tc • TRANSCONTINENTAL

Press Release

For Immediate Release

TRANSCONTINENTAL'S INC. FIRST QUARTER: CLOSES QUAD/GRAPHICS CANADA, INC. ACQUISITION AND INCREASES DIVIDEND BY 7%

Highlights

Note: Our 2012 results are now reported under the International Financial Reporting Standards (IFRS) and the previous year has been restated to take this into account.

(in millions of dollars, except per share data)	Q1-12	Q1-11	%
Revenues	**495.9**	**514.8**	**(4%)**
Adjusted operating income (1)	**43.0**	**48.7**	**(12%)**
Adjusted net income applicable to participating shares (2)	**27.1**	**28.8**	**(6%)**
Per share	**0.33**	**0.36**	**(8%)**
Unusual items, net of income taxes (3)	**60.4**	**3.7**	**-**
Net income applicable to participating shares	**(33.3)**	**25.7**	**-**
Per share	**(0.41)**	**0.32**	**-**

Notes 1 and 2 please refer to the table "Reconciliation of Non-IFRS financial measures" in this press release.
Note 3: these unusual items are mainly related to tax re-assessments estimated at $58 million in 2012.

- Closed the indirect acquisition of all the shares of Quad/Graphics Canada, Inc. It is expected to add about $230 million to revenues and should generate at least $40 million in net incremental EBITDA over the coming 12 to 24 months.
- Increased dividends on participating shares by 7%. It now stands at $0.58 per share on an annual basis.
- Net income applicable to participating shares decreased from $25.7 million to a loss of $33.3 million mainly due to a tax provision related to notices of re-assessment estimated to be $58.0 million, including applicable interest and penalties for its fiscal years 2006 to 2010. Excluding unusual items, adjusted net income applicable to participating shares decreased 6%, from $28.8 million to $27.1 million.

Montreal, March 13, 2012 – Transcontinental's Inc. (TSX: TCL.A, TCL.B, TCL.PR.D) revenues decreased by 4% in the first quarter, from $514.8 million to $495.9 million, driven primarily by the sale of its black and white book printing business, destined for U.S. exports, completed last September, which was part of the asset swap transaction in which it acquired Quad/Graphics Canada on March 1st. Revenues were also impacted by lower volume from the non-recurring revenue from the printing contract for the Canadian Census last year and to a lesser extent, the printing of magazines and books. This first quarter decrease was mitigated by the Media sector, most notably from the growth of its digital media and community newspaper businesses, as a result of recent investments. Consolidated revenues are expected to return on a growth path over the next year given the contribution from the Quad/Graphics Canada acquisition as well as other contracts such as Canadian Tire.

For this same period, adjusted operating income decreased 12%, from $48.7 million to $43.0 million, driven primarily by the Media sector due to a softer advertising environment coupled with continued competitive pressures in the local solutions marketplace and to a lesser extent by lower first quarter volume in the Printing sector. Net income applicable to participating shares decreased from $25.7 million, or $0.32 per share, to a loss of $33.3 million, or $0.41 per share. This decrease is mainly due to a tax provision of $58.0 million related to notices of re-assessment, which the Corporation intends to contest, pertaining to deductions on investments in capital assets made by the Corporation, as well as interprovincial allocation of income. Excluding unusual items, adjusted net income applicable to participating shares decreased 6%, from $28.8 million, or $0.36 per share, to $27.1 million, or $0.33 per share.

"The acquisition of the Canadian assets of Quad/Graphics is an important milestone in our development, said François Olivier, President and Chief Executive Officer of TC Transcontinental. It strengthens our print business going forward given the industry dynamics and it allows us to extend our integrated marketing activation offering to many new customers. In fact, our transformation continues to ramp up with the growth of our digital and interactive revenues again this quarter.

We continue to maintain a strong financial position with a solid balance sheet and an ability to generate significant cash flow. If the advertising markets remain stable, we expect to improve our performance in the balance of the year given the lift from the Quad/Graphics Canada acquisition, the full impact from new contracts and the benefits related to the integration of our Media and Interactive sectors. We are confident in our strategy and future prospects and as such have increased our dividends on participating shares by 7%."

Other Highlights of the Quarter

- On February 16, 2012, Isabelle Marcoux was elected Chair of the Board.

- Capital expenditures decreased, from $21 million to $8 million. Capital expenditures are expected to be $75 million at the most for fiscal 2012.

- Transcontinental Inc. put in place a new $400 million five-year Unsecured Revolving Credit Facility that expires in February 2017. The current credit facility will remain in place until its expiry in September 2012 but has been reduced to $200 million.

- As at January 31, 2012, the adjusted net indebtedness ratio was 1.42x, as compared to 1.44x as at October 31, 2011.

- In February 2012, the federal and provincial tax authorities informed the Corporation that it would receive notices of re-assessment estimated to be $58.0 million, including applicable interest and penalties for its fiscal years 2006 to 2010. The notices of re-assessments relate to deductions on investments in capital assets made by the Corporation, as well as the interprovincial allocation of income. The Corporation recorded a provision of $58.0 million with respect to these matters, of which $16.0 million was included in financial expenses and $42.0 million in income taxes, although it intends to contest these re-assessments. Therefore, the outcome of this dispute could favorably influence the amounts recognized in the consolidated financial statements of the Corporation.

- Continued to grow our newspaper publishing operations in Quebec by acquiring the print and Internet publishing assets of *Courrier Frontenac* as well as acquiring the assets of *Tout Magazine*. We also launched a new community newspaper, the *Valleyfield Express.ca*. In addition, we are now the sole shareholder of *Réseau Sélect*, the largest advertising network for the French-language weekly press in Canada.

- Acquired the shares of *Les Éditions Caractère*, the leader in the supplemental educational publishing market in Quebec and publisher of bestsellers in the trade market.

For more detailed financial information, please see *Management's Discussion and Analysis for the first quarter ended January 31, 2012* and the complete financial statements on our website at www.tc.tc, under "Investors."

Reconciliation of Non-IFRS Financial Measures

Financial data have been prepared in conformity with IFRS. However, certain measures used in this press release do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many readers analyze our results based on certain non-IFRS financial measures because such measures are more appropriate for evaluating the Corporation's operating performance. Internally, Management uses such non-IFRS financial information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with IFRS.

The following table reconciles IFRS financial measures to non-IFRS financial measures.

TRANSCONTINENTAL

Reconciliation of Non-IFRS financial measures

(unaudited)

(in millions of dollars, except per share amounts)	For the first quarter ended January 31 **2012**	2011
Net income applicable to participating shares	**$ (33.3)**	$ 25.7
Dividends on preferred shares	**1.7**	1.7
Net loss (income) related to discontinued operations (after tax)	**-**	(0.6)
Non-controlling interest	**-**	0.3
Income tax expenses	**47.6**	5.7
Financial expenses	**23.7**	10.8
Restructuring and integration expenses and acquisition costs	**2.5**	1.6
Impairment of assets	**0.8**	3.5
Adjusted operating income	**$ 43.0**	$ 48.7
Amortization	**28.9**	31.0
Adjusted operating income before amortization	**$ 71.9**	$ 79.7
Net income applicable to participating shares	**$ (33.3)**	$ 25.7
Net loss (income) from discontinued operations (after tax)	**-**	(0.6)
Unusual adjustments to income taxes	**42.0**	-
Restructuring and integration expenses and acquisition costs (after tax)	**1.8**	1.2
Impairment of assets (after tax)	**0.6**	2.5
Financial expenses related to unusual adjustments to income taxes (after tax)	**16.0**	-
Adjusted net income applicable to participating shares	**$ 27.1**	$ 28.8
Average number of participating shares outstanding	**81.0**	81.0
Adjusted net income applicable to participating shares per share	**$ 0.33**	$ 0.36

	As at January 31, 2012	As at October 31, 2011
Long-term debt	**$ 211.9**	$ 292.5
Current portion of long-term debt	**312.9**	271.9
Cash and cash equivalents	**(56.8)**	(75.0)
Net indebtedness	**$ 468.0**	$ 489.4
Amount to be paid to Quad/Graphics following the closing of the transaction to acquire the shares of Quad/Graphics Canada	**50.0**	50.0
Adjusted net indebtedness	**$ 518.0**	$ 539.4
Adjusted operating income before amortization (last 12 months)	**$ 365.6**	$ 373.4
Net indebtedness ratio	**1.28x**	1.31x
Adjusted net indebtedness ratio	**1.42x**	1.44x

Dividend

At its March 12, 2012 meeting, the Corporation's Board of Directors declared a quarterly dividend of $0.145 per Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on April 26, 2012 to participating shareholders of record at the close of business on April 6, 2012. The Corporation thus increased the dividend per participating share by 7%, or $0.04 per share, raising the new annual dividend to $0.58 per share, from $0.54 per share. This increase is a reflection of Transcontinental's strong cash flow position. Furthermore, at the same meeting, the Board also declared a quarterly dividend of $0.4196 per share on cumulative 5-year rate reset first preferred shares, series D. This dividend is payable on April 16, 2012. On an annual basis, this represents a dividend of $1.6875 per preferred share.

