

Consolidated Financial Statements of

TVA GROUP INC.

Years ended December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP¹

Montréal, Canada
March 3, 2017

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



TVA GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

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TVA GROUP INC.

CONSOLIDATED STATEMENTS OF LOSS

Years ended December 31, 2016 and 2015

(in thousands of Canadian dollars, except per share amounts)

	Note	2016	2015
Revenues	2 and 26	\$ 590,866	\$ 589,890
Purchases of goods and services	3 and 26	384,349	383,898
Employee costs		161,116	158,602
Depreciation of property, plant and equipment and amortization of intangible assets	14 and 15	35,961	33,515
Financial expenses	5	3,378	4,104
Operational restructuring costs, impairment of assets and others	6	5,940	6,315
Impairment of a licence and of goodwill	7	40,100	60,107
Loss before income tax expense (recovery) and share of (income) loss of associated corporations		(39,978)	(56,651)
Income tax expense (recovery)	9	542	(7,818)
Share of (income) loss of associated corporations		(829)	6,134
Net loss		\$ (39,691)	\$ (54,967)
Net (loss) income attributable to:			
Shareholders		\$ (39,855)	\$ (55,226)
Non-controlling interest		164	259
Basic and diluted loss per share attributable to shareholders	21	\$ (0.92)	\$ (1.42)

See accompanying notes to consolidated financial statements.

TVA GROUP INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years ended December 31, 2016 and 2015
(in thousands of Canadian dollars)

	Note	2016	2015
Net loss		\$ (39,691)	\$ (54,967)
Other comprehensive items that may be reclassified to income:			
Cash flow hedge:			
Gain (loss) on valuation of derivative financial instruments	28	294	(462)
Deferred income taxes	9	(79)	124
Other comprehensive items that will not be reclassified to income:			
Defined benefit plans:			
Re-measurement gain (loss)	25	11,296	(3,446)
Deferred income taxes	9	(3,027)	928
		8,484	(2,856)
Comprehensive loss		\$ (31,207)	\$ (57,823)
Comprehensive (loss) income attributable to:			
Shareholders		\$ (31,371)	\$ (58,082)
Non-controlling interest		164	259

See accompanying notes to consolidated financial statements.

TVA GROUP INC.

CONSOLIDATED STATEMENTS OF EQUITY

Years ended December 31, 2016 and 2015
(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, 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
Net (loss) income	–	–	(39,855)	–	164	(39,691)
Other comprehensive income	–	–	–	8,484	–	8,484
Balance as at December 31, 2016	\$ 207,280	\$ 581	\$ 67,514	\$ 2,010	\$ 840	\$ 278,225

See accompanying notes to consolidated financial statements.

TVA GROUP INC.

CONSOLIDATED BALANCE SHEETS

As at December 31, 2016 and 2015
(in thousands of Canadian dollars)

	Note	2016	2015
Assets			
Current assets			
Cash		\$ 17,219	\$ 11,996
Accounts receivable	11	142,663	150,930
Income taxes		3,966	6,787
Programs, broadcast rights and inventories	12	77,628	79,495
Prepaid expenses		3,870	4,064
		245,346	253,272
Non-current assets			
Broadcast rights	12	44,684	36,321
Investments	13 and 26	12,756	12,594
Property, plant and equipment	14	205,843	208,103
Intangible assets	7 and 15	32,493	39,770
Goodwill	7 and 16	37,885	77,985
Defined benefit plan asset	25	4,250	–
Deferred income taxes	9	3,351	7,069
		341,262	381,842
Total assets		\$ 586,608	\$ 635,114

TVA GROUP INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

As at December 31, 2016 and 2015
(in thousands of Canadian dollars)

	Note	2016	2015
Liabilities and equity			
Current liabilities			
Accounts payable and accrued liabilities	17	\$ 105,523	\$ 112,914
Income taxes		1,250	1,769
Broadcast rights payable		92,627	88,867
Provisions	18	6,638	7,107
Deferred revenues	24	19,847	28,148
Short-term debt	19	6,562	4,219
		232,447	243,024
Non-current liabilities			
Long-term debt	19	62,561	68,812
Other liabilities	20	11,579	10,974
Deferred income taxes	9	1,796	2,872
		75,936	82,658
Equity			
Capital stock	21	207,280	207,280
Contributed surplus		581	581
Retained earnings		67,514	107,369
Accumulated other comprehensive income (loss)	23	2,010	(6,474)
Equity attributable to shareholders		277,385	308,756
Non-controlling interest		840	676
		278,225	309,432
Commitments, guarantees and contingencies	18 and 27		
Total liabilities and equity		\$ 586,608	\$ 635,114

See accompanying notes to consolidated financial statements.

On March 3, 2017, the Board of Directors approved the consolidated financial statements for the years ended December 31, 2016 and 2015.

On behalf of the Board of Directors,

(signed)

(signed)

Sylvie Lalande, Chairwoman of the Board

Marc A. Courtois, Chairman of Audit Committee

TVA GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2016 and 2015
(in thousands of Canadian dollars)

	Note	2016	2015
Cash flows related to operating activities			
Net loss		\$ (39,691)	\$ (54,967)
Adjustments for:			
Depreciation and amortization	5, 14 and 15	36,243	33,829
Impairment of a licence and of goodwill	7	40,100	60,107
Share of (income) loss of associated corporations		(829)	6,134
Deferred income taxes	9	(494)	(8,663)
Others	6	303	24
Cash flows provided by current operations		35,632	36,464
Net change in non-cash balances related to operating activities	10 a)	6,023	58,830
Cash flows provided by operating activities		41,655	95,294
Cash flows related to investing activities			
Additions to property, plant and equipment	14	(29,081)	(23,900)
Additions to intangible assets	15	(2,285)	(2,642)
Net business acquisitions	8	222	(57,147)
Change in investments	26	(895)	(2,620)
Cash flows used in investing activities		(32,039)	(86,309)
Cash flows related to financing activities			
Decrease in bank overdraft		–	(4,486)
Repayment of long-term debt	19	(4,190)	(940)
Repayment of credit facility from parent corporation	26	–	(100,000)
Issuance of share capital, net of transaction costs	21	–	108,633
Repayment of derivative financial instruments		(203)	(196)
Cash flows (used in) provided by financing activities		(4,393)	3,011
Net change in cash		5,223	11,996
Cash, beginning of year		11,996	–
Cash, end of year		\$ 17,219	\$ 11,996

See accompanying notes to consolidated financial statements.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

TVA Group Inc. ("TVA Group" or the "Corporation") is governed by the *Quebec Business Corporations Act*. TVA Group is a 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%
Mels Dubbing Inc.	100.0%
TVA Productions Inc.	100.0%
TVA Productions II Inc.	100.0%
TVA Sales and Marketing 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").

Certain comparative figures for the year ended December 31, 2015 have been restated to conform to the presentation adopted for the year ended December 31, 2016.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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 statements of income under "Operational restructuring costs, impairment of assets and others."

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

(d) Foreign currency translation

Financial 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. Foreign currency transactions are translated into the functional currency at the exchange rate in effect on the transaction date. Translation gains and losses are included in the consolidated statements of income for the year under "Financial expenses."

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition

The Corporation recognizes operating revenues when the following criteria are met:

- The amount of revenue can be measured reliably;
- The receipt of economic benefits associated with the transaction is probable;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably;
- The stage of completion can be measured reliably where services have been rendered; and
- The significant risks and rewards of ownership, including effective control, have been transferred to the buyer where goods have been sold.

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 rental

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

Revenues from postproduction and visual effects

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

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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 or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive income 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) Results per share

Basic results 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 results 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 statements 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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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
<ul style="list-style-type: none">Cash	<ul style="list-style-type: none">Accounts receivable	<ul style="list-style-type: none">Portfolio investments included under "Investments"	<ul style="list-style-type: none">Accounts payable and accrued liabilitiesBroadcast rights payableProvisionsLong-term debtOther 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. 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 secure future interest expenses on a portion 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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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 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 when it is broadcast, using a method based on the manner in which future economic benefits will be generated.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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, are reviewed periodically by management and revised as necessary. The carrying value of programs produced and productions in progress, as well as broadcast 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 rights and inventories is revised when the circumstances that previously caused the write-down expense no longer exist.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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 statements 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 amortized 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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Goodwill and intangible assets

Goodwill

Goodwill arising from a business 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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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 statements of income in the reporting periods in which the re-measurements occurred.

(t) Stock-based compensation

Stock-based awards to officers or directors that call for settlement in cash, such as deferred stock units and performance stock units, or settlement in cash or other assets at the option of the holder, such as stock options, 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.

The fair value of deferred share units and performance share units is based on the relying share's price at the valuation date. Estimates of the fair value of stock options are determined by applying an option pricing model, taking into account the terms and conditions of the grant and assumptions such as the risk-free rate, expected volatility and the expected remaining life of the option.

The judgment and assumptions used in determining the fair value of related liability stock option plans may have an effect on the compensation cost recorded in the consolidated statements of income. The main assumptions are discussed in note 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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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 statements 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 and postretirement benefit plans

Defined benefit pension plan costs and obligations are estimated on the basis of a number of assumptions, including the discount rate, future salary levels, the retirement age of employees, health care costs, and other actuarial factors. Some of these assumptions could materially affect the employee costs and financial expenses recognized in the consolidated statements of income, the gain or loss on re-measurement of defined benefit plans recognized in the consolidated statements 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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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 statements 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 statements 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

- (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 measures undertaken by entities.

The Corporation does not expect the application of IFRS 9 to have any material impact.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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.

The Corporation does not expect the application of IFRS 15 to have any material impact.

- (iii) IFRS 16 – *Leases* is required to be applied retrospectively for annual periods beginning on or after January 1, 2019, with early adoption permitted if 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 lessees with 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 recognizing right-of-use assets and related financial liabilities.

The Corporation has not yet completed its assessment of the impact of the adoption of IFRS 16 on its consolidated financial statements, however it could have a material impact since the Corporation has commitments under long-term leases for premises and equipment.

Under IFRS 16, most lease charges will be expensed as an asset amortization charge, along with a financial charge on the asset related financial liabilities. As operating lease charges are currently recognized as operating expenses as they are incurred, the adoption of IFRS 16 will change the timing of the recognition of these lease charges over the term of each lease. It will also affect the classification of expenses in the consolidated statements of income.

2. REVENUES

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

	2016	2015
Advertising services	\$ 292,344	\$ 291,681
Royalties	119,943	110,934
Rental and postproduction services and other services rendered	63,246	71,185
Product sales	115,333	116,090
	\$ 590,866	\$ 589,890

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

3. PURCHASES OF GOODS AND SERVICES

The main components are as follows:

	2016	2015
Rights and production costs	\$ 251,179	\$ 258,481
Printing and distribution	33,227	31,875
Services rendered by parent corporation		
- Commissions on advertising sales	20,553	17,889
- Others	8,647	8,856
Building costs	21,286	20,173
Marketing, advertising and promotion	17,730	15,360
Others	31,727	31,264
	\$ 384,349	\$ 383,898

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, 2016, the Corporation recognized revenues and operating expenses related to barter transactions totalling \$5,589,000 (\$6,604,000 in 2015).

