a material adverse effect on the Corporation's results or on its financial position.

Management of the Corporation, after taking legal advice, has established provisions for specific claims or actions considering the facts of each case. The Corporation cannot determine when and if a payment related to these provisions will be made.

The balance consists of the estimated reproduction rights payable to the Copyright Board in connection with a current legal dispute over the applicable rates for such rights.

## 19. LONG-TERM DEBT

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Bank credit facilities[i)] | **$** | **73,797** | $ | 74,737 |
| Financing costs, net of accumulated amortization | | **(766)** | | (1,042) |
| | | **73,031** | | 73,695 |
| Less short-term debt | | **(4,219)** | | (938) |
| Long-term debt | **$** | **68,812** | $ | 72,757 |

i) The bank credit facilities of the Corporation comprise a revolving credit facility of $150,000,000, maturing on February 24, 2019, as well as a secured term loan of $75,000,000 maturing on November 3, 2019. The secured revolving credit facility bearing interest at floating rates based on Bankers' acceptance rates, LIBOR, Canadian or U.S. prime rate, plus a variable spread determined by a leverage ratio and the secured term loan bears interest at floating rates based on Bankers' acceptance rates or the Canadian prime rate, plus a variable spread determined by a leverage ratio. The term loan provides for quarterly amortization payments commencing on December 20, 2015. The bank credit facilities contain covenants such as maintaining certain financial ratios, limiting the Corporation's ability to incur additional indebtedness and restricting the payment of dividends and other distributions. They are secured by liens on all of its movable assets and an immovable hypothec on its head office building. The term loan replaced the previous term loan when it matured on December 11, 2014. As of December 31, 2015 and 2014, no amount was drawn on the revolving credit facility except for letters of guarantee, and as of December 31, 2015, $73,797,000 was drawn on the term loan ($74,737,000 in 2014).

In 2014, the costs associated with the renewal of the revolving credit facility and the term loan facility totalled $904,000 and were recorded as financing costs in reduction of long-term debt.

As at December 31, 2015, the Corporation was in compliance with the terms of its bank credit facilities.

Principal repayments of long-term debt over the coming years are as follows:

| | | |
|---|---|---|
| 2016 | $ | 4,219 |
| 2017 | | 6,562 |
| 2018 | | 9,844 |
| 2019 | | 53,172 |

As at December 31, 2015, the Corporation had outstanding letters of credit amounting to $425,000 ($520,000 in 2014).

## 20. OTHER LIABILITIES

| | Note | | **2015** | | 2014 |
|---|---|---|---|---|---|
| Deferred revenues | | **$** | **3,352** | $ | 3,910 |
| Defined benefit plans | 25 | | **2,322** | | 1,773 |
| Broadcast rights payable | | | **2,780** | | 2,164 |
| Stock-based compensation[1] | 21 and 22 | | **780** | | 566 |
| Derivative financial instrument | 28 d) | | **814** | | 547 |
| Other | | | **926** | | 1,007 |
| | | **$** | **10,974** | $ | 9,967 |

[1] The current portion of stock-based compensation is included in accounts payable and accrued liabilities.

## 21. CAPITAL STOCK

Authorized

An unlimited number of Class A common shares, participating, voting, without par value.

An unlimited number of Class B shares, participating, non-voting, without par value.

An unlimited number of preferred shares, non-participating, non-voting, with a par value of $10 each, issuable in series.

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Issued and paid up | | | | |
| 4,320,000 class A common shares | **$** | **72** | $ | 72 |
| 38,885,535 class B shares (19,450,906 in 2014) | | **207,208** | | 98,575 |
| | **$** | **207,280** | $ | 98,647 |

On March 20, 2015, the Corporation completed a subscription rights offering to its shareholders, whereby it received net proceeds totalling $110,000,000 from the issuance of 19,434,629 Class B Non-Voting Shares. Transaction costs of $1,870,000, less $503,000 in income tax, were charged to share capital as a reduction of net proceeds from the issuance. The transaction costs include $1,100,000 in commitment fees paid to Quebecor Media.

Class B stock option plan for officers

The plan specifies that the granting of options and the terms and conditions associated with the options granted are determined by the Corporation's Human Resources and Corporate Governance Committee. However, the purchase price of each Class B share under an option cannot be less than the closing price on the Toronto Stock Exchange on the last trading day before the option is granted. In addition, the option term cannot exceed ten years. The number of Class B shares issuable over the term of the Class B stock option plan for officers is 2,200,000.

## 21. CAPITAL STOCK (continued)

Class B stock option plan for officers (continued)

When exercising options, holders may elect to receive from the Corporation a cash payment equal to the number of shares underlying the options exercised, multiplied by the difference between the market value and the subscription price of the shares under option or, subject to certain terms and conditions, subscribe for Class B shares of the Corporation at the subscription price. Market value is defined as the average closing market price of the shares over the last five trading days preceding the date on which the option was exercised.