Additional Information

Upon releasing its first quarter 2012 results, Transcontinental will hold a conference call for the financial community today at 10:00 a.m. Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on the Corporation's Web site, which will then be archived for 30 days. For media requests for information or interviews, please contact Nancy Bouffard, Director, Internal and External Communications of TC Transcontinental, at 514 954-2809.

Profile

TC Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and the fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces, it is also one of Canada's top media groups. TC Transcontinental is also the leading door-to-door distributor of advertising material in Canada through its Publisac network in Quebec and Targeo in the rest of Canada. Thanks to a wide digital network of more than 1,000 websites, the Corporation reaches over 13.7 million unique visitors per month in Canada. TC Transcontinental also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental Inc. (TSX: TCL.A, TCL.B, TCL.PR.D), known by the brands TC Transcontinental, TC Media and TC Transcontinental Printing, has approximately 11,000 employees in Canada and the United States, and reported revenues of C$2.0 billion in 2011. For more information about the corporation, please visit www.tc.tc

Forward-looking Statements

This press release contains certain forward-looking statements concerning the future performance of the Corporation. Such statements, based on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors, many of which are beyond the Corporation's control, including, but not limited to, the economic situation, structural changes in its industries, exchange rate, availability of capital, energy costs, increased competition, as well as the Corporation's capacity to engage in strategic transactions and integrate acquisitions into its activities. The risks, uncertainties and other factors that could influence actual results are described in the *Management's Discussion and Analysis* and *Annual Information Form*.

The forward-looking information in this release is based on current expectations and information available as at March 13, 2012. The Corporation's management disclaims any intention or obligation to update or revise any forward-looking statements unless otherwise required by the Securities Authorities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter ended January 31, 2012

The purpose of this Management's Discussion and Analysis is to explain management's point of view on the past performance and future outlook of TC Transcontinental. More specifically, it is designed to give the reader a better understanding of our development strategy, performance in relation to objectives, future expectations and how Management addresses risk and manages financial resources. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes.

In this document, unless otherwise indicated, all financial data are prepared in accordance with International Financial Reporting Standards (IFRS). The term "dollar," as well as the symbols "$" and "C$" designate Canadian dollars, unless otherwise indicated. The IFRS-related disclosures and unaudited values in this report have been prepared using the standards and interpretations currently issued and expected to be effective at the end of our fiscal year on October 31, 2012. Note that amounts presented in this document and the consolidated interim financial statements which accompany it for the quarter ended January 31, 2012 have been restated to reflect the adoption of IFRS effective November 1, 2010. Periods prior to November 1, 2010 have not been restated and were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Note 19 of the consolidated interim financial statements for the period ended January 31, 2012 presents a reconciliation of the differences between our financial statements prepared according to Canadian GAAP and those prepared using IFRS for the quarter ended January 31, 2011, as well as for the fiscal year ended October 31, 2011. In this Management's Discussion and Analysis we also use non-IFRS financial measures. Please refer to the section of this report entitled "Reconciliation of Non-IFRS Financial Measures" for a complete description of these measures, on page 7. This report should be read in conjunction with the information presented in the consolidated financial statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2011 and with the consolidated interim financial statements for the period ended January 31, 2012.

To facilitate the reading of this report, the terms "TC Transcontinental", "Corporation", "we", "our" and "us" all refer to Transcontinental Inc. together with its subsidiaries.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our medium-term goals, our outlook, business project and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "objective," the use of the conditional tense, and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: credit risks, data security and utilization, market dynamics, liquidity, financing and operational risks; the strength of the North American economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, more particularly the U.S. dollar; the impact from raw material and energy prices; the seasonal and cyclical nature of certain businesses; the effects of changes in interest rates; the effects of competition in the markets in which we operate; the effects of new media and the corresponding shift of advertising revenue to new platforms; judicial judgments and legal proceedings; our ability to develop new opportunities through our strategy; our ability to hire and retain qualified personnel and maintain a good reputation; our ability to complete and integrate strategic transactions; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; infrastructure risks; the possible impact on our businesses from public health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies or a postal strike, technological changes and new regulations.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to TC Transcontinental, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on

forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See “Risks and Uncertainties” in Management’s Discussion and Analysis for the fiscal year ended October 31, 2011 for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as of March 12, 2012.

DEFINITION OF TERMS USED IN THIS REPORT

To make it easier to read this report, some terms have been shortened. The following are the full definitions of the shortened terms used in this report:

Terms Used	Definitions
Adjusted net income applicable to participating shares	Net income from continuing operations applicable to participating shares of existing operations, before restructuring and integration expenses, acquisition costs, impairment of assets as well as expenses related to long-debt prepayment (net of related income taxes) and unusual adjustments to income taxes
Adjusted net indebtedness	Total of long-term debt plus current portion of long-term debt plus bank overdraft, less cash and cash equivalents and the amount paid to Quad/Graphics upon conclusion of the transaction to acquire the shares of Quad/Graphics Canada
Adjusted net indebtedness ratio	Adjusted net indebtedness divided by the last 12 months’ adjusted income before amortization
Adjusted operating income	Operating income from continuing operations before restructuring and integration expenses, acquisition costs as well as impairment of assets
Adjusted operating income before amortization	Operating income from continuing operations before amortization, restructuring and integration expenses, acquisition costs, as well as impairment of assets
Net income from continuing operations applicable to participating shares	Net income from continuing operations minus dividends on preferred shares and excluding discontinued operations
Net indebtedness	Total of long-term debt plus current portion of long-term debt plus bank overdraft, less cash and cash equivalents
Net indebtedness ratio	Net indebtedness divided by the last 12 months’ adjusted income before amortization
Organic growth	Growth in revenues, adjusted operating income or net income applicable to participating shares excluding the effect of acquisitions, divestitures, closures, the exchange rates and paper

TC TRANSCONTINENTAL PROFILE

TC Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and the fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces, it is also one of Canada's top media groups. TC Transcontinental is also the leading door-to-door distributor of advertising material in Canada through its Publisac network in Quebec and Targeo in the rest of Canada. Thanks to a wide digital network of more than 1,000 websites, the Corporation reaches over 13.7 million unique visitors per month in Canada. TC Transcontinental also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

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HIGHLIGHTS

- First quarter of 2012 revenues declined 3.7% year over year, from $514.8 million to $495.9 million.
- Adjusted operating income was down 11.7%, from $48.7 million in first quarter of 2011 to $43.0 million in 2012.
- Adjusted net income applicable to participating shares decreased by $1.7 million, or 5.9%, from $28.8 million in first quarter of 2011 to $27.1 million in 2012.
- Adjusted net debt ratio improved, from 1.44x at October 31, 2011 to 1.42x at January 31, 2012.

- We finalized the transaction to indirectly acquire the shares of Quad/Graphics Canada on March 1st, 2012. With this transaction we have acquired six printing plants and a premedia service centre, for revenues of about $230 million and more than 1,000 employees.
- We rebranded to reflect our transformation, repositioning ourselves under the name TC Transcontinental and branding our two sectors as TC Media and TC Transcontinental Printing.
- We received notices of tax re-assessment estimated at $58.0 million relating to deductions on investments in capital assets as well as the interprovincial allocation of income. We recorded a provision for the total amount in the first quarter of 2012 with respect to this matter, although we intend to contest these re-assessments. The outcome of this dispute could have a favourable impact on the amounts recognized in the consolidated financial statements of the Corporation.
- Announced an increase in the annual dividend per participating share, from $0.54 to $0.58, up more than 7%.

ANALYSIS OF CONSOLIDATED RESULTS

(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income applicable to participating shares	%
First quarter of 2011	**$ 514.8**		**$ 48.7**		**$ 25.7**	
Acquisitions/Divestitures/Closures	(4.4)	(0.9) %	4.1	8.4 %	3.4	13.2 %
Existing operations						
Paper effect	4.0	0.8 %	(0.1)	(0.2) %	(0.1)	(0.4) %
Exchange rates effect	(1.3)	(0.3) %	(1.4)	(2.9) %	(1.1)	(4.3) %
Organic growth (negative)	(17.2)	(3.3) %	(8.3)	(17.0) %	(3.9)	(15.2) %
Discontinued operations	-	- %	-	- %	(0.6)	(2.3) %
Restructuring, integration and acquisitions costs	-	- %	-	- %	(0.6)	(2.3) %
Impairment of assets	-	- %	-	- %	1.9	7.4 %
Financial expenses related to unusual adjustments to income taxes	-	- %	-	- %	(16.0)	n/a
Unusual adjustments to income taxes	-	- %	-	- %	(42.0)	n/a
First quarter of 2012	**$ 495.9**	**(3.7) %**	**$ 43.0**	**(11.7) %**	**$ (33.3)**	**n/a**

As shown in the above table, certain factors had an impact on the difference in results for first quarter of 2012 and first quarter of 2011.

Revenues

Revenues went from $514.8 million in first quarter of 2011 to $495.9 million in first quarter of 2012, down 3.7%, due to the following factors:

- The net impact of acquisitions, divestitures and closures reduced revenues by $4.4 million, mainly due to the sale of our black and white book printing business destined for U.S. export in fourth quarter of 2011, partially offset by recent acquisitions in the Media Sector.
- The paper effect had a positive impact of $4.0 million, on our Printing Sector's revenues. This effect includes variations in the price of paper, the volume of paper supplied by our customers and changes in the type of paper used.
- Fluctuations in the exchange rate between the Canadian and U.S. dollars reduced revenues by $1.3 million. The conversion of sales by our U.S. operations had a positive impact of $0.2 million. The negative impact of export sales from Canadian operations, net of currency hedging, was $1.5 million.
- Organic growth in revenues was down $17.2 million, or 3.3%, in first quarter of 2012. This is mainly due to the completion of a major contract to print the Canada census forms as well as more competitive market conditions in our Printing Sector. Media

Sector revenues were affected by lower spending by national advertisers, impacted on our magazine and newspaper publishing operations outside Quebec. The decrease was, however, partially mitigated by our digital and interactive solutions, as well as the launch of new weekly papers in Quebec in recent quarters.

Adjusted Operating Income

Adjusted operating income went from $48.7 million in first quarter of 2011 to $43.0 million in first quarter of 2012, down 11.7%, due to the following factors:

- The net effect of acquisitions, divestitures and closures increased adjusted operating income by $4.1 million, principally due to cost reductions associated to plant closures in the Printing Sector and the sale of our black and white book printing business destined for U.S. export, in fourth quarter of 2011.

- The paper effect, which affected our Media Sector's adjusted operating income, reduced by $0.1 million in first quarter of 2012 due to variations in paper price.

- Fluctuations in the exchange rate between the Canadian and U.S. dollars led to a $1.4 million decrease in adjusted operating income. The conversion of results by U.S. units had a positive impact of $0.1 million on adjusted operating income. Export sales, net of currency hedging and purchases in U.S. dollars, had a positive $0.3 million impact on adjusted operating income. Finally, the negative impact on adjusted operating income of the conversion of balance sheet items associated to the operation of Canadian operations denominated in foreign currency was $1.8 million.

- Negative organic growth in adjusted operating income, which amounted to $8.3 million, or 17.0%, in first quarter of 2012, stems from the above-noted decrease in consolidated revenues and the continuation of our strategy to counter competition in some of the markets in the Media Sector.

Net Income Applicable to Participating Shares

Net income applicable to participating shares declined from $25.7 million in first quarter of 2011 to -$33.3 million in first quarter of 2012. The decrease is primarily due to unusual adjustments to income taxes and related financial expenses. On a per share basis, net income applicable to participating shares went from $0.32 to -$0.41.

Adjusted net income applicable to participating shares was down $1.7 million, or 5.9%, from $28.8 million in first quarter of 2011 to $27.1 million in first quarter of 2012. On a per share basis, it went from $0.36 to $0.33.

Restructuring, integration and acquisition costs

In the first quarter of 2012, an amount of $2.5 million before tax ($1.8 million after tax) was accounted for separately on the consolidated income statement as restructuring, integration and acquisition costs. Of that amount, $1.5 million is related to workforce reductions and $1.0 million to other costs.

In the first quarter of 2011, an amount of $1.6 million before tax ($1.2 million after tax) was accounted for separately on the consolidated income statement as restructuring, integration and acquisition costs. Of that amount, $1.1 million is related to workforce reductions and $0.5 million to other costs.

Asset impairment

In the first quarter of 2012, an amount of $0.8 million before tax ($0.6 million after tax) was accounted for separately on the consolidated income statement as asset impairment, stemming from plant closures in the Printing Sector.

In the first quarter of 2011, an amount of $3.5 million before tax ($2.5 million after tax) was accounted for separately on the consolidated income statement as asset impairment, stemming from plant closures in the Printing Sector.

Financial expenses

Financial expenses increased $12.9 million in first quarter of 2012, from $10.8 million in 2011 to $23.7 million in 2012. The increase is mainly due to financial expenses related to unusual adjustments to income taxes explained in the ''Income taxes'' section below.

Excluding financial expenses related to unusual adjustments to income taxes, financial expenses were down $3.1 million, from $10.8 million in 2011 to $7.7 million in 2012. The decrease is due to a significant reduction in our net debt and the weighted average interest rate of our debt portfolio compared to last year, due to optimization in recent quarters.

Income taxes

Income taxes increased by $41.9 million, from $5.7 million in first quarter of 2011 to $47.6 million in first quarter of 2012. In February 2012, the federal and provincial tax authorities informed us that we would receive notices of re-assessment estimated at $58.0 million, including applicable interest and penalties, for fiscal years 2006 to 2010. The notices of re-assessments relate to deductions on investments in capital assets as well as the interprovincial allocation of income. We recorded a provision of $58.0 million with respect to these matters, of which $16.0 million was included in financial expenses and $42.0 million in income taxes, although we intend to contest to these re-assessments. Therefore, the outcome of this dispute could have a favourable impact on the amounts recognized in the consolidated financial statements of the Corporation.

Excluding income taxes on restructuring, integration and acquisition costs and asset impairment as well as unusual adjustments, income taxes would have amounted to $6.5 million in first quarter of 2012, for a tax rate of 18.4%, compared to $7.1 million, or 18.7%, in first quarter of 2011.

Discontinued operations

A net loss related to discontinued operations of $0.6 million, net of related income taxes, was recorded in first quarter of 2011 with respect to our printing operations in Mexico, which were sold in fourth quarter of 2011.

ANALYSIS OF SECTOR RESULTS

(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment Eliminations and Other acitivities	Total
Revenues - First Quarter 2011	**$ 374.1**	**$ 159.2**	**$ (18.5)**	**$ 514.8**
Acquisitions/Divestitures/Closures	(7.6)	3.2	-	(4.4)
Existing operations				
Paper effect	4.0	-	-	4.0
Exchange rates effect	(1.2)	(0.1)	-	(1.3)
Organic growth (negative)	(15.0)	(3.8)	1.6	(17.2)
Revenues - First Quarter 2012	**$ 354.3**	**$ 158.5**	**$ (16.9)**	**$ 495.9**
Adjusted operating income (loss) - First quarter of 2011	**$ 46.9**	**$ 6.0**	**$ (4.2)**	**$ 48.7**
Acquisitions/Divestitures/Closures	3.8	0.3	-	4.1
Existing operations				
Paper effect	-	(0.1)	-	(0.1)
Exchange rates effect	(1.3)	(0.1)	-	(1.4)
Organic growth (negative)	(4.1)	(5.2)	1.0	(8.3)
Adjusted operating income (loss) - First quarter of 2012	**$ 45.3**	**$ 0.9**	**$ (3.2)**	**$ 43.0**

In this section, Management uses adjusted operating income to evaluate the financial performance of its operating sectors and deems this measure is appropriate.

Printing Sector

Printing Sector revenues were down 5.3%, or $19.8 million, from $374.1 million in first quarter of 2011 to $354.3 million in first quarter of 2012. Excluding divestitures, closures and the paper and exchange rate effects, revenues decreased by $15.0 million, or 4.0%. Negative

organic growth is due primarily to the conclusion of a major contract to print forms for the Canada census, conducted every five years, as well as more competitive market conditions.

Adjusted operating income decreased by 3.4%, from $46.9 million in first quarter of 2011 to $45.3 million in 2012. However, the adjusted operating margin was up slightly, from 12.5% in first quarter of 2011 to 12.8% in first quarter of 2012, because we made greater use of our more productive equipment. Excluding divestitures, closures and the exchange rate effect, adjusted operating income was down by $4.1 million, or 8.7%. Negative organic growth stems mainly from lower revenues, as mentioned above.

After the end of first quarter of 2012, we announced the final agreement with Quad/Graphics to acquire all shares of Quad/Graphics Canada, consisting of six printing plants and a premedia service centre. Given the delay in regulatory approval of the transaction, synergies should gradually be realized starting at the end of the third quarter of 2012, with the main impact being felt in fiscal 2013.

Media Sector

Media Sector revenues decreased by $0.7 million, from $159.2 million in first quarter of 2011 to $158.5 million in first quarter of 2012. The decrease of $3.8 million, or 2.4%, is mainly due to lower spending by national advertisers. However, this was partially offset by higher revenues in our digital and interactive operations, as well as the launch in recent quarters of new community papers in Quebec.

Adjusted operating income declined by $5.1 million, from $6.0 million in first quarter of 2011 to $0.9 million in first quarter of 2012. Excluding acquisitions, divestitures and closures, as well as the paper and exchange rate effects, the decrease was $5.2 million. Negative organic growth is mainly due to the lower revenues mentioned above, the cost of expanding our newspaper publishing network by, among other things, launching new community papers, and stiffer competition in some of our more traditional markets in Quebec.

In the coming quarters of 2012, we will pursue our investment strategy aimed at developing our digital media and marketing activation service offering to provide complementary marketing channels and communication services in both print and digital, to counter competition in our more traditional markets. Recent acquisitions and launches of community papers should increase Media Sector revenues, and measures will be introduced to reduce costs and improve our operating margin.

Inter-Segment Eliminations and Other Activities

Eliminations of inter-segment revenues and other activities went from a negative total of $18.5 million in first quarter of 2011 to a negative total of $16.9 million in first quarter of 2012. The change is mainly due to a decrease in inter-segment transactions during this period. Adjusted operating income was up, from -$4.2 million in first quarter of 2011 to -$3.2 million in first quarter of 2012, mainly due to compensation received from Quad/Graphics while awaiting the closing of the transaction to acquire the shares of Quad/Graphics Canada, as well as a decrease in Head Office costs in 2012.

SUMMARY OF CONSOLIDATED INTERIM RESULTS

(unaudited)

	IFRS					Canadian GAAP		
	2012	2011				2010		
(in millions of dollars, except per share amounts)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	**$ 496**	$ 537	$ 493	$ 499	$ 515	$ 556	$ 481	$ 495
Adjusted operating income before amortization [(1)]	**72**	117	87	90	80	119	87	89
Adjusted operating income margin before amortization	**14.5 %**	21.8 %	17.6 %	18.0 %	15.5 %	21.4 %	18.1 %	18.0 %
Adjusted operating income [(1)]	**43**	86	57	60	49	89	57	57
Adjusted operating income margin	**8.7 %**	16.0 %	11.6 %	12.0 %	9.5 %	16.0 %	11.9 %	11.5 %
Adjusted net income applicable to participating shares [(1)]	**27**	59	32	39	29	63	33	34
Per share	**0.33**	0.73	0.40	0.48	0.36	0.78	0.41	0.42
% of fiscal year	**- %**	37 %	20 %	25 %	18 %	40 %	21 %	22 %

(1) Please refer to the section "Reconciliation of non-IFRS Financial Measures" on page 7 of this Management's Discussion and Analysis.

The above table shows changes in our quarterly results for the past eight quarters. New printing contracts raised the Corporation's revenues in the first three quarters of fiscal 2011, year over year. However, the completion of a major contract to print forms for the Canada

census, conducted every five years, affected revenues in fourth quarter of 2011 and first quarter of 2012 versus the corresponding quarters in prior fiscal years. The sale of our black and white book printing business destined for U.S. export also had an adverse impact on revenues in first quarter of 2012. Lastly, fourth quarter results are higher than other quarters since our customers' marketing spending is normally higher in the fall.

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

Financial data have been prepared in conformity with IFRS. However, certain measures used in this report do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many readers of this report analyze our results based on certain non-IFRS financial measures because such measures are more appropriate for evaluating the Corporation's operating performance. Internally, Management uses such non-IFRS financial information as an indicator of business performance and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with IFRS. The following table reconciles IFRS financial measures to non-IFRS financial measures.

(unaudited)

	For the first quarter ended January 31	
(in millions of dollars, except per share amounts)	**2012**	2011
Net income applicable to participating shares	**$ (33.3)**	$ 25.7
Dividends on preferred shares	**1.7**	1.7
Net loss (income) related to discontinued operations (after tax)	**-**	(0.6)
Non-controlling interest	**-**	0.3
Income tax expenses	**47.6**	5.7
Financial expenses	**23.7**	10.8
Restructuring and integration expenses and acquisition costs	**2.5**	1.6
Impairment of assets	**0.8**	3.5
Adjusted operating income	**$ 43.0**	$ 48.7
Amortization	**28.9**	31.0
Adjusted operating income before amortization	**$ 71.9**	$ 79.7
Net income applicable to participating shares	**$ (33.3)**	$ 25.7
Net loss (income) from discontinued operations (after tax)	**-**	(0.6)
Unusual adjustments to income taxes	**42.0**	-
Restructuring and integration expenses and acquisition costs (after tax)	**1.8**	1.2
Impairment of assets (after tax)	**0.6**	2.5
Financial expenses related to unusual adjustments to income taxes (after tax)	**16.0**	-
Adjusted net income applicable to participating shares	**$ 27.1**	$ 28.8
Average number of participating shares outstanding	**81.0**	81.0
Adjusted net income applicable to participating shares per share	**$ 0.33**	$ 0.36

	As at January 31, 2012	As at October 31, 2011
Long-term debt	**$ 211.9**	$ 292.5
Current portion of long-term debt	**312.9**	271.9
Cash and cash equivalents	**(56.8)**	(75.0)
Net indebtedness	**$ 468.0**	$ 489.4
Amount to be paid to Quad/Graphics following the closing of the transaction to acquire the shares of Quad/Graphics Canada	**50.0**	50.0
Adjusted net indebtedness	**$ 518.0**	$ 539.4
Adjusted operating income before amortization (last 12 months)	**$ 365.6**	$ 373.4
Net indebtedness ratio	**1.28x**	1.31x
Adjusted net indebtedness ratio	**1.42x**	1.44x

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES – FIRST QUARTER ENDED JANUARY 31

(unaudited)

(in millions of dollars)		2012		2011
Operating activities				
Cash flow from continuing operations before changes in non-cash operating items and income tax paid	**$**	**73.9**	$	81.7
Changes in non-cash operating items		**(16.3)**		(12.7)
Income tax paid		**(2.3)**		(6.5)
Cash flow related to operating activities of continuing operations	**$**	**55.3**	$	62.5
Investing activities				
Business acquisitions	**$**	**-**	$	(4.8)
Acquisitions of property, plant and equipment, net of disposals		**(7.9)**		(20.4)
Acquisitions of intangible assets and other assets		**(4.7)**		(4.9)
Cash flow related to investing activities of continuing operations	**$**	**(12.6)**	$	(30.1)
Financing activities				
Reimbursement of long-term debt	**$**	**(8.1)**	$	(7.3)
Increase (decrease) in revolving term credit facility		**(34.1)**		6.5
Financial expenses on long-term debt		**(6.3)**		(7.9)
Issuance of participating shares		**0.1**		0.1
Dividends on participating shares		**(10.9)**		(8.9)
Dividends on preferred shares		**(1.7)**		(1.7)
Bond forward		**-**		(6.0)
Cash flow related to financing activities of continuing operations	**$**	**(61.0)**	$	(25.2)

Financial position		**As at January 31, 2012**		As at October 31, 2011
Adjusted net indebtedness [1]	**$**	**518.0**	$	539.4
Adjusted net indebtedness ratio [1]		**1.42x**		1.44x
Credit rating				
DBRS		**BBB high**		BBB high
		Stable		Stable
Standard and Poor's		**BBB**		BBB
		Stable		Stable

[1] Please refer to the section "Reconciliation of non-IFRS Financial Measures" on page 7 of this Management's Discussion and Analysis.

Cash Flow Related to Continuing Operations

Cash flow from operating activities before changes in non-cash operating items and income tax paid decreased from $81.7 million in 2011 to $73.9 million in 2012. Changes in non-cash operating items led to a cash outflow of $16.3 million in 2012, compared to $12.7 million in 2011. Consequently, cash flow from operating activities decreased, leading to a cash inflow of $55.3 million in 2012, compared to $62.5 million in 2011, primarily due to lower operating income.

Cash Flow Related to Investing Activities of Continuing Operations

Investments in first quarter of 2012 were considerably lower than in 2011, primarily due to a decrease in the acquisition of tangible assets, mainly in the Printing Sector, which is still benefiting from major investments made over the past several years.

Cash Flow Related to Financing Activities of Continuing Operations

In the first quarter of 2012, we paid $10.9 million in dividends on participating shares and $1.7 million on preferred shares compared to $8.9 million and $1.7 million respectively for the same period in 2011. The dividends paid on participating shares rose due to two increases in fiscal 2011, which raised the quarterly dividend from $0.09 in first quarter of 2011 to $0.135 in 2012.

After the end of first quarter of 2012, we announced an increase in the dividend per participating share, which will raise the quarterly dividend to $0.145.

Debt Instruments

As at January 31, 2012, the adjusted net indebtedness ratio stood at 1.42x (1.44x at October 31, 2011). This improvement stems primarily from the significant cash flows generated and the reduction in our spending on tangible and intangible assets, which lowered adjusted net indebtedness from $539.4 million at October 31, 2011 to $518.0 million at January 31, 2012.

After the close of the first quarter, we announced a new five-year unsecured term-credit facility of $400.0 million, which matures in February 2017. We also have the current credit facility, which was reduced to $200.0 million (of which $148.0 million had been drawn as at January 31, 2012), which will remain in place until it matures in September 2012. Note that our $200.0 million securitization program was unused at January 31, 2012.

Senior unsecured notes totalling US$75.0 million (C$75.1 million) which matured on March 1, 2012 were paid from our credit facilities.

Share Capital

The following table provides data on shares issued and outstanding as at January 31, 2012 and February 29, 2012:

Shares Issued and Outstanding	At January 31, 2012	At February 29, 2012
Class A (Subordinate Voting Shares)	65,885,582	65,901,932
Class B (Multiple Voting Shares)	15,151,235	15,151,235
Series D Preferred (with rate reset)	4,000,000	4,000,000

FUTURE CHANGES IN ACCOUNTING POLICIES

Financial Instruments

In October 2010, the IASB issued IFRS 9, "Financial Instruments," the first part of a three-part project to replace IAS 39, "Financial Instruments: Recognition and Measurement" and IFRIC 9, "Reassessment of Embedded Derivatives." This first part covers classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting being addressed in the other two parts.

In order to determine whether a financial asset should be measured at amortized cost or fair value, IFRS 9 uses a single approach that replaces the multiple measurement and category models established by IAS 39. Under IFRS 9, determination is based on how an entity manages its financial instruments and the characteristics of the contractual cash flows of its financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward to IFRS 9. However, requirements concerning measurement of financial liabilities at fair value have changed; the portion of changes in fair value related to the entity's own credit risk must be presented in other comprehensive loss rather than in the Consolidated Statement of Income. IFRS 9 applies to annual periods beginning on or after January 1, 2015, and earlier application is permitted.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements," intended to replace IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation - Special Purpose Entities." IFRS 10 defines the concept of control as the determining factor in whether an entity should be included in the basis of consolidation in an entity's consolidated financial statements. IFRS 10 applies to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Joint Arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements," intended to replace IAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers." IFRS 11 deals with the contractual rights and obligations inherent

in a joint arrangement, rather than the legal form of the arrangement. IFRS 11 eliminates the election to use the proportionate consolidation method when recognizing interests in jointly controlled entities, and requires use of the equity method. IFRS 11 applies to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Currently, the Corporation uses the proportionate consolidation method to recognize interests in joint ventures, but will have to apply the equity method under IFRS 11. Under this method, the Corporation's share of the net assets, net income and other comprehensive income (loss) in the joint ventures will be presented in a single line item in the Consolidated Statement of Financial Position, the Consolidated Statement of Income and the Consolidated Statement of Comprehensive Income, respectively.

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities." IFRS 12 completes the disclosure requirements concerning interests that an entity holds in subsidiaries, joint ventures, associates and consolidated structured entities. The standard requires an entity to disclose information regarding the nature and risks associated with all its interests in other entities and the effect of those interests on its financial position, financial performance and cash flows. IFRS 12 applies to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Fair Value Measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement." IFRS 13 improves consistency and reduces complexity by providing a specific definition of fair value. IFRS 13 therefore replaces the guidance on measurement of fair value contained in individual IFRS with a single source of guidance on all measurements of fair value. IFRS 13 applies to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Employee Benefits

In June 2011, the IASB issued an amended version of IAS 19, "Employee Benefits," in order to reflect significant changes in the recognition and measurement of the defined benefit pension expense and termination benefits. Under the amended IAS 19, use of the "corridor" approach, under which the recognition of actuarial gains and losses could be deferred, has been eliminated. The amended IAS 19 introduces a new approach to calculating and presenting net interest expense on defined benefit liabilities (assets), under which the return on the asset will be identical to the rate used to discount the liability. The amended IAS 19 applies to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

The Corporation is currently evaluating the impact of these new standards on its consolidated financial statements.

RISKS AND UNCERTAINTIES

There has been no major change in our risks and uncertainties since the publication of Management's Discussion and Analysis for the fiscal year ended October 31, 2011. For more information, please refer to the corresponding section of Management's Discussion and Analysis for the fiscal year ended October 31, 2011.

CONTROLS AND PROCEDURES

The purpose of internal control over financial reporting is to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and preparation of consolidated financial statements in accordance with IFRS.

In the first quarter ended January 31, 2012, no change that has materially affected or is reasonably likely to affect internal control over financial reporting was identified by Management, including the Corporation's President and Chief Executive Officer or Chief Financial and Development Officer.

SUBSEQUENT EVENTS

Indirect Acquisition of Shares of Quad/Graphics Canada

On March 1, 2012, we finalized the transaction to indirectly acquire the shares of Quad/Graphics Canada. With this transaction we have acquired six printing plants and a premedia service centre, for revenues of about $230 million and more than 1,000 employees.

Signing of a New Credit Facility

After the end of the first quarter, we set up a new five-year unsecured term credit facility of $400 million which matures in February 2017.

OUTLOOK

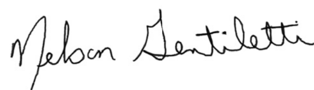
In coming quarters, we will integrate the Quad/Graphics Canada operations which should generate additional annualized revenues of close to $230 million, of which about $150 million should be realized before the end of fiscal 2012, and result in significant synergies. As well, starting in the second quarter of 2012, the Printing Sector will benefit from the agreement concluded with Canadian Tire in February 2011. However, over the next several quarters, these higher revenues will be partially offset by the sale of our black and white book printing business destined for U.S. export and the completion of our contract to print Canada census forms. Also, the more competitive and the industry dynamics of the printing market in general are expected to put pressure on margins, especially during contract renewals.

Going forward, the combination of the Media and Interactive sectors early in the fiscal year along with our ongoing investments should allow us to ramp up the integration of our marketing products and services offering, thereby increasing our revenues and gradually improving the profitability of our digital and interactive platforms. We will also continue our strategy to secure market share in some of our traditional niches which are currently facing stiffer competition, and improve our profit margins by implementing cost-reduction initiatives among others. Finally, market conditions with respect to national advertising spending could remain challenging, which would have an adverse impact on the sector, particularly on the Business and Consumer Solutions Group.

We believe that the synergies from the integration of Quad/Graphics Canada coupled with the rationalization plan for the Media Sector will enable us to generate annualized synergies of more than $50 million in the next 12 to 24 months, of which more than $10 million should materialize by the end of the fiscal year.

Finally, our solid financial position and the significant cash flows generated by our operations, along with a program of investments in property, plant and equipment as well as intangible assets that will be limited to a maximum of $75 million in this fiscal year, should ensure our continued financial flexibility, enabling us to pursue our strategy of consolidating our traditional assets and investing in internal projects, and making strategic acquisitions as opportunities arise.

On behalf of Management,



Nelson Gentiletti
Chief Financial and Development Officer

March 12, 2012

CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(in millions of Canadian dollars, except per share data)	Notes		Three months ended January 31 2012		2011
Revenues		**$**	**495.9**	$	514.8
Operating expenses			**424.0**		435.1
Restructuring, integration and acquisition costs	11		**2.5**		1.6
Impairment of assets	4		**0.8**		3.5
Operating income before amortization			**68.6**		74.6
Amortization	5		**28.9**		31.0
Operating income			**39.7**		43.6
Financial expenses	6		**23.7**		10.8
Income before income taxes			**16.0**		32.8
Income taxes	7		**47.6**		5.7
Net income (loss) from continuing operations			**(31.6)**		27.1
Net income from discontinued operations	8		**-**		0.6
Net income (loss)			**(31.6)**		27.7
Non-controlling interests			**-**		0.3
Net income (loss) attributable to shareholders of the Corporation			**(31.6)**		27.4
Dividends on preferred shares, net of related taxes			**1.7**		1.7
Net income (loss) attributable to participating shares		**$**	**(33.3)**	$	25.7
Net income (loss) per participating share - basic and diluted					
Continuing operations	12	**$**	**(0.41)**	$	0.31
Discontinued operations			**-**		0.01
		$	**(0.41)**	$	0.32
Weighted average number of shares outstanding - basic (in millions)	12		**81.0**		81.0
Weighted average number of shares outstanding - diluted (in millions)	12		**81.0**		81.1

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited

(in millions of Canadian dollars)	Notes	Three months ended January 31 2012	2011
Net income (loss)		**$ (31.6)**	$ 27.7
Other comprehensive income (loss)			
Items that will be reclassified to net income (loss):			
Net change related to cash flow hedges			
Net change in the fair value of derivatives designated as cash flow hedges		**(1.2)**	0.4
Reclassification of the net change in the fair value of derivatives designated as cash flow hedges in prior periods, recognized in net income (loss) during the period		**2.6**	1.5
Related income taxes		**1.6**	0.7
		(0.2)	1.2
Cumulative translation differences			
Net gains (losses) on the translation of the financial statements of self-sustaining foreign operations		**0.5**	(1.7)
Items that will not be reclassified to net income (loss):			
Changes in actuarial gains and losses in respect of defined benefit pension plans			
Actuarial gains and losses in respect of defined benefit pension plans		**(15.6)**	22.5
Related income taxes		**(4.9)**	6.0
		(10.7)	16.5
Other comprehensive income (loss)	14	**(10.4)**	16.0
Comprehensive income (loss)		**$ (42.0)**	$ 43.7
Attributable to:			
Shareholders of the Corporation		**$ (42.0)**	$ 43.4
Non-controlling interests		**-**	0.3
		$ (42.0)	$ 43.7

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(in millions of Canadian dollars)

	Attributable to shareholders of the Corporation						
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance as at October 31, 2011	**$ 478.1**	**$ 1.8**	**$ 754.1**	**$ (28.1)**	**$ 1,205.9**	**$ 0.8**	**$ 1,206.7**
Net income (loss)	**-**	**-**	**(31.6)**	**-**	**(31.6)**	**-**	**(31.6)**
Other comprehensive loss	**-**	**-**	**-**	**(10.4)**	**(10.4)**	**-**	**(10.4)**
Shareholders' contributions and distributions to shareholders							
Exercise of stock options	**0.1**	**-**	**-**	**-**	**0.1**	**-**	**0.1**
Dividends	**-**	**-**	**(12.6)**	**-**	**(12.6)**	**-**	**(12.6)**
Stock-option based compensation	**-**	**0.2**	**-**	**-**	**0.2**	**-**	**0.2**
Balance as at January 31, 2012	**$ 478.2**	**$ 2.0**	**$ 709.9**	**$ (38.5)**	**$ 1,151.6**	**$ 0.8**	**$ 1,152.4**
Balance as at November 1, 2010	$ 477.9	$ 1.1	$ 673.1	$ (4.5)	$ 1,147.6	$ 0.8	$ 1,148.4
Net income	-	-	27.4	-	27.4	0.3	27.7
Other comprehensive income	-	-	-	16.0	16.0	-	16.0
Shareholders' contributions and distributions to shareholders							
Exercise of stock options	0.1	-	-	-	0.1	-	0.1
Dividends	-	-	(10.6)	-	(10.6)	(0.8)	(11.4)
Stock-option based compensation	-	0.2	-	-	0.2	-	0.2
Balance as at January 31, 2011	$ 478.0	$ 1.3	$ 689.9	$ 11.5	$ 1,180.7	$ 0.3	$ 1,181.0

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(in millions of Canadian dollars)	Notes	**As at January 31, 2012**	As at October 31, 2011	As at November 1, 2010
Current assets				
Cash and cash equivalents		**$ 56.8**	$ 75.0	$ 31.9
Accounts receivable	10 & 15	**368.1**	436.3	440.6
Income taxes receivable		**7.4**	14.7	19.5
Inventories		**76.2**	80.2	77.6
Prepaid expenses and other current assets		**15.3**	18.3	19.3
Current assets related to discontinued operations	8	**-**	-	26.4
		523.8	624.5	615.3
Property, plant and equipment		**672.9**	690.6	772.3
Intangible assets		**147.9**	149.6	179.1
Goodwill	19	**682.8**	682.5	678.1
Deferred income taxes		**199.2**	197.7	193.8
Other assets		**28.9**	20.2	32.3
Non-current assets related to discontinued operations	8	**-**	-	49.5
		$ 2,255.5	$ 2,365.1	$ 2,520.4
Current liabilities				
Accounts payable and accrued liabilities		**$ 217.9**	$ 293.5	$ 329.6
Provisions	11	**6.9**	10.7	15.7
Income taxes payable	7	**86.4**	33.5	29.0
Deferred subscription revenues and deposits		**34.0**	32.5	38.4
Current portion of long-term debt		**312.9**	271.9	293.8
Current liability related to discontinued operations	8	**-**	-	12.8
		658.1	642.1	719.3
Long-term debt		**211.9**	292.5	436.9
Deferred income taxes		**124.3**	127.2	124.3
Provisions	11	**8.6**	8.7	10.6
Other liabilities		**100.2**	87.9	80.2
Non-current liability related to discontinued operations	8	**-**	-	0.7
		1,103.1	1,158.4	1,372.0
Equity				
Share capital		**478.2**	478.1	477.9
Contributed surplus		**2.0**	1.8	1.1
Retained earnings		**709.9**	754.1	673.1
Accumulated other comprehensive loss	14	**(38.5)**	(28.1)	(4.5)
Attributable to shareholders of the Corporation		**1,151.6**	1,205.9	1,147.6
Non-controlling interests		**0.8**	0.8	0.8
		1,152.4	1,206.7	1,148.4
		$ 2,255.5	$ 2,365.1	$ 2,520.4

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(in millions of Canadian dollars)	Notes	Three months ended January 31 2012	2011
Operating activities			
Net income (loss)		**$ (31.6)**	$ 27.7
Less: Net income from discontinued operations	8	**-**	0.6
Net income (loss) from continuing operations		**(31.6)**	27.1
Adjustments to reconcile net income (loss) from continuing operations and cash flows from operating activities:			
Amortization	5	**33.8**	36.8
Impairment of assets	4	**0.8**	3.5
Financial expenses on long-term debt	6	**6.9**	10.1
Interest on tax contingencies	6	**16.0**	-
Net gain on disposal of assets		**(0.4)**	-
Income taxes	7	**47.6**	5.7
Stock-option based compensation	13	**0.2**	0.2
Other		**0.6**	(1.7)
Cash flows generated by operating activities before changes in non-cash operating items and income tax paid		**73.9**	81.7
Changes in non-cash operating items		**(16.3)**	(12.7)
Income tax paid		**(2.3)**	(6.5)
Cash flows from continuing operations		**55.3**	62.5
Cash flows from discontinued operations		**-**	(0.3)
		55.3	62.2
Investing activities			
Business acquisitions		**-**	(4.8)
Acquisitions of property, plant and equipment		**(8.3)**	(20.5)
Disposals of property, plant and equipment		**0.4**	0.1
Increase in intangible assets and other assets		**(4.7)**	(4.9)
Cash flows from investments in continuing operations		**(12.6)**	(30.1)
Cash flows from investments in discontinued operations		**-**	(0.4)
		(12.6)	(30.5)
Financing activities			
Reimbursement of long-term debt		**(8.1)**	(7.3)
Increase (decrease) in revolving term credit facility		**(34.1)**	6.5
Financial expenses on long-term debt	6	**(6.3)**	(7.9)
Dividends on participating shares		**(10.9)**	(8.9)
Dividends on preferred shares		**(1.7)**	(1.7)
Issuance of participating shares	13	**0.1**	0.1
Bond forward contract		**-**	(6.0)
Other		**-**	-
Cash flows from the financing of continuing operations		**(61.0)**	(25.2)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		**0.1**	(0.3)
Increase (decrease) in cash and cash equivalents		**(18.2)**	6.2
Cash and cash equivalents at beginning of period		**75.0**	36.3
Cash and cash equivalents at end of period		**$ 56.8**	$ 42.5
Non-cash investing and financing activities			
Net change in capital asset acquisitions financed by accounts payable		**$ 2.5**	$ 13.6

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

1 GENERAL INFORMATION

Transcontinental inc. (the "Corporation") is incorporated under the Canada Business Corporations Act. Its Class A Subordinate Voting Shares, Class B Shares and Cumulative Rate Reset First Preferred Shares, Series D are traded on the Toronto Stock Exchange. The Corporation's head office is located at 1 Place Ville Marie, Suite 3315, Montreal, Quebec, Canada H3B 3N2.

The Corporation conducts business in Canada and the United States in two separate sectors: the Printing Sector and the Media Sector. The Printing Sector includes printing activities for publishers of magazines, books and newspapers, as well as retail clients. The Media Sector includes the publishing of magazines, educational books in French and newspapers, a diversified digital platform and a door-to-door network for distributing advertising material that allows advertisers to reach consumers directly.

The operating results for interim periods are not necessarily indicative of full-year results due to the seasonality of certain operations of the Corporation. Results of operations are significantly influenced by the advertising market, which is stronger in the fourth quarter.

The Corporation's Board of Directors approved these financial statements on March 12, 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim consolidated financial statements reflect first-time adoption of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and, in particular, in accordance with IAS 34, "Interim Financial Reporting," and IFRS 1, "First-time Adoption of International Financial Reporting Standards." Since November 1, 2011, IFRS replace Canadian Generally Accepted Accounting Principles ("GAAP"), as established in Part V of the Canadian Institute of Chartered Accountants' ("CICA") Handbook.

The accounting policies in these interim consolidated financial statements differ from the policies presented in the annual consolidated financial statements for the year ended October 31, 2011. IFRS 1, "First-time Adoption of International Financial Reporting Standards", has been applied to make the transition to IFRS and prepare the opening consolidated statement of financial position as at November 1, 2010 (the "date of transition"). This standard provides for retroactive application of IFRS with certain exemptions and exceptions. Note 19, "Transition to IFRS", presents the impact of the changeover from GAAP to IFRS. Moreover, it presents a reconciliation of the consolidated financial position as at November 1, 2010 and as at October 31, 2011, a reconciliation of the consolidated financial performance and consolidated cash flows for the three-month period ended January 31, 2011 and for the year ended October 31, 2011, as well as a reconciliation of the equity as at November 1, 2010, as at January 31, 2011 and as at October 31, 2011. Furthermore, Note 19, "Transition to IFRS", presents certain financial data that should appear in annual consolidated financial statements prepared in accordance with IFRS, for the purpose of comparison with the annual period. Certain information has also been reclassified or added to comply with IFRS disclosure requirements.

The consolidated IFRS financial statements have been prepared in accordance with the following accounting policies :

a) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which were measured at their fair value, as indicated in the following accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

b) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation, its subsidiaries and joint ventures. The accounting policies described have been applied consistently by all the subsidiaries and joint ventures.

i) Subsidiaries

Subsidiaries are entities over which the Corporation has the power to govern financial and operating policies to benefit from their activities. The financial statements of subsidiaries are integrated into the Corporation's consolidated financial statements from the date that control is obtained until loss of control. When a subsidiary's financial statements are prepared in accordance with GAAP, they are converted to IFRS for purposes of consolidation. An entity that is fully consolidated but that is not wholly owned by the Corporation results in a non-controlling interest, which is presented separately in the Consolidated Statement of Income (Loss) and the Consolidated Statement of Financial Position.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation holds the following significant subsidiaries:

	Holding
Transcontinental Printing 2007 Inc. (Quebec)	100 %
Transcontinental Printing Inc. (Canada)	100
Transcontinental Printing 2005 G.P. (Quebec)	100
Transcontinental Printing Corporation (Delaware)	100
Transcontinental Interactive Inc. (Ontario)	100
Transcontinental Media Inc. (Quebec)	100
Transcontinental Media G.P. (Quebec)	100
6138454 Canada Inc. (Canada)	100

ii) Joint ventures

Joint ventures are entities over which the Corporation has contractually agreed shared control and for which strategic financial and operational decisions require unanimous consent. The Corporation's interests in joint ventures are mainly in the Media Sector, and are proportionately consolidated. These joint ventures have a negligible effect on the Corporation's consolidated financial statements.

c) Business combination

Business acquistions are accounted for using the acquisition method and their operating results are included in the consolidated financial statements as of the acquisition date. The consideration transferred is the total fair value of the assets given, equity instruments issued or liabilities incurred or assumed by the Corporation and contingent considerations, on the acquisition date, in exchange for control of the acquired entity. The excess of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed is recognized as goodwill.

If the agreement includes a contingent consideration, it is measured at fair value as of the acquisition date and added to the consideration transferred, and a liability for the same amount is recognized. Any subsequent change to the fair value of the contingent consideration will be recognized in the acquisition cost, if it is related to adjustments during the measurement period, or in profit or loss, if it is related to adjustments after the measurement period. The measurement period is the period from the acquistion date to the date on which the Corporation has received complete information on the facts and circumstances that existed as of the acquisition date. This period has a maximum duration of 12 months.

The transaction costs attributable to the acquisition are recognized in profit or loss when they are incurred.

If the initial recognition of the business combination is incomplete when the disclosures are issued for the period during which the acquisition occured, the Corporation presents provisional amounts for the items for which measurement is incomplete. Adjustments to the original recognition of the business combination will be recorded as an adjustment to the assets acquired and liabilities assumed during the measurement period. Adjustments after the measurment period will be recognized in profit or loss.

In the case of a business acquisition of less than 100%, a non-controlling interest is measured, either at fair value or at the non-controlling interest's share of the net identifiable assets of the acquiree. The basis of measurement is decided on a transaction-by-transaction basis.

d) Revenue recognition

Revenues are measured at the fair value of the consideration received or receivable, less the estimated amount of discounts and other similar reductions granted to clients.

When it sells goods, the Corporation recognizes revenues when the following conditions have been satisfied:

- the significant risks and rewards of ownership have been transferred;
- the Corporation retains neither continuing managerial involvement nor effective control over the goods sold;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation;
- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When rendering services, the Corporation recognizes revenues when the following conditions have been satisfied:
- the amount of revenue can be reliably measured;
- the stage of completion of the activity can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Corporation;
- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

i) In the Printing Sector, printing is the main source of revenue. Printing revenue is recognized when the products are sent or delivered, in accordance with the customer agreement. Most sales are promptly delivered to clients, so the Corporation does not have material amounts of work in progress and finished goods in inventory.

ii) Media sector revenues are recognized as follows:

Advertising revenues:
Advertising revenues are recognized at the publication date in the case of a daily or weekly publication, and at the date of issue in the case of a monthly publication.

Subscription revenues:
Subscription revenues are recognized using the straight-line method, based on subscription terms, which represent the period during which the services are provided. Accordingly, amounts received are recorded in deferred subscription revenues, and subsequently transferred to income based on the lenght of term of the subscription.

Distribution revenues:
Door-to-door distribution revenues are recognized at the delivery date of the advertising material.

Newstand revenues:
Newstand revenues are recognized at the time of delivery, net of a provision for returns and delivery costs.

Educational books revenues:
Educational books revenues are recognized when the books are shipped to customers, in accordance with the customer agreement.

Publishing revenues:
Publishing revenues are recognized based on the percentage of completion, in accordance with the customer agreement.

Content preparation revenues:
Content preparation revenues are recognized based on the percentage of completion, in accordance with the customer agreement.

Custom publication revenues:
Custom publication revenues are recognized when products are shipped or delivered, or when services are provided, in accordance with the customer agreement. Revenues for updating digital publications are recognized based on the percentage of completion.

Revenues for the use of computerized tools:
Revenues for the use of computerized tools are recognized based on usage, storage space or reports generated, in accordance with the customer agreement. Revenues billed also consider volume discounts.

Marketing project revenues:
Marketing project revenues are recognized based on the percentage of completion, in accordance with the customer agreement.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Exchange transactions

In the normal course of business, the Corporation offers advertising in exchange for goods or services. The related revenues are measured at the fair value of the goods and services received or given when the fair value of the goods or services received cannot be reliably measured. For the three months ended January 31, 2012, the Corporation recognized an amount of $1.9 million as exchange transactions ($1.3 million for the same period in 2011).

f) Income taxes

The Corporation records income taxes using the liability method of accounting. Income tax expense represents the sum of current and deferred taxes. It is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

i) Current tax

Current tax is the expected tax payable or receivable on the period's taxable income, using tax rates enacted or substantively enacted at the date of the financial statements, and any adjustment to tax expense or recovery in respect of previous years. Taxable income differs from the income reported on the consolidated statement of income (loss) due to items of income and expense that are taxable or deductible during other periods, or items that will never be taxable, or deductible.

ii) Deferred tax

Deferred tax is determined on the basis of temporary differences between the carrying amounts and the tax bases of assets and liabilities, and is measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the date of the financial statements. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. The carrying value of deferred tax assets is reviewed at the end of each period and a reduction to the carrying amount is recognized when it is probable that these assets will not be realized.

g) Government assistance

Government assistance, including investment tax credits related to the purchase of property, plant and equipment or intangible assets, is recorded as a reduction in the cost of the underlying asset. Government assistance, including investment tax credits related to operating expenses, is recorded as a reduction of these costs. Government assistance related to publishing activities is recorded as a reduction to publishing costs.

h) Cash and cash equivalents

Cash and cash equivalents include cash, bank overdraft and highly liquid investments with original maturities of less than three months.

i) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method, and includes the acquisition costs of materials and manufacturing costs, such as direct labour and a portion of manufacturing overhead.

j) Supplier rebates

The Corporation records supplier rebates as a reduction in the price of products or services received, and reduces operating expenses in the Consolidated Statements of Income (Loss) and related inventory in the Consolidated Statements of Financial Position. These rebates are estimated based on anticipated purchases.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost includes expenditures directly attributable to the acquisition of the property, plant and equipment. The costs, such as borrowing costs incurred directly for the acquisition or construction of property, plant and equipment, are capitalized until the asset is ready for its intended use, and are depreciated over the useful life of the related asset. Property, plant and equipment under construction is not depreciated as long as it has not been put in service.

Property, plant and equipment are depreciated straight-line over the following estimated useful lives:

Buildings	20-40 years
Machinery and equipment	3-15 years
Machinery and equipment under finance leases	3-15 years
Other equipment	2-5 years
Leasehold improvements	Term of the lease

Major parts of property, plant and equipment with different useful lives are accounted for as separate components of the asset, and depreciated over their respective useful lives.

Depreciation methods, useful lives and residual values are reviewed and adjusted prospectively, if applicable, at each reporting date.

l) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered mainly through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of the disposal group, are re-measured in accordance with the Corporation's accounting polices. Thereafter, the assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment losses on a disposal group is allocated to goodwill, then to other assets and liabilities pro rata on the basis of their carrying amounts. However, no impairment losses are allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be valued in accordance with the Corporation's accounting policies. Any impairment losses on initial classification as held for sale or subsequent gain or loss on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment losses.

m) Discontinued operations

A discontinued operation is a component of the Corporation's activities that represents a significant and distinct line of business or geographical area of operations that the Corporation has disposed of or has classified as held for sale. Classification as a discontinued operation occurs on disposal or on the date on which the operation meets the criteria for classification as held for sale, whichever comes first. When an operation is classified as discontinued, comparative statements of income (loss) and comprehensive income (loss) are presented as if the operations were discontinued at the beginning of the comparative period.

n) Leases

Leases are classified as finance leases when substantially all risks and rewards of ownership of the leased property are transferred to the lessee. Other leases are classified as operating leases.

Property, plant and equipment held under a finance lease is initially recognized at the lesser of the fair value of the asset and the present value of the minimum lease payments. The leased item is then recognized in the same manner as other, similar assets held by the Corporation. The related liability payable to the lessor is recorded as a debt resulting from a finance lease and a finance charge is recognized in profit or loss for the duration of the lease.

Leases that do not transfer substantially all risks and rewards of ownership of the leased property are accounted for as operating leases, under which the rental costs are recorded to income on a straight-line basis over the term of the lease.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Intangible assets

i) Identifiable intangible assets acquired in a business combination
Identifiable intangible assets acquired in a business combination are recorded at fair value upon the acquisition date, and subsequently recognized at cost less any accumulated amortization and accumulated impairment losses.

ii) Internally generated intangible assets
Internally generated intangible assets consist of Web site development costs, book prepublication costs and long-term technology project costs. The cost of an internally generated intangible asset includes all the directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Expenses incurred in research activities are expensed in the period in which they are incurred. Expenses incurred in development activities are also expensed in the period in which they are incurred, except if they meet all the criteria for capitalization. The initial amount recognized as an internally generated intangible asset is equal to the sum of expenditures incurred from the date when the intangible asset first meets the recognition criteria.

Following initial recognition, internally generated intangible assets are stated at cost less accumulated amortization and impairment.

Intangible assets with finite useful lives are amortized according to the following methods and estimated useful lives:

	Term / Rate	Method
Business relationships	15%-25%	Declining balance
Book prepublication costs	Maximum 7 years	On historical sales patterns
Educational book titles	6-9 years	On historical sales patterns
Acquired printing contracts	Term of the contract	Straight-line
Non-compete agreements	2-5 years	Straight-line
Long-term technology project costs	5 years	Straight-line
Web site development costs	3 years	Straight-line

Amortization methods, useful lives and residual values are reviewed and adjusted prospectively, if applicable, on each reporting date.

Intangible assets with indefinite useful lives are not amortized and consist of trade names, mainly from acquired magazines and newspapers, and their related circulation. The value attributed to a trade name is based on the reputation that a publication has built historically. Given that this value is not affected by the passage of time, it is impossible to allocate it systematically over time. Intangible assets with indefinite useful lives are tested annually for impairment, or more frequently if changes in circumstances indicate a potential impairment.

iii) Goodwill
Goodwill arising from an acquisition is recognized at cost, which represents the amount by which the cost of acquisition exceeds the fair value of the net identifiable assets of the acquired businesses, and at the cost less accumulated impairment losses thereafter. Goodwill has an indefinite useful life and is not amortized.

p) Impairment of non-financial assets

The Corporation reviews the carrying value of its non-financial assets, other than inventories and deferred tax assets, at each reporting date of the financial statements in order to determine whether there is an indication of potential impairment.

Goodwill and intangible assets that have indefinite useful lives, or that are not yet available for use, are assessed for impairment each year on the same date, or more frequently if changes in circumstances indicate potential impairment. In the presence of such changes, an estimate is made of the asset's recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill acquired in a business combination is allocated, beginning on the acquisition date, to the cash-generating units ("CGUs") that will benefit from the synergies of the combination. For the purpose of impairment testing, assets that cannot be tested individually for impairment are grouped to form the smallest group of assets that generates, through continuing use, cash flows that are largely independent of the cash flows from other assets or groups of assets. Each CGU or group of CGUs to which goodwill is allocated may not be larger than an operating segment, and represents the lowest level at which goodwill is monitored through internal management.

The recoverable amount of an asset or a cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (or group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. An impairment loss related to intangible assets with indefinite useful lives recognized in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

q) Contract acquisition costs

Contract acquisition costs are amortized as reductions of revenues using the straight-line method over the related contract term or on sales volumes. Whenever changes occur that impact the related contract, including significant declines in anticipated profitability, the Corporation evaluates the realizable value of the contract acquisition costs to determine whether impairment has occured. These costs are included in other assets in the Consolidated Statement of Financial Position.

r) Provisions

Provisions are liabilities of uncertain timing or amount. Provisions are recognized when the Corporation has a present legal or implicit obligation arising from past events, when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the Corporation's best estimate of the present obligation at the end of the reporting period. When the effect of discounting is material, the amount of the provision is determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Corporation's main provisions are related to restructuring costs, onerous contracts and asset retirement obligations. Provisions are reviewed on each reporting date and any changes to estimates are reflected in the Consolidated Statement of Income (Loss).

i) Restructuring

A restructuring provision is recorded when the Corporation has a formal and detailed restructuring plan and a valid expectation has been created among those affected, either by commencing execution of the plan or by announcing its main characteristics. Future operating losses are not subject to a provision.

ii) Onerous contracts

An onerous contract provision is recorded when the Corporation has a contract under which it is more likely than not that the unavoidable costs of meeting the contractual obligations are greater than the economic benefits that the Corporation expects from the contract. Unavoidable costs include expected cost overruns, penalties related to late deliveries and costs related to technological problems. An onerous contract provision represents the lesser of the cost of exiting from the contract and the cost of fulfilling it, and is recognized in operating expenses.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Asset retirement obligations

Legal obligations linked to restoration of certain buildings are recorded in the period in which they are contracted, when they can be reasonnably estimated. The obligations are initially measured at fair value using the discounted cash flow method, and are subsequently adjusted for any changes in the initial timing or amounts of the expected cash flow. Initially, these obligations are capitalized as property, plant and equipment, and then amortized over the useful life of the asset. A liability related to the asset retirement obligation is also established over time, due to accretion, and recorded in operating expenses.

s) Employee benefits

The Corporation offers various contributory and non-contributory defined benefit pension plans, post-employment benefits, defined contribution pension plans and registered savings plans to its employees and those of its participating subsidiaries. Since June 1, 2010, most employees participate only in defined contribution pension plans.

i) Defined benefit pension plans and post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits are determined by independent actuaries on each reporting date, using the Projected Unit Cost Method and based on management's best estimates regarding the expected rate of return of the plans' investments, salary increases, the retirement age of employees and life expectancies.

The defined benefit asset (liability) recognized in the Consolidated Statement of Financial Position is the discounted value of the defined benefit obligation, including actuarial gains and losses recorded in comprehensive income (loss) and the past service cost, less the fair value of plan assets. The value of plan assets is limited to the total of unrecognized past service cost and the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Any surplus is immediately recognized in profit or loss.

A minimum liability is recognized when the minimum statutory financing of past service exceeds the economic benefits available, either as a plan repayment or as a reduction in future plan contributions.

Net cumulative actuarial gains and losses related to plan assets and the defined benefit obligation, as well as the effect of the limit on the employer's share of the cost of the future benefits, are recognized in comprehensive income (loss) during the period in which they occur.

Past service cost is recognized as an expense in the Consolidated Statement of Income (Loss), to the extent that benefit rights have become vested. Past service cost related to unvested benefits is deferred and amortized on a straight-line basis over the average period until the benefits become vested. The expected return on plan assets and the accretion of the defined benefit obligation are recognized in profit or loss during the period in which they occur.

ii) