

## Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Transcontinental Inc. are the responsibility of Management and have been approved by the Board of Directors of the Corporation. The financial statements include some amounts that are based on Management's best estimates using reasonable judgement. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles.

In fulfilling their responsibilities, Management of Transcontinental Inc. and its subsidiaries develop and aim to improve accounting and management systems designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements.

The Board of Directors of the Corporation fulfills its responsibility for the financial statements principally through its Audit Committee. The Audit Committee meets with management and the external auditors every quarter to discuss the results of the audit, internal controls and financial reporting matters. The external auditors appointed by the shareholders have unrestricted access to the Audit Committee, with or without the presence of management.

The financial statements have been audited by KPMG LLP, Chartered Accountants, and their report follows.



François Olivier  
President and Chief Executive Officer



Benoît Huard  
Vice President and Chief Financial Officer

## Auditors' Report to the Shareholders of Transcontinental Inc.

We have audited the consolidated balance sheet of Transcontinental Inc. (the "Corporation") as at October 31, 2009 and the consolidated statements of income (loss), comprehensive income (loss), retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at October 31, 2008 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated December 9, 2008.



Chartered Accountants  
Montreal, Canada  
December 14, 2009

\*CA Auditor permit no 10892

## Consolidated Statements of Income (Loss)

For the years ended October 31  
(in millions of dollars, except per share data)

	Notes	2009	2008 (Note 2)
Revenues		<b>\$2,294.6</b>	\$2,429.3
Operating costs		<b>1,680.8</b>	1,784.1
Selling, general and administrative expenses		<b>264.5</b>	283.7
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		<b>349.3</b>	361.5
Amortization	4	<b>137.4</b>	127.7
Impairment of assets and restructuring costs	5	<b>78.0</b>	27.4
Impairment of goodwill and intangible assets	11 & 12	<b>172.6</b>	192.1
Operating income (loss)		<b>(38.7)</b>	14.3
Financial expenses	6	<b>41.0</b>	30.5
Discount on sale of accounts receivable	8	<b>4.5</b>	9.3
Loss before income taxes and non-controlling interest		<b>(84.2)</b>	(25.5)
Income taxes recovered	7	<b>(2.7)</b>	(31.7)
Non-controlling interest		<b>0.3</b>	(0.4)
<b>Net income (loss)</b>		<b>(81.8)</b>	6.6
Dividends on preferred shares, net of related income taxes		<b>0.5</b>	—
<b>Net income (loss) applicable to participating shares</b>		<b>\$ (82.3)</b>	\$ 6.6
Net income (loss) per share - basic	18	<b>\$ (1.02)</b>	\$ 0.08
Net income (loss) per share - diluted	18	<b>\$ (1.02)</b>	\$ 0.08
Average number of participating shares outstanding (in millions)		<b>80.8</b>	81.7

The notes are an integral part of the consolidated financial statements.

## Consolidated Statements of Comprehensive Income (Loss)

For the years ended October 31  
(in millions of dollars)

	Notes	2009	2008 (Note 2)
<b>Net income (loss)</b>		<b>\$ (81.8)</b>	\$ 6.6
Other comprehensive income (loss):			
Unrealized net change in fair value of derivatives designated as cash flow hedges, net of income taxes of \$3.0 million for the year ended October 31, 2009 (\$8.0) million for the year ended October 31, 2008)		<b>9.2</b>	(17.6)
Reclassification adjustments for net change in fair value of derivatives designated as cash flow hedges in prior periods, transferred to income in the current period, net of income taxes of \$3.9 million for the year ended October 31, 2009 (\$3.4) million for the year ended October 31, 2008)		<b>6.7</b>	(7.4)
Net change in fair value of derivatives designated as cash flow hedges		<b>15.9</b>	(25.0)
Unrealized net gains on translation of financial statements of self-sustaining foreign operations		<b>4.7</b>	17.4
Other comprehensive income (loss)	<b>21</b>	<b>20.6</b>	(7.6)
Comprehensive loss		<b>\$ (61.2)</b>	\$ (1.0)

## Consolidated Statements of Retained Earnings

For the years ended October 31  
(in millions of dollars)

	Notes	2009	2008
<b>Balance, beginning of year, as previously reported</b>		<b>\$756.5</b>	\$806.4
Change in accounting policies - Goodwill and intangible assets	<b>2</b>	<b>(3.0)</b>	(1.7)
<b>Restated balance, beginning of year</b>		<b>753.5</b>	804.7
Net income (loss)		<b>(81.8)</b>	6.6
Premium on redemption of participating shares	<b>17</b>	<b>671.7</b>	811.3
Dividends on participating shares		<b>(25.8)</b>	(25.3)
<b>Balance, end of year</b>		<b>\$645.9</b>	\$753.5

The notes are an integral part of the consolidated financial statements.

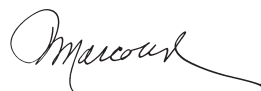
# Consolidated Balance Sheets

As at October 31  
(in millions of dollars)

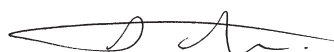
	Notes	2009	2008 (Note 2)
<b>Current assets</b>			
Cash and cash equivalents		\$ 34.7	\$ 90.7
Accounts receivable	8	330.7	207.1
Income taxes receivable		4.1	4.5
Inventories	9	78.2	99.3
Prepaid expenses and other current assets		23.0	16.1
Future income taxes	7	11.9	28.1
		482.6	445.8
<b>Property, plant and equipment</b>	10	978.7	936.7
<b>Goodwill</b>	11	673.4	842.6
<b>Intangible assets</b>	12	181.2	184.1
<b>Future income taxes</b>	7	165.8	141.0
<b>Other assets</b>	13	68.0	64.8
		\$2,549.7	\$2,615.0
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 378.3	\$ 442.9
Income taxes payable		26.8	48.3
Deferred subscription revenues and deposits		43.7	49.6
Future income taxes	7	0.5	9.9
Current portion of long-term debt	15	7.8	194.3
		457.1	745.0
<b>Long-term debt</b>	15	819.0	602.1
<b>Future income taxes</b>	7	110.0	99.3
<b>Other liabilities</b>	16	48.3	65.5
		1,434.4	1,511.9
<b>Non-controlling interest</b>		0.1	0.1
<b>Commitments, guarantees and contingent liabilities</b>	25		
<b>Shareholders' equity</b>			
Share capital	17	476.5	379.5
Contributed surplus	20	12.9	11.3
Retained earnings		645.9	753.5
Accumulated other comprehensive loss	21	(20.1)	(41.3)
		625.8	712.2
		1,115.2	1,103.0
		\$2,549.7	\$2,615.0

The notes are an integral part of the consolidated financial statements.

Approved on behalf of the Board of Directors,



Rémi Marcoux, Director



Richard Fortin, Director

# Consolidated Statements of Cash Flows

For the years ended October 31  
(in millions of dollars)

	Notes	2009	2008 (Note 2)
<b>Operating activities</b>			
Net income (loss)		\$ (81.8)	\$ 6.6
Items not affecting cash and cash equivalents			
Amortization	4	161.7	149.8
Impairment of assets	5	21.1	16.9
Impairment of goodwill and intangible assets	11 & 12	172.6	192.1
Loss (gain) on disposal of assets		(1.2)	0.4
Future income taxes	7	(31.9)	(66.9)
Net change in accrued pension benefit asset and liability	24	(7.4)	(6.0)
Stock-based compensation	19	4.3	2.3
Other		10.1	1.7
Cash flow from operating activities before changes in non-cash operating items		247.5	296.9
Changes in non-cash operating items	22	(168.7)	(12.9)
Cash flow related to operating activities		78.8	284.0
<b>Investing activities</b>			
Business acquisitions	23	(14.4)	(67.3)
Acquisitions of property, plant and equipment		(261.9)	(228.7)
Disposals of property, plant and equipment		16.3	1.9
Increase in other assets and intangible assets		(25.5)	(31.3)
Cash flow related to investing activities		(285.5)	(325.4)
<b>Financing activities</b>			
Increase in long-term debt		281.8	—
Repayment of long-term debt		(108.4)	(26.0)
Increase (decrease) in revolving term credit facility		(89.7)	177.7
Dividends on participating shares		(25.8)	(25.3)
Redemption of participating shares	17	—	(48.7)
Issuance of participating shares	17	0.2	0.6
Issuance of preferred shares	17	96.8	—
Other		(0.6)	(0.2)
Cash flow related to financing activities		154.3	78.1
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(3.6)	5.5
Increase (decrease) in cash and cash equivalents		(56.0)	42.2
Cash and cash equivalents at beginning of year		90.7	48.5
Cash and cash equivalents at end of year		\$ 34.7	\$ 90.7

The notes are an integral part of the consolidated financial statements.