Since January 2006, except in certain circumstances and unless the Human Resources and Corporate Governance Committee decides otherwise at the time of grant, options are exercisable over a five-year period as follows:

(i) Equally over five years, with the first 20% portion vesting as of the first anniversary of the grant date;

(ii) Equally over four years, with the first 25% portion vesting as of the second anniversary of the grant date;

(iii) Equally over three years, with the first 33 1/3% portion vesting as of the third anniversary of the grant date.

The Corporation recognized a $23,000 compensation expense in connection with this plan for the year ended December 31, 2015 ($57,000 compensation expense reversal in 2014).

The following table provides details of changes to outstanding options granted through December 31, 2015 and 2014:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price** | Number | Weighted average exercise price |
| Balance at beginning of year | **525,368** | **$ 15.25** | 691,076 | $ 16.54 |
| Granted | **80,000** | **6.85** | 30,000 | 8.90 |
| Cancelled | **(82,366)** | **13.68** | (69,208) | 15.32 |
| Expired | **(59,631)** | **21.28** | (126,500) | 20.75 |
| **Balance at end of year** | **463,371** | **$ 13.30** | 525,368 | $ 15.25 |
| **Vested options at end of year** | **369,371** | **$ 14.81** | 495,368 | $ 15.63 |

## 21. CAPITAL STOCK (continued)

Class B stock option plan for officers (continued)

The following table provides summary information on stock options outstanding as at December 31, 2015:

| | Outstanding options | | | Vested options | |
|---|---|---|---|---|---|
| **Range of exercise price** | **Number** | **Weighted average years to maturity** | **Weighted average exercise price** | **Number** | **Weighted average exercise price** |
| $6.85 to $14.62 | 135,910 | 6.76 | $ 9.36 | 41,910 | $ 13.80 |
| $14.75 to $15.99 | 327,461 | 1.51 | 14.94 | 327,461 | 14.94 |
| **$6.85 to $15.99** | **463,371** | **3.05** | **$ 13.30** | **369,371** | **$ 14.81** |

The fair value of stock-based awards under the stock option plans of the Corporation was estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used to estimate the fair value of all outstanding stock options under the stock option plans of the Corporation as at December 31, 2015 and 2014:

| | **2015** | 2014 |
|---|---|---|
| Risk-free interest rate | **0.68 %** | 1.07 % |
| Expected volatility | **67.83 %** | 32.61 % |
| Expected remaining life | **1.83 year** | 1.21 year |

The expected volatility is based on the historical volatility of the underlying share price of the Corporation's class B shares for a period equivalent to the expected remaining life of the options. The expected remaining life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate over the expected remaining life of the option is based on the Government of Canada yield curve in effect at the time of the valuation.

As at December 31, 2015 and 2014, the intrinsic value of liabilities for which options have vested was nil.

## 21. CAPITAL STOCK (continued)

Deferred stock unit plan

The Corporation has established a deferred stock unit ("DSU") plan for the Corporation's directors. Under the terms of the DSU plan, each director who is not an officer of the Corporation must receive a minimum of $15,000 per year in the form of DSUs ("mandatory portion"). Once the minimum ownership threshold described in the Minimum Shareholding by Directors' Policy has been reached, the mandatory portion is lowered to a minimum of $10,000 per year. Subject to certain conditions, each director may elect to receive up to 100% of the total cash compensation payable for his or her services as a director in the form of DSUs.

The value of a DSU is based on the weighted average trading price of the Corporation's Class B non-voting shares on the Toronto Stock Exchange over the last five trading days immediately preceding the relevant date. DSUs entitle the holder to receive dividends, payable in the form of additional DSUs at the same rate as that which applies to the dividends paid from time to time on the Class B non-voting shares.

The DSU plan provides that all DSUs credited to a director's account will be repurchased by the Corporation at the director's request and their value will be paid to the director after he or she ceases to be a director of the Corporation. For the purposes of DSU repurchase, the value of a DSU is determined on the basis of the closing price of the Class B non-voting shares on the Toronto Stock Exchange on the last trading day before the repurchase date. As of December 31, 2015, the total number of DSUs outstanding under this plan was 17,552.

Loss per share

The following table shows the computation of loss per basic and diluted share attributable to shareholders:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Net loss attributable to shareholders | **$** | **(55,226,000)** | $ | (41,088,000) |
| Weighted average number of basic and diluted shares outstanding | | **38,827,404** | | 23,770,906 |
| Basic and diluted loss per share attributable to shareholders | **$** | **(1.42)** | $ | (1.73) |

The loss per diluted share calculation does not take into consideration the potential dilutive effect of stock options of the Corporation, because their impact is non-dilutive.