5. FINANCIAL EXPENSES

	Note	2016	2015
Interest on long-term debt	19	\$ 2,449	\$ 3,078
Interest on credit facility from parent corporation	26	–	805
Amortization of financing costs		282	314
Interest expenses on net defined liability or benefit asset	25	350	51
Foreign exchange loss (gain)		330	(342)
Others		(33)	198
		\$ 3,378	\$ 4,104

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

6. OPERATIONAL RESTRUCTURING COSTS, IMPAIRMENT OF ASSETS AND OTHERS

	2016	2015
Operational restructuring costs	\$ 4,822	\$ 6,253
Impairment of assets	100	—
Others	1,018	62
	\$ 5,940	\$ 6,315

Operational restructuring costs

In 2016 and 2015, the Corporation recorded operational restructuring costs in connection with staff reductions and the discontinuation of the publication of titles as follows:

	2016	2015
Broadcasting & Production	\$ 2,507	\$ 2,798
Magazines	1,834	2,920
Film Production & Audiovisual Services	481	535
	\$ 4,822	\$ 6,253

Impairment of assets

In 2016, the Corporation recorded a \$100,000 impairment charge on an intangible asset in the Magazines segment.

Others

In 2016, the Corporation also recorded a \$748,000 charge as compensation for Videotron Ltd., a company under common control, following cancellation of a lease with the Corporation.

As well, in 2016, the Corporation recorded professional fees in the amount of \$72,000 in connection with the 2014 and 2015 acquisitions (\$689,000 in 2015), as well as a \$198,000 loss on a contingent consideration receivable from Sogides Group Inc. in connection with the sale of the book publishing operations acquired in the 2015 transaction (note 8).

Following a Quebec Court of Appeal judgement in favour of Videotron Ltd. and TVA Group, the Corporation recorded a gain on litigation of \$627,000, including interest, in 2015.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

7. IMPAIRMENT OF A LICENCE AND OF GOODWILL

The continuing downward trend in operating revenues in the magazines industry, particularly in advertising and newsstand revenues, led the Corporation to perform an impairment test on its Magazines CGU in the third quarter of 2016. The Corporation concluded that the recoverable amount, based on value in use, of the Magazines CGU was less than its carrying amount. Accordingly, a \$40,100,000 goodwill impairment charge, without any tax consequences, was recognized.

In the third quarter of 2015, 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. Accordingly, a \$60,107,000 non-cash impairment charge was recorded with respect to the broadcasting licence, including \$30,054,000 without any tax consequences.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

8. BUSINESS ACQUISITIONS AND DISPOSALS

On April 12, 2015, the Corporation acquired from Transcontinental Inc. 14 magazines, four of which are owned and operated in partnership, as well as three 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

As part of this transaction, the Corporation simultaneously transferred the acquired book publishing operations to Sogides Group Inc., a corporation under common control, for the agreed price of \$720,000, including \$300,000 in cash and a contingent consideration receivable valued at \$420,000. During the fiscal year ended December 31, 2016, the Corporation received a final contingent consideration of \$222,000 and accordingly recorded a \$198,000 loss under "Others" to reflect the change in value of that consideration.

The Corporation's consolidated revenues and consolidated pro forma net loss for the year ending December 31, 2015 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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

8. BUSINESS ACQUISITIONS AND DISPOSALS (continued)

MELS

On December 30, 2014, TVA Group acquired substantially all of the assets (including certain operating liabilities) of A.R. Global Vision Ltd. 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. 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

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

9. INCOME TAXES

Income tax expense (recovery) is detailed as follows:

	2016	2015
Current	\$ 1,036	\$ 845
Deferred	(494)	(8,663)
	\$ 542	\$ (7,818)

The following table reconciles income tax recovery at the Canadian statutory rate of 26.9% in 2016 and 2015 and the income tax expense (recovery) reported on the consolidated statements of loss:

	2016	2015
Tax recovery at Canadian statutory tax rate	\$ (10,754)	\$ (15,239)
(Decrease) increase resulting from:		
Tax impact of taxable income (deductible losses) of ROC Television	78	(1,452)
Tax impact of non-deductible charges and non-taxable revenues	454	547
Non-deductible impairment of a licence and of goodwill	10,787	8,084
Others	(23)	242
Income tax expense (recovery)	\$ 542	\$ (7,818)

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

9. INCOME TAXES (continued)

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

	Consolidated balance sheets		Consolidated statements of loss	
	2016	2015	2016	2015
Loss carryforwards	\$ 109	\$ 855	\$ 746	\$ 2,091
Accounts payable, accrued liabilities, provisions	1,604	1,604	–	(429)
Defined benefit plans	(625)	623	(1,779)	(15)
Property, plant and equipment	1,873	1,338	(535)	(309)
Goodwill and intangible assets	(3,707)	(4,268)	(561)	(8,203)
Others	2,301	4,045	1,635	(1,798)
	\$ 1,555	\$ 4,197	\$ (494)	\$ (8,663)

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

	2016	2015
Balance as of beginning of the year	\$ 4,197	\$ (6,415)
Recognized in statement of loss	494	8,663
Recognized in other comprehensive loss	(3,106)	1,052
Others	(30)	897
Balance as of end of the year	\$ 1,555	\$ 4,197
Deferred tax assets	3,351	7,069
Deferred tax liabilities	(1,796)	(2,872)
	\$ 1,555	\$ 4,197

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, 2016, the Corporation had operating loss carryforwards for income tax purposes of approximately \$406,000 available to reduce its future taxable income. These loss carryforwards expire between 2035 and 2036.

The Corporation also has \$167,374,000 in unrecognized loss carryforwards with no expiry to be used solely to reduce future capital gains.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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:

	2016	2015
Accounts receivable	\$ 7,847	\$ 4,307
Programs, broadcast rights and inventories	(6,496)	(8,917)
Accounts payable and accrued liabilities	(961)	11,478
Broadcast rights payable	4,752	43,823
Income taxes	2,302	(536)
Defined benefit plan asset and other liabilities	7,155	(353)
Others	(8,576)	9,028
	\$ 6,023	\$ 58,830

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

	2016	2015
Net interest paid	\$ 2,570	\$ 3,975
Income taxes (received) paid (net of payments or refunds)	(1,271)	1,374

11. ACCOUNTS RECEIVABLE

	Note	2016	2015
Trade receivables	28 b)	\$ 83,876	\$ 90,307
Other receivables		22,533	19,751
Trade and other receivables from entities under common control and affiliates		31,908	34,376
Tax credits and government assistance receivable		4,346	6,496
		\$ 142,663	\$ 150,930

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

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

12. PROGRAMS, BROADCAST RIGHTS AND INVENTORIES

	2016		
	Short-term	Long-term	Total
Programs produced and productions in progress	\$ 5,191	\$ –	\$ 5,191
Broadcast rights	70,980	44,684	115,664
Inventories	1,457	–	1,457
	\$ 77,628	\$ 44,684	\$ 122,312

	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

The cost of inventories and expenses related to programs and broadcast rights included in purchases of goods and services and employee costs amounted to \$369,270,000 in 2016 (\$367,621,000 in 2015). In 2016, an impairment expense totalling \$268,000 (\$752,000 in 2015) related to inventories, programs and broadcast rights was recorded in purchases of goods and services.

13. INVESTMENTS

	2016	2015
Tele Inter-Rives Ltd., associated corporation, 45% ownership interest	\$ 9,131	\$ 9,240
Publications Senior inc., associated corporation, 50% ownership interest	2,646	2,289
Other investments	979	1,065
	\$ 12,756	\$ 12,594

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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

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14. PROPERTY, PLANT AND EQUIPMENT

For the years ended December 31, 2016 and 2015, 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, 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	(253)	(527)	–	(780)
Balance as at December 31, 2015	171,306	216,888	22,962	411,156
Acquisitions ¹	5,396	13,071	5,781	24,248
Reclassification	10,516	11,892	(22,408)	–
Write-offs and disposals ¹	(560)	(1,997)	–	(2,557)
Balance as at December 31, 2016	\$ 186,658	\$ 239,854	\$ 6,335	\$ 432,847
Accumulated depreciation and impairment:				
Balance as at December 31, 2014	\$ 64,615	\$ 114,790	\$ –	\$ 179,405
Depreciation	6,471	17,918	–	24,389
Write-offs and disposals	(214)	(527)	–	(741)
Balance as at December 31, 2015	70,872	132,181	–	203,053
Depreciation	6,987	19,471	–	26,458
Write-offs and disposals ¹	(560)	(1,947)	–	(2,507)
Balance as at December 31, 2016	\$ 77,299	\$ 149,705	\$ –	\$ 227,004
Net carrying amount:				
As at December 31, 2015	\$ 100,434	\$ 84,707	\$ 22,962	\$ 208,103
As at December 31, 2016	109,359	90,149	6,335	205,843

¹ The net change in additions to property, plant and equipment funded by accounts payable and accrued liabilities, consisting primarily of equipment, was a \$4,883,000 decrease for the year ended December 31, 2016 (\$4,185,000 increase for the year ended December 31, 2015). The Corporation also disposed of computer hardware for a consideration of \$50,000. The proceeds from disposal were equal to the net carrying amount, while in 2015 the Corporation recorded proceeds from disposal of \$39,000 for equipment related to a building.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

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15. INTANGIBLE ASSETS

For the years ended December 31, 2016 and 2015, 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, 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	–	(450)	(35)	–	(485)
Balance as at December 31, 2015	92,569	55,394	30,780	1,645	180,388
Acquisitions ²	–	1,979	–	347	2,326
Reclassification	–	1,645	–	(1,645)	–
Write-offs and disposals	–	–	(100)	–	(100)
Balance as at December 31, 2016	\$ 92,569	\$ 59,018	\$ 30,680	\$ 347	\$ 182,614

As at December 31, 2016, the cost of internally generated intangible assets, consisting mainly of software, websites and mobile apps, was \$13,218,000 (\$11,489,000 as at December 31, 2015). For the year ended December 31, 2016, the Corporation recognized additions to internally generated intangible assets totalling \$1,729,000 (\$2,064,000 in 2015), and did not write-off any internally generated intangible assets (\$71,000 write-off in 2015) for fully amortized internally generated intangible assets.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

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15. 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, 2014	\$ 32,462	\$ 38,142	\$ 1,231	\$ –	\$ 71,835
Amortization	–	5,203	3,923	–	9,126
Impairment (note 7)	60,107	–	–	–	60,107
Write-offs and disposals	–	(450)	–	–	(450)
Balance as at December 31, 2015	92,569	42,895	5,154	–	140,618
Amortization	–	4,921	4,582	–	9,503
Balance as at December 31, 2016	\$ 92,569	\$ 47,816	\$ 9,736	\$ –	\$ 150,121
Net carrying amount:					
As at December 31, 2015	\$ –	\$ 12,499	\$ 25,626	\$ 1,645	\$ 39,770
As at December 31, 2016	–	11,202	20,944	347	32,493

¹ Intangible assets with indefinite useful lives are not amortized. They include fully impaired broadcasting licences assigned to the Broadcasting & Production CGU, a fully impaired magazine operating licence in the Magazines CGU, and mastheads with a net carrying amount of \$9,244,000 in the Magazines CGU.

² The net change in additions to intangible assets funded by accounts payable and accrued liabilities, consisting primarily of software, was a \$41,000 increase for the year ended December 31, 2016 (\$121,000 increase for the year ended December 31, 2015).

As at December 31, 2016, the accumulated amortization and impairment of internally generated intangible assets, consisting primarily of software, websites and mobile apps, amounted to \$11,018,000 (\$8,175,000 as at December 31, 2015). For the year ended December 31, 2016, the Corporation recognized an amortization expense arising from internally generated intangible assets of \$2,843,000 (\$1,326,000 in 2015).

As at December 31, 2016, internally generated intangible assets had a net carrying amount of \$2,200,000 (\$3,314,000 as at December 31, 2015).

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

16. GOODWILL

Goodwill as at December 31, 2016 and 2015 is detailed as follows:

	Note	2016	2015
Cost		\$ 197,559	\$ 197,559
Accumulated amortization and impairment	7	159,674	119,574
Net carrying amount		\$ 37,885	\$ 77,985

At December 31, 2016 and 2015, the carrying amount of the goodwill allocated to the Film Production & Audiovisual Services CGU was \$7,892,000. The \$29,993,000 balance was attributed to the Magazines CGU (\$70,093,000 in 2015).

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.

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16. GOODWILL (continued)

Recoverable amounts (continued)

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

CGUs	2016		2015	
	Pre-tax discount rate (WACC)	Perpetual growth rate	Pre-tax discount rate (WACC)	Perpetual growth rate
Magazines ¹	15.6 %	-1.0 %	16.0 %	0.0 %
Film Production & Audiovisual Services ¹	12.3 %	2.0 %	11.0 %	2.0 %

¹ The recoverable amount for these CGUs is based on value in use in 2016 and in 2015.

The recoverable amount of the Magazines CGU is equal to its carrying amount in view of the impairment charge recognized following the most recent impairment test (note 7).

For the Film Production & Audiovisual Services 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 at the time of the most recent impairment test in 2016 is 0.5%.

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2016	2015
Accounts payable and accrued liabilities		\$ 45,300	\$ 54,722
Employee salaries and benefits		24,305	20,839
Accounts payable to companies under common control and affiliated companies		34,671	36,332
Stock-based compensation	22	1,102	692
Interest payable and others		145	329
		\$ 105,523	\$ 112,914

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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18. PROVISIONS AND CONTINGENCIES

	Operational restructuring costs	Contingencies, legal disputes and others	Total
Balance as at December 31, 2015	\$ 2,064	\$ 5,043	\$ 7,107
Net change in income	4,822	774	5,596
Payments	(6,052)	(13)	(6,065)
Balance as at December 31, 2016	\$ 834	\$ 5,804	\$ 6,638

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 and discontinuation of the publication of titles in the Magazines segment.

Contingencies, legal disputes and others

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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

19. LONG-TERM DEBT

	2016	2015
Bank credit facilities ⁱ⁾	\$ 69,607	\$ 73,797
Financing costs, net of accumulated amortization	(484)	(766)
	69,123	73,031
Less short-term debt	(6,562)	(4,219)
Long-term debt	\$ 62,561	\$ 68,812

⁽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 in the initial amount 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. As at December 31, 2016, the term loan bears interest at an annual rate of 3.93%. 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. As of December 31, 2016, no amount was drawn on the revolving credit facility, while at December 31, 2015 \$425,000 was drawn for letters of credit.

As at December 31, 2016, 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:

2017	\$ 6,562
2018	9,844
2019	53,201

20. OTHER LIABILITIES

	Note	2016	2015
Broadcast rights payable		\$ 3,772	\$ 2,780
Deferred revenues		3,326	3,352
Defined benefit plans	25	1,904	2,322
Stock-based compensation ¹	22	1,580	780
Others		997	1,740
		\$ 11,579	\$ 10,974

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

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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.

	2016	2015
Issued and paid up		
4,320,000 class A common shares	\$ 72	\$ 72
38,885,535 class B shares	207,208	207,208
	\$ 207,280	\$ 207,280

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 included \$1,100,000 in commitment fees paid to Quebecor Media.

Loss per share

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

	2016	2015
Net loss attributable to shareholders	\$ (39,855)	\$ (55,226)
Weighted average number of basic and diluted shares outstanding (in share)	43,205,535	38,827,404
Basic and diluted loss per share attributable to shareholders	\$ (0.92)	\$ (1.42)

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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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22. STOCK-BASED COMPENSATION PLANS

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.

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.

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 \$19,000 compensation expense reversal in connection with this plan for the year ended December 31, 2016 (\$23,000 compensation expense in 2015).

The following table provides details of changes to outstanding options granted through December 31, 2016 and 2015:

	2016		2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of year	463,371	\$ 13.30	525,368	\$ 15.25
Granted	–	–	80,000	6.85
Cancelled	–	–	(82,366)	13.68
Expired	(105,739)	15.29	(59,631)	21.28
Balance at end of year	357,632	\$ 12.71	463,371	\$ 13.30
Vested options at end of year	283,632	\$ 14.11	369,371	\$ 14.81

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

22. STOCK-BASED COMPENSATION PLANS (continued)

Class B stock option plan for officers (continued)

The following table provides summary information on stock options outstanding as at December 31, 2016:

Range of exercise price	Outstanding options			Vested options	
	Number	Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
\$6.85 to \$8.90	100,000	7.93	\$ 7.47	26,000	\$ 7.80
\$8.91 to \$14.75	257,632	0.84	14.75	257,632	14.75
\$6.85 to \$14.75	357,632	2.83	\$ 12.71	283,632	\$ 14.11

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, 2016 and 2015:

	2016	2015
Risk-free interest rate	0.91 %	0.68 %
Expected volatility	35.48 %	67.83 %
Expected remaining life	1.85 year	1.83 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, 2016 and 2015, the intrinsic value of liabilities for which options have vested was nil.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

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22. STOCK-BASED COMPENSATION PLANS (continued)

Quebecor Media stock option plan (continued)

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 \$1,573,000 compensation expense under the plan for the year ended December 31, 2016 (\$1,075,000 in 2015).

The following table provides details of changes to stock options granted to senior executives of the Corporation as at December 31, 2016 and 2015:

	2016		2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance at beginning of year	226,200	\$ 61.70	355,432	\$ 55.43
Granted	–	–	50,000	70.56
Exercised	(52,950)	59.28	(86,172)	51.74
Cancelled	–	–	(8,200)	67.80
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	173,250	\$ 62.44	226,200	\$ 61.70
Vested options at end of year	15,600	\$ 65.27	5,000	\$ 60.49

During the year ended December 31, 2016, \$672,000 was disbursed by the Corporation for the Quebecor Media stock options exercised (\$2,544,000 in 2015).

The following table provides summary information on stock options outstanding as at December 31, 2016:

Range of exercise price	Outstanding options			Vested options	
	Number	Weighted average years to maturity	Weighted average exercise price	Number	Weighted average exercise price
\$51.89 to \$64.89	130,250	6.87	\$ 59.77	8,600	\$ 60.96
\$64.90 to \$70.56	43,000	8.22	70.56	7,000	70.56
\$51.89 to \$70.56	173,250	7.20	\$ 62.44	15,600	\$ 65.27

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

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22. STOCK-BASED COMPENSATION PLANS (continued)

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, 2016 and 2015:

	2016	2015
Risk-free interest rate	1.12 %	0.82 %
Dividend yield	1.33 %	1.50 %
Expected volatility	19.05 %	18.89 %
Expected remaining life	3.1 years	3.9 years

Because, as at December 31, 2016, 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, 2016, the intrinsic value of liabilities for which options have vested was \$208,000 (\$45,000 as at December 31, 2015).

Deferred stock unit ("DSU") and performance stock unit ("PSU") plans

On July 10, 2016, TVA Group established a deferred stock unit ("DSU") plan and a performance stock unit ("PSU") plan for some management employees based on TVA Group Class B Non-Voting Shares ("TVA Group Class B Shares"). The DSUs vest over six years and will be redeemed for cash only upon the participant's retirement or cessation of employment, as the case may be. The PSUs vest over three years and will be redeemed for cash at the end of that period, subject to achievement of financial targets. Holders of DSUs and PSUs are entitled to receive additional shares upon payment of dividends on TVA Class B Shares. No treasury shares will be issued for the purposes of the plans. For the period ending December 31, 2016, TVA Group awarded 159,499 DSUs and 212,671 PSUs under the plans.

On July 13, 2016, Quebecor also established DSU and PSU plans for its employees and those of its subsidiaries, based on, among other things, Quebecor Class B Shares. The DSUs vest over six years and will be redeemed for cash only upon the participant's retirement or cessation of employment, as the case may be. The PSUs vest over three years and will be redeemed for cash at the end of that period, subject to achievement of financial targets. Holders of DSUs and PSUs are entitled to receive additional shares upon payment of dividends on Quebecor Class B Shares.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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22. STOCK-BASED COMPENSATION PLANS (continued)

Deferred stock unit ("DSU") and performance stock unit ("PSU") plans (continued)

No treasury shares will be issued for the purposes of the plans. For the period ending December 31, 2016, Quebecor awarded 11,482 DSUs and 12,762 PSUs based on Quebecor Class B Shares to officers of TVA Group.

Deferred stock unit ("DSU") plan for directors

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 Directors' Minimum Ownership 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, 2016, the total number of DSUs outstanding under this plan was 43,932 (17,552 as of December 31, 2015).

Stock unit plan expense

For the year ended December 31, 2016, a \$344,000 compensation expense was recognized under the stock unit plans (\$72,000 for the year ended December 31, 2015).

23. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

	Cash flow hedge	Defined benefits plan	Total
Balance as at December 31, 2014	\$ –	\$ (3,618)	\$ (3,618)
Other comprehensive loss	(338)	(2,518)	(2,856)
Balance as at December 31, 2015	(338)	(6,136)	(6,474)
Other comprehensive income	215	8,269	8,484
Balance as at December 31, 2016	\$ (123)	\$ 2,133	\$ 2,010

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

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24. TAX CREDITS AND GOVERNMENT ASSISTANCE

Revenues included \$12,990,000 (\$11,923,000 in 2015) in government assistance primarily for producing and publishing Canadian content in magazines.

Tax credits and government assistance amounting to \$480,000 (\$1,291,000 in 2015) were recorded as a reduction of program production expenses and film marketing costs, which are included in operating expenses.

Deferred revenues included \$3,127,000 (\$3,733,000 in 2015) in financial assistance for the creation and publishing of Canadian content in magazines.

25. PENSION PLANS AND POST-RETIREMENT 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

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25. PENSION PLANS AND POST-RETIREMENT 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, 2016 and 2015:

	Pension benefits		Post-retirement benefits	
	2016	2015	2016	2015
Change in benefit obligations				
Benefit obligations at beginning of year	\$ 258,584	\$ 252,331	\$ 1,952	\$ 1,773
Service costs	6,305	6,748	2	2
Interest costs	10,456	10,543	55	58
Participant contributions	3,069	3,216	–	–
Actuarial losses (gains) arising from:				
Financial assumptions	3,830	3,742	13	21
Participant experience	(1,514)	(2,485)	–	–
Benefits paid	(11,979)	(15,289)	(126)	(119)
Others	–	(222)	8	217
Benefit obligations at end of year	\$ 268,751	\$ 258,584	\$ 1,904	\$ 1,952
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 266,707	\$ 259,682	\$ –	\$ –
Actual return on plan assets	22,428	11,534	–	–
Employer contributions	678	7,564	126	119
Participant contributions	3,069	3,216	–	–
Benefits paid	(11,979)	(15,289)	(126)	(119)
Fair value of plan assets at end of year	\$ 280,903	\$ 266,707	\$ –	\$ –

As at December 31, 2016, the weighted average duration of defined benefit obligations was 14.4 years (14.5 years in 2015). The Corporation projects benefit payments in the amount of \$12,454,000 in 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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25. PENSION PLANS AND POST-RETIREMENT 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:

	2016	2015
Equity securities:		
Canadian	27.9 %	23.9 %
Foreign	31.6	33.2
Debt securities	38.6	39.0
Others	1.9	3.9
	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 future contribution holidays and fees payable to the pension plan. It does not reflect potential future gains that could enable the Corporation to take contribution holidays. 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.

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

	Pension benefits		Post-retirement benefits	
	2016	2015	2016	2015
Reconciliation of funded status				
Benefit obligations	\$ (268,751)	\$ (258,584)	\$ (1,904)	\$ (1,952)
Fair value of plan assets	280,903	266,707	-	-
Plan surplus (deficit)	\$ 12,152	\$ 8,123	\$ (1,904)	\$ (1,952)
Asset limit	(7,902)	(8,493)	-	-
Net amount recognized¹	\$ 4,250	\$ (370)	\$ (1,904)	\$ (1,952)

¹ The net amount recognized for 2016 includes a \$4,250,000 asset reported under "Defined benefit plan asset" and a \$1,904,000 liability (\$2,322,000 in 2015) reported under "Other liabilities" (note 20).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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25. PENSION PLANS AND POST-RETIREMENT BENEFITS (continued)

The re-measurement components are:

	Pension benefits		Post-retirement benefits	
	2016	2015	2016	2015
Actuarial loss on benefit obligations	\$ (2,317)	\$ (1,258)	\$ (11)	\$ (10)
Actual return on plan assets, less interest income anticipated in the interest on the net defined benefit liability or asset calculation	12,693	1,748	–	–
Asset limit	931	(3,926)	–	–
Re-measurements recorded in comprehensive loss	\$ 11,307	\$ (3,436)	\$ (11)	\$ (10)

Components of the net benefit costs are as follows:

	Pension benefits		Post-retirement benefits	
	2016	2015	2016	2015
Employee costs:				
Service costs	\$ 6,305	\$ 6,748	\$ 2	\$ 2
Others	753	721	–	–
Interest on net defined benefit liability or asset	295	(7)	55	58
Net benefit costs	\$ 7,353	\$ 7,462	\$ 57	\$ 60

The cost related to defined contribution pension plans for fiscal 2016 amounted to \$3,286,000 (\$3,165,000 in 2015).

The expected employer contributions to the Corporation's defined benefit pension plans and post-retirement benefit plans will be \$3,370,000 in 2017, based on the most recently filed actuarial report (contributions of \$804,000 were paid in 2016).

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.

TVA GROUP INC.

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25. PENSION PLANS AND POST-RETIREMENT BENEFITS (continued)

Assumptions (continued)

The actuarial assumptions used to determine the Corporation's retirement plan obligations as at December 31, 2016 and 2015 are as follows:

	Pension benefits		Post-retirement benefits	
	2016	2015	2016	2015
Benefit obligations				
Rates as of year-end:				
Discount rate	3.90 %	4.00 %	3.90 %	4.00 %
Rate of compensation increase	3.00	3.25	3.00	3.25
Current periodic costs				
Rates as of preceding year-end:				
Discount rate	4.00 %	4.10 %	4.00 %	4.10 %
Rate of compensation increase	3.25	3.25	3.25	3.25

The assumed average retirement age for plan members varies with the plan and averaged 62 years in 2016 and 2015.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 6.5% at the end of 2016. Based on forecasts, the cost is expected to decrease gradually over the next 8 years, to 4.5%, and to remain at that level thereafter.

Sensitivity analysis

An increase of 10 basis points in the discount rate would have decreased the pension benefits obligation by \$3,912,000 and the post-retirement benefits obligation by \$15,000 as of December 31, 2016.

There are limitations to this sensitivity analysis since it only considers the impact of a 10-basis-point increase in the discount rate, without any change in the other assumptions. No sensitivity analysis was performed on the other assumptions, because similar changes in those assumptions would have no significant impact on the consolidated financial statements.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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26. RELATED-PARTY TRANSACTIONS

Compensation of key officers

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

	2016	2015
Salaries and short-term benefits	\$ 3,289	\$ 3,648
Stock-based compensation	1,447	656
Other long-term benefits	554	526
	\$ 5,290	\$ 4,830

Revenues and operating expenses

For the year ended December 31, 2016, 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 \$100,095,000 (\$103,567,000 in 2015).
- 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 \$45,135,000 (\$37,273,000 in 2015).
- In 2016, the Corporation also invoiced management fees to corporations under common control in the amount of \$4,080,000 (\$3,405,000 in 2015). These fees are recorded as a reduction of operating expenses.
- The Corporation also assumed management fees to the parent corporation in the amount of \$3,820,000 (\$4,320,000 in 2015).

Other transactions

ROC Television G.P. ("ROC Television," formerly SUN News General Partnership)

Since the announcement on February 13, 2015 of the discontinuation of the operations of ROC Television, in which TVA Group holds a 49% interest, the Corporation has continued making capital contributions to ROC Television to cover its operating losses up to the closure date as well as costs related to the discontinuation of operations. A \$198,000 allowance was recorded under accounts payable and accrued liabilities at December 31, 2016 to cover those costs.

The partners made a capital contribution of \$2,600,000 in the year ended December 31, 2016, including \$1,274,000 from TVA Group for costs for which an allowance had already been made at the end of the previous financial year and \$1,326,000 from the other partner. The partners made a capital contribution of \$5,900,000 in the year ended December 31, 2015, including \$2,891,000 from TVA Group and \$3,009,000 from the other partner.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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26. RELATED-PARTY TRANSACTIONS (continued)

Other transactions (continued)

Credit facility from parent corporation

In connection with the funding of the acquisition of the assets of MELS, the Corporation obtained a \$100,000,000 credit facility from Quebecor Media, which was paid down in full in the first quarter of 2015 with the proceeds from the subscription rights offering. The Corporation recognized and paid interest in the amount of \$805,000 on that credit facility in the first quarter of 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 rights, property, plant and equipment and intangible assets, calling for payments totalling \$770,328,000, including \$5,596,000 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
2017	\$ 4,468	\$ 113,573	\$ 11,728
2018 to 2021	9,347	305,323	14,190
2022 and thereafter	3,223	308,476	–

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 \$4,602,000 (\$6,604,000 in 2015) were recognized under operating expenses in the consolidated statements of loss.

(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, 2016, the maximum liability in respect of these guarantees totalled approximately \$236,000, 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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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.

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. Risk management policies are reviewed regularly to reflect changes in market conditions and in the Corporation's activities.

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

(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 the financial instruments accounted for at fair value on the consolidated balance sheet:

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

The fair values of the long-term debt and of the derivative financial instrument 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.

The fair value of the long-term debt and the derivative financial instrument corresponds to their carrying amount as at December 31, 2016 and 2015.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(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, 2016, 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, 2016, 13.35% of trade receivables had been outstanding for more than 120 days after the billing date (9.16% as at December 31, 2015), of which 25.6% were covered (41.4% as at December 31, 2015).

The table below shows the variance in the allowance for doubtful accounts for the years ended December 31, 2016 and 2015:

	2016	2015
Balance as at beginning of year	\$ 3,622	\$ 3,023
Change to consolidated income	(450)	1,043
Utilization	(191)	(494)
Business acquisitions	-	50
Balance as at end of year	\$ 2,981	\$ 3,622

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Years ended December 31, 2016 and 2015

(Tabular amounts are expressed in thousands of Canadian dollars, except per share and per option amounts)

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 its commitments and guarantees.

As at December 31, 2016, the obligations and maturities of significant financial liabilities of the Corporation are as follows:

	Total	Less than 1 year	1-3 years
Accounts payable and accrued liabilities	\$ 106,773	\$ 106,773	\$ –
Broadcast rights payable	96,399	92,627	3,772
Long-term debt	69,607	6,562	63,045
Interest payments ¹	5,480	2,284	3,196
Total	\$ 278,259	\$ 208,246	\$ 70,013

¹ Interest is calculated on a constant debt level equal to that at December 31, 2016 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 limit and control exposure to the risk 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 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.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(d) Market risk (continued)

Interest rate risk

The Corporation is exposed to interest rate risk associated with its revolving credit facility and its term loan facility. As at December 31, 2016, the Corporation's long-term debt consisted entirely of floating-rate debt.

To manage the risk associated with interest rate fluctuations, the Corporation is using an interest rate swap to fix future interest expenses on a tranche of the debt bearing interest at a floating rate. The Corporation does not intend to settle this derivative financial instrument before maturity, because it is not being held for speculative purposes. The main characteristics of this swap as of December 31, 2016 were as follows:

Term	Notional amount	Pay/ receive	Fixed rate	Floating rate
December, 2017	\$ 33,000	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, 2016, considering the interest rate swap, would have resulted in a \$366,000 annual increase (decrease) in financial expenses.

(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 and a derivative financial instrument, less cash.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

(e) Capital management (continued)

The capital structure as of December 31, 2016 and 2015 was as follows:

	2016	2015
Long-term debt	\$ 69,607	\$ 73,797
Derivative financial instrument	322	814
Cash	(17,219)	(11,996)
Net liabilities	52,710	62,615
Equity	\$ 278,225	\$ 309,432

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, 2016, the Corporation was in compliance with the terms of its credit agreements.

29. SEGMENTED INFORMATION

Management made changes to the Corporation's management structure at the beginning of 2016. Following this change, some Broadcasting & Production segment operations, formerly conducted by TVA Accès inc. (now Mels Dubbing Inc.) were transferred to other units of the Corporation. Commercial production remained in the Broadcasting & Production segment, while custom publishing, commercial print production and premedia services were integrated into the operations of the Magazines segment and dubbing operations became part of the Film Production & Audiovisual Services segment. Financial information for prior comparative period have been restated to take into account the new presentation.

The Corporation's operations now 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, commercial production services and distribution of audiovisual products.
- The **Magazines segment**, which through its subsidiaries, notably TVA Publications inc. and Les Publications Charron & Cie inc., publishes 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 and provides custom publishing, commercial print production and premedia services.
- The **Film Production & Audiovisual Services segment**, which through its subsidiaries MELS Studios and Postproduction G.P. and Mels Dubbing Inc. provides soundstage and equipment rental, dubbing, postproduction and visual effects services.

TVA GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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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).

						2016
	Broadcasting & Production	Magazines	Film Production & Audiovisual Services	Intersegments items	Total	
Revenues	\$ 427,627	\$ 115,829	\$ 59,320	\$ (11,910)	\$ 590,866	
Purchases of goods and services	290,855	78,678	26,726	(11,910)	384,349	
Employee costs	114,393	23,321	23,402	–	161,116	
Adjusted operating income ¹	22,379	13,830	9,192	–	45,401	
Depreciation of property, plant and equipment and amortization of intangible assets					35,961	
Financial expenses					3,378	
Operational restructuring costs, impairment of assets and others					5,940	
Impairment of goodwill (a)					40,100	
Loss before income tax expense and share of income of associated corporations					\$ (39,978)	

(a) The impairment is attributable to the Magazines segment.

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29. SEGMENTED INFORMATION (continued)

						2015
	Broadcasting & Production	Magazines	Film Production & Audiovisual Services	Intersegments items		Total
Revenues	\$ 417,891	\$ 117,132	\$ 64,570	\$ (9,703)	\$	589,890
Purchases of goods and services	280,724	86,083	26,794	(9,703)		383,898
Employee costs	113,052	21,969	23,581	–		158,602
Adjusted operating income ¹	24,115	9,080	14,195	–		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 (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.

⁽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 (income) loss of associated corporations. Adjusted operating income (loss) as defined above is not a measure of results that is consistent with IFRS.