## 22. QUEBECOR MEDIA STOCK OPTION PLAN

Under a stock option plan established by Quebecor Media, options have been granted to the officers, senior managers and other key employees of Quebecor Media and its subsidiaries. Each option may be exercised within ten years of the grant date at an exercise price no lower than the fair value of the common shares of Quebecor Media at the grant date, as determined by Quebecor Media's Board of Directors (should the common shares of Quebecor Media not be listed on a recognized stock exchange at the grant date), or the weighted average price over the last five trading days preceding the grant date of the common shares of Quebecor Media on the stock exchanges where such shares are listed. As long as Quebecor Media's common shares are not listed on a recognized stock exchange, vested options may be exercised only during the following periods: March 1-March 30, June 1-June 29, September 1-September 29 and December 1-December 30 of each year. On an option's exercise date, option holders may exercise their right, at their discretion, to: (i) receive a cash amount equal to the appreciation in value of the vested option's underlying shares; or (ii) subject to certain conditions, purchase common shares of Quebecor Media.

Except in specific circumstances, and unless the Human Resources and Compensation Committee of Quebecor Media decides otherwise, options vest over a five-year period using one of the following methods, as determined by that Committee at the grant date: (i) equally over five years, with the initial 20% portion vesting on the first anniversary of the grant date; (ii) equally over four years, with the first 25% portion vesting as of the second anniversary of the grant date; or (iii) equally over three years, with the first 33 1/3% portion vesting as of the third anniversary of the grant date.

The Corporation recognized a $1,075,000 compensation expense under the plan for the year ended December 31, 2015 ($1,065,000 in 2014).

## 22. QUEBECOR MEDIA STOCK OPTION PLAN (continued)

The following table provides details of changes to stock options granted to senior executives of the Corporation as at December 31, 2015 and 2014:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price** | Number | Weighted average exercise price |
| Balance at beginning of year | **355,432** | **$ 55.43** | 331,407 | $ 53.35 |
| Granted | **50,000** | **70.56** | 67,000 | 63.60 |
| Exercised | **(86,172)** | **51.74** | (29,375) | 49.52 |
| Cancelled | **(8,200)** | **67.80** | (13,600) | 57.64 |
| Options related to executives transferred to TVA Group | **148,500** | **55.72** | – | – |
| Options related to executives transferred to Quebecor Media | **(233,360)** | **53.71** | – | – |
| **Balance at end of year** | **226,200** | **$ 61.70** | 355,432 | $ 55.43 |
| **Vested options at end of year** | **5,000** | **$ 60.49** | 67,432 | $ 46.55 |

During the year ended December 31, 2015, $2,544,000 was disbursed by the Corporation for the Quebecor Media stock options exercised ($413,000 in 2014).

The following table provides summary information on stock options outstanding as at December 31, 2015:

| | | **Outstanding options** | | | **Vested options** |
|---|---|---|---|---|---|
| **Range of exercise price** | **Number** | **Weighted average years to maturity** | **Weighted average exercise price** | **Number** | **Weighted average exercise price** |
| $51.89 to $57.64 | 120,800 | 7.57 | $ 57.45 | 2,800 | $ 57.64 |
| $63.50 to $70.56 | 105,400 | 8.73 | 66.58 | 2,200 | 64.13 |
| **$51.89 to $70.56** | **226,200** | **8.11** | **$ 61.70** | **5,000** | **$ 60.49** |

## 22. QUEBECOR MEDIA STOCK OPTION PLAN (continued)

The fair value of stock options under the Quebecor Media stock option plan was estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used to estimate the fair value of all outstanding stock options under the Quebecor Media stock option plan as at December 31, 2015 and 2014:

| | **2015** | 2014 |
|---|---|---|
| Risk-free interest rate | **0.82 %** | 1.37 % |
| Dividend yield | **1.50 %** | 1.38 % |
| Expected volatility | **18.89 %** | 19.13 % |
| Expected remaining life | **3.9 years** | 3.5 years |

Because, as at December 31, 2015, the common shares of Quebecor Media were not publicly traded on a stock exchange, the expected volatility is derived from the implied volatility of the shares of Quebecor Media's parent corporation. The expected remaining life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate over the expected remaining life of the option is based on the Government of Canada yield curve in effect at the time of the valuation. Dividend yield is based on the current average yield.

As at December 31, 2015, the intrinsic value of liabilities for which options have vested was $45,000 ($1,615,000 as at December 31, 2014).

## 23. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

| | **Cash flow hedge** | **Defined benefits plan** | **Total** |
|---|---|---|---|
| Balance as at December 31, 2013 | $ – | $ 5,148 | $ 5,148 |
| Other comprehensive loss | – | (8,766) | (8,766) |
| Balance as at December 31, 2014 | – | (3,618) | (3,618) |
| Other comprehensive loss | (338) | (2,518) | (2,856) |
| **Balance as at December 30, 2015** | **$ (338)** | **$ (6,136)** | **$ (6,474)** |

## 24. TAX CREDITS AND GOVERNMENT ASSISTANCE

Revenues included $11,923,000 ($9,473,000 in 2014) in government assistance for producing and publishing Canadian content in magazines. In 2014, revenues also included government assistance for local programming.

Tax credits and government assistance amounting to $1,291,000 ($1,079,000 in 2014) were recorded as a reduction of program production expenses and film marketing costs, which are included in operating expenses.

Deferred revenues included $3,733,000 ($1,862,000 in 2014) in financial assistance for the creation and publishing of Canadian content in magazines.

## 25. PENSION PLANS AND POSTRETIREMENT BENEFITS

Pension plans provided to the management and unionized employees of the Corporation include a defined benefit portion based on career earnings indexed before and after retirement, as well as a defined contribution portion. The Corporation offers its senior management an end-of-career earnings pension plan indexed before and after retirement, as well as a non-indexed supplemental post-retirement plan for which the benefits offset the tax limit effect. Certain employees are provided with a career-earnings pension plan indexed before and after retirement. The Corporation also offers other retirement benefits to eligible retired employees.

TVA Group pension plans are registered with a Quebec or federal regulatory authority. The Corporation's financing policy is to maintain its contributions at sufficient levels to fund benefit payments and to meet applicable regulatory requirements and provisions governing pension plan funding. These provisions require, among other things, the future payment of special solvency contributions when the degree of solvency of the retirement plans is less than 100% as defined by the applicable laws in Quebec and federally. The contributions are determined by an actuarial valuation performed by an independent company at least once every three years or annually, according to the applicable legislation and the provisions of the plans.

By their design, the defined benefit plans expose the Corporation to certain specific risks, such as investment performance, changes to the discount rate used to value the obligations, longevity of plan members and future inflation. The plans are administered by the pension committees, which are composed of plan members, members of Corporation management and independent members, or by the Corporation, according to the provisions of the plans. Under the Corporation's rules of governance, approval and oversight of all policies related to defined benefit plans are the responsibility at different levels of the pension committees, the Corporation's senior management and the Audit Committee. Management of the risks associated with the pension plans is also performed under the control of these committees at various levels. Custody of securities and management of securities transactions are also performed by trustees under a mandate conferred by the Pension Committee or the Corporation, as the case may be. The policies include those dealing with investment objectives, risk mitigation strategies and the mandate to hire investment fund managers and oversee their work and their performance. The defined benefit plans are monitored on an ongoing basis to assess funding and investment policies, financial status and the funding requirements of the Corporation.

## 25. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

The following table provides information on the defined benefit plans and reconciles the changes in the plans' accrued benefit obligations and the fair value of plan assets for the years ended December 31, 2015 and 2014:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Change in benefit obligations** | | | | |
| Benefit obligations at beginning of year | **$ 252,331** | $ 212,990 | **$ 1,773** | $ 1,706 |
| Service costs | **6,748** | 4,752 | **2** | 4 |
| Interest costs | **10,543** | 10,556 | **58** | 66 |
| Participant contributions | **3,216** | 3,441 | **–** | – |
| Actuarial losses (gains) arising from: | | | | |
| Demographic assumptions | **–** | 2,933 | **–** | (20) |
| Financial assumptions | **3,742** | 29,541 | **21** | 80 |
| Participant experience | **(2,485)** | (1,500) | **–** | 310 |
| Benefits paid | **(15,289)** | (10,382) | **(119)** | (138) |
| Other | **(222)** | – | **217** | (235) |
| **Benefit obligations at end of year** | **$ 258,584** | $ 252,331 | **$ 1,952** | $ 1,773 |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of year | **$ 259,682** | $ 226,140 | **$ –** | $ – |
| Actual return on plan assets | **11,534** | 28,716 | **–** | – |
| Employer contributions | **7,564** | 11,767 | **119** | 138 |
| Participant contributions | **3,216** | 3,441 | **–** | – |
| Benefits paid | **(15,289)** | (10,382) | **(119)** | (138) |
| **Fair value of plan assets at end of year** | **$ 266,707** | $ 259,682 | **$ –** | $ – |

As at December 31, 2015, the weighted average duration of defined benefit obligations was 14.5 years (16.3 years in 2014). The Corporation projects benefit payments in the amount of $13,739,000 in 2016.

## 25. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

The Corporation's investment strategy for plan assets takes into consideration a number of factors, including the time horizon of plan obligations and investment risk. For each plan, an allocation range is developed for each asset category, in which a combination of equity securities and debt securities is used to optimize the risk-return profile of plan assets and to mitigate asset-liability mismatch.

Plan assets are allocated as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| Equity securities: | | | | |
| Canadian | **23.9** | **%** | 24.9 | % |
| Foreign | **33.2** | | 31.2 | |
| Debt securities | **39.0** | | 40.9 | |
| Other | **3.9** | | 3.0 | |
| | **100.0** | **%** | 100.0 | % |

The fair value of plan assets is based primarily on the prices quoted in an active market.

Where funded plans have a net defined benefit asset, the Corporation determines if potential reductions in future contributions are permitted by applicable regulation and collective agreements. When a defined benefit asset is created, it may not exceed the future economic benefit that the Corporation may expect to derive from that asset. The future economic benefit represents the value of reductions in future contributions and fees payable to the pension plan. It does not reflect gains that could be generated in the future that would have allowed contribution reductions by the Corporation. Where there is a minimum funding requirement, this may further limit the amount recognized on the balance sheet. The minimum funding requirement represents the present value of solvency contributions, based on the latest actuarial funding valuations filed.

## 25. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

The reconciliation of funded status to the net amount recognized in the consolidated balance sheets is detailed as follows:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Reconciliation of funded status** | | | | |
| Benefit obligations | **$ (258,584)** | $ (252,331) | **$ (1,952)** | $ (1,773) |
| Fair value of plan assets | **266,707** | 259,682 | **–** | – |
| Plan surplus (deficit) | **$ 8,123** | $ 7,351 | **$ (1,952)** | $ (1,773) |
| Asset limit | **(8,493)** | (4,387) | **–** | – |
| **Net amount recognized**[1] | **$ (370)** | $ 2,964 | **$ (1,952)** | $ (1,773) |

[1] The net amount recognized for 2015 consist of a liability of $2,322,000 ($1,773,000 in 2014) included under “Other liabilities” (note 20). The net amount recognized for 2014 also included an asset of $2,964,000 under “Defined benefit plan asset.”

The re-measurement components are as follows:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Actuarial loss on benefit obligations | **$ (1,258)** | $ (30,974) | **$ (10)** | $ (141) |
| Actual return on plan assets, less interest income anticipated in the interest on the net defined benefit liability or asset calculation | **1,748** | 18,356 | **–** | – |
| Asset limit | **(3,926)** | 766 | **–** | – |
| **Re-measurements recorded in comprehensive loss** | **$ (3,436)** | $ (11,852) | **$ (10)** | $ (141) |

## 25. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

Components of the net benefit costs are as follows:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Employee costs: | | | | |
| Service costs | **$ 6,748** | $ 4,752 | **$ 2** | $ 4 |
| Other | **721** | 788 | **–** | – |
| Interest on net defined benefit liability or asset | **(7)** | (352) | **58** | 66 |
| **Net benefit costs** | **$ 7,462** | $ 5,188 | **$ 60** | $ 70 |

The expense related to defined contribution pension plans for fiscal 2015 amounted to $3,165,000 ($2,948,000 in 2014).

The expected employer contributions to the Corporation's defined benefit pension plans and post-retirement benefit plans will be $1,363,000 in 2016, based on the most recently filed actuarial report (contributions of $7,683,000 were paid in 2015).

Assumptions

The Corporation determines its assumption for the discount rate to be used for computing annual service and interest expenses on the basis of an index of high-quality corporate bond yields and a matched-funding yield curve analysis as of the measurement date.

## 25. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

Assumptions (continued)

The actuarial assumptions used to determine the Corporation's retirement plan obligations as at December 31, 2015 and 2014 are as follows:

| | Pension benefits | | Postretirement benefits | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Benefit obligations** | | | | |
| Rates as of year-end: | | | | |
| Discount rate | **4.00 %** | 4.10 % | **4.00 %** | 4.10 % |
| Rate of compensation increase | **3.00 – 3.25** | 3.00 – 3.25 | **3.00 – 3.25** | 3.00 – 3.25 |
| **Current periodic costs** | | | | |
| Rates as of preceding year-end: | | | | |
| Discount rate | **4.10 %** | 4.90 % | **4.10 %** | 4.90 % |
| Rate of compensation increase | **3.00 – 3.25** | 3.00 – 3.25 | **3.00 – 3.25** | 3.00 – 3.25 |

The assumed average retirement age of participants used varies with the plan and averaged 62 years in 2015 and 2014.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 6.75% at the end of 2015. These costs, as per estimate, are expected to decrease gradually over the next 10 years to 4.5% and to remain at that level thereafter.

## 25. PENSION PLANS AND POSTRETIREMENT BENEFITS (continued)

Sensitivity analysis

An increase of 10 basis points in the discount rate would have decreased the pension benefits obligation by $3,726,000 and the postretirement benefits obligation by $77,000 as of December 31, 2015.

There are limitations to this sensitivity analysis since it only considers the impacts of an increase of 10 basis points in the discount rate assumption without changing any other assumptions. No sensitivity analysis was performed on other assumptions as a similar change to those assumptions would have not have a significant impact on the consolidated financial statements.

## 26. RELATED-PARTY TRANSACTIONS

Compensation of key officers

The key officers are the senior executives and members of the Board of Directors of the Corporation. Their compensation is as follows:

| | **2015** | 2014 |
|---|---|---|
| Salaries and short-term benefits | **$ 3,946** | $ 3,029 |
| Stock-based compensation | **656** | 986 |
| Other long-term benefits | **526** | 344 |
| | **$ 5,128** | $ 4,359 |

## 26. RELATED-PARTY TRANSACTIONS (continued)

Revenues and operating expenses

For the year ended December 31, 2015, 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, recognized subscription revenues and provided production, postproduction and other services to companies under common control and affiliated companies, for an aggregate amount of $103,567,000 ($81,947,000 in 2014).
- The Corporation recorded telecommunications service costs, advertising space acquisition costs, professional service fees and commissions on sales and news gathering services arising from transactions with corporations under common control and affiliated corporations, totalling $37,273,000 ($34,559,000 in 2014).
- The Corporation recognized management fees paid to the parent corporation amounting to $4,320,000 ($4,320,000 in 2014).

Other transactions

**ROC Television**

On February 13, 2015, Sun Media Corporation, a corporation under common control, announced the discontinuation of the operations of the “SUN News” specialty service, then operated by Sun News General Partnership. As at December 31, 2015, the Corporation’s share of the “SUN News” specialty service’s loss included costs related to the discontinuation of operations. In a corporate reorganization carried out in April 2015, Sun Media Corporation was folded into Quebecor Media, which now holds 51% of SUN News General Partnership, the name of which was changed on September 30, 2015 to ROC Television G.P. (“ROC Television”).

In 2015, the Corporation continued making capital contributions to ROC Television and a $1,760,000 allowance was recorded under accounts payable and accrued liabilities as at December 31, 2015 to cover costs related to the discontinuation of operations. In 2015, the partners in ROC Television made a capital contribution of $5,900,000 ($14,200,000 in 2014), including $2,891,000 from the Corporation ($6,958,000 in 2014).

In 2014, the Corporation recorded an investment impairment charge of $832,000 (note 6) and its share of the “SUN News” specialty service’s loss included an asset impairment of $1,617,000.

**Credit facility from parent corporation**

On December 30, 2014, in connection with the funding of the acquisition of the assets of Global Vision, the Corporation obtained a $100,000,000 credit facility from Quebecor Media. This facility bore interest at the rate quoted on the CDOR page of Reuter’s Monitor Service that day for bankers’ acceptances with a term to maturity similar to the applicable maturity date (the CDOR rate) plus 2.375% per year (3.672% as at December 31, 2014). That credit facility was paid down in the first quarter of 2015. The Corporation paid $805,000 in interest on the credit facility in 2015.

## 27. COMMITMENTS AND GUARANTEES

### (a) Leases and purchasing agreements

The Corporation has commitments under operating leases, mainly for premises and equipment, and under acquisition contracts for services, distribution and broadcast rights, property, plant and equipment and intangible assets, calling for payments totalling $864,764,000, including $8,732,000 with related companies. The leases have various terms, indexing clauses, purchase options and renewal rights. Minimum payments for future years are as follows:

| | Leases | Broadcast rights[1] | Others |
|---|---|---|---|
| 2016 | $ 6,853 | $ 123,434 | $ 9,048 |
| 2017 to 2020 | 16,597 | 314,736 | 11,535 |
| 2021 and thereafter | 3,641 | 378,904 | 16 |

[1] Commitments regarding rights include commitments arising from the agreement with Rogers Communications made by Quebecor Media and TVA Group in 2013 for Canadian French-language broadcast rights to National Hockey League games. Total commitments related to that agreement have been included in the Corporation's commitments.

Expenses related to the operating leases of the Corporation and its subsidiaries in the amount of $6,604,000 in 2015 ($1,625,000 in 2014) were recognized as operating expenses in the consolidated statements of income.

### (b) Guarantees

The Corporation has guaranteed a portion of the residual values of certain assets under operating leases 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, 2015, the maximum liability in respect of these guarantees totalled approximately $376,000, and the Corporation has recognized no amount in the consolidated balance sheet in relation to these guarantees. In previous years, the Corporation has made no payments in respect of these guarantees.

## 27. COMMITMENTS AND GUARANTEES (continued)

### (b) Guarantees (continued)

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. In the first quarter of 2014, the liability risk under specific commitments, which totalled $4,700,000 at December 31, 2013, was recognized in purchases of goods and services.

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Corporation's risk management policies are established to identify and analyze the Corporation's risk exposures, set appropriate risk limits and controls, and monitor risks and adherence to limits. The risk management policies are reviewed, when necessary, to reflect changes in market conditions and the Corporation's operations.

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.

### (a) Fair value of financial instruments

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 its financial instruments accounted for at fair value in 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 values of long-term debt, of the derivative financial instrument and of the credit facility from the parent corporation are estimated based on a valuation model using Level 2 inputs. The fair values are based on discounted cash flows using year-end market yields or the market value of similar financial instruments with the same maturity.

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

### (a) Fair value of financial instruments (continued)

The carrying amount and the fair value of the long-term debt, of the credit facility from the parent corporation and of the derivative financial instrument as at December 31, 2015 and 2014 were as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| Credit facility from parent corporation | **$ –** | **$ –** | $ 100,000 | $ 100,000 |
| Derivative financial instrument | **814** | **814** | 547 | 547 |
| Term loan[1] | **73,797** | **73,797** | 74,737 | 74,737 |

[1] *The carrying amount of long-term debt excludes financing fees.*

### (b) Credit risk management

Credit risk is the risk of the Corporation incurring a financial loss should a client or third party related to a financial asset fail to meet its contractual obligations.

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. As at December 31, 2015, no clients had balances representing a significant portion of the Corporation's consolidated trade receivables. The Corporation establishes an allowance for doubtful accounts taking into account client-specific credit risk. 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, 2015, 9.16% of trade receivables had been outstanding for more than 120 days after the billing date (7.10% as at December 31, 2014), of which 41.4% were covered by an allowance for doubtful accounts (48.5% as at December 31, 2014).

The table below shows the variance in the allowance for doubtful accounts for the years ended December 31, 2015 and 2014:

| | **2015** | 2014 |
|---|---|---|
| Balance as at beginning of year | **$ 3,023** | $ 1,086 |
| Change to consolidated income | **1,043** | 338 |
| Utilization | **(494)** | (532) |
| Business acquisitions | **50** | 2,131 |
| **Balance as at end of year** | **$ 3,622** | $ 3,023 |

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

### (c) 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 and debt servicing, pension plan contributions, dividends and share redemptions, and to meet their commitments and guarantees.

As at December 31, 2015, the obligations and maturities of financial liabilities of the Corporation are as follows:

| | Total | Less than 1 year | 1-3 years | 3-5 years |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 114,657 | $ 114,657 | $ – | $ – |
| Broadcast rights payable | 91,647 | 88,867 | 2,780 | – |
| Long-term debt | 73,797 | 4,219 | 16,406 | 53,172 |
| Interest payments[1] | 7,763 | 2,269 | 4,236 | 1,258 |
| **Total** | **$ 287,864** | **$ 210,012** | **$ 23,422** | **$ 54,430** |

[1] *Interest is calculated on a constant debt level equal to that as at December 31, 2015 and includes standby fees on the revolving credit facility.*

### (d) 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 exposure 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 arising from 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 purchase certain distribution rights, 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.

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

### (d) Market risk (continued)

*Interest rate risk*

The Corporation is exposed to interest rate risk associated on its revolving credit facility and its term loan facility. As at December 31, 2015, the Corporation's long-term debt consisted entirely of floating-rate debt.

The Corporation uses an interest rate swap to manage the risk associated with interest rate fluctuations and to fix future interest expenses on a tranche of its debt that bears interest at a floating rate. The Corporation does not intend to settle its swap before maturity, because it is not being held for speculative purposes. The main characteristics of this swap as of December 31, 2015 were as follows:

| Term | Notional amount | Pay/ receive | Fixed rate | Floating rate |
|---|---|---|---|---|
| December, 2017 | $ 38,500,000 | Pay fixed / Receive floating | 2.03% | Bankers' acceptances 1 month |

A 100-basis-point increase (decrease) in the year-end Canadian Bankers' acceptance rates on the balance of the floating rate long-term debt as at December 31, 2015 and considering the interest rate swap would have resulted in a $353,000 annual increase (decrease) in financial expenses.

## 28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

### (e) Capital management

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

- preserve 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 generated 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 is composed of shareholder's equity, long-term debt, a derivative financial instrument, a credit facility from the parent corporation and a bank overdraft, less cash.

The capital structure as of December 31, 2015 and 2014 was as follows:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Long-term debt | **$** | **73,797** | $ | 74,737 |
| Derivative financial instrument | | **814** | | 547 |
| Credit facility from parent corporation | | **–** | | 100,000 |
| Bank overdraft | | **–** | | 4,486 |
| Cash | | **(11,996)** | | – |
| Net liabilities | | **62,615** | | 179,770 |
| Equity | **$** | **309,432** | $ | 258,205 |

Excluding maintenance of certain financial ratios under its credit agreements, the Corporation is not subject to any other externally imposed capital requirements. As at December 31, 2015, the Corporation was in compliance with the terms of its credit agreements.

## 29. SEGMENTED INFORMATION

At the beginning of 2015, the Corporation revised its business segments to better reflect changes in its operations and management structure following the acquisition of substantially all of the assets of Global Vision on December 30, 2014. Accordingly, the new Film Production & Audiovisual Services segment was created.

In addition, since April 12, 2015, following the transaction with Transcontinental Inc., the operations of the acquired magazines have been included in the Magazines segment's results, while custom publishing operations have been included in the Broadcasting & Production segment's results.

Then, the Corporation's operations consist of the following segments:

– The **Broadcasting & Production segment**, which includes the operations of TVA Network (including the subsidiary and divisions TVA Productions Inc., TVA Nouvelles and TVA Interactif), specialty services, the marketing of digital products associated with the various televisual brands, the commercial production, dubbing, custom publishing and premedia services of TVA Accès inc., and distribution of audiovisual products by the TVA Films division.

– The **Magazines segment**, which through its subsidiaries, notably TVA Publications inc. and Les Publications Charron & Cie inc., publishes French- and English-language magazines in various fields such as the arts, entertainment, television, fashion, sports and decoration, and markets digital products associated with the various magazine brands.

– The **Film Production & Audiovisual Services segment**, which since December 30, 2014 has included the soundstage and equipment leasing, postproduction and visual effects services provided by MELS.

## 29. SEGMENTED INFORMATION (continued)

Intersegment items represent the elimination of normal course business transactions between the Corporation's business segments regarding revenues and expenses.

The reportable segments determined by the Corporation's management are strategic operating units that provide various goods and services. They are managed separately because, among other reasons, each segment requires different marketing strategies.

The segments' accounting policies are the same as those used by the Corporation as a whole (see note 1).

| | | | | | 2015 |
|---|---|---|---|---|---|
| | Broadcasting & Production | Magazines | Film Production & Audiovisual Services | Intersegments items | Total |
| Revenues | $ 428,526 | $ 106,457 | $ 60,120 | $ (5,213) | $ 589,890 |
| Purchases of goods and services | 288,577 | 77,230 | 22,562 | (5,213) | 383,156 |
| Employee costs | 114,357 | 21,491 | 23,496 | – | 159,344 |
| Adjusted operating income[1] | 25,592 | 7,736 | 14,062 | – | 47,390 |
| Depreciation of property, plant and equipment and amortization of intangible assets | | | | | 33,515 |
| Financial expenses | | | | | 4,104 |
| Operational restructuring costs, impairment of assets and others | | | | | 6,315 |
| Impairment of a licence and of goodwill (a) | | | | | 60,107 |
| **Loss before tax recovery and share of loss of associated corporations** | | | | | **(56,651)** |

(a) The impairment is attributable to the Broadcasting & Production segment.

## 29. SEGMENTED INFORMATION (continued)

| | | | | | | | | | | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Broadcasting & Production | | Magazines | | Film Production & Audiovisual Services | | Intersegments items | | Total |
| Revenues | $ | 380,178 | $ | 62,614 | $ | – | $ | (3,452) | $ | 439,340 |
| Purchases of goods and services | | 247,726 | | 39,297 | | – | | (3,452) | | 283,571 |
| Employee costs | | 112,724 | | 13,619 | | – | | – | | 126,343 |
| Adjusted operating income[1] | | 19,728 | | 9,698 | | – | | – | | 29,426 |
| Depreciation of property, plant and equipment and amortization of intangible assets | | | | | | | | | | 22,104 |
| Financial expenses | | | | | | | | | | 4,231 |
| Operational restructuring costs, impairment of assets and others | | | | | | | | | | 3,594 |
| Impairment of a licence and of goodwill (a) | | | | | | | | | | 41,000 |
| **Loss before tax recovery and share of loss of associated corporations** | | | | | | | | | | (41,503) |

[1] The Chief Executive Officer uses adjusted operating income (loss) as a measure of financial performance for assessing the performance of each of the Corporation's segments. Adjusted operating income (loss) is defined as net income (loss) before depreciation of property, plant and equipment, amortization of intangible assets, financial expenses, operational restructuring costs, impairment of assets and others, income taxes and share of loss (income) of associated corporations. Adjusted operating income (loss) as defined above is not a measure of results that is consistent with IFRS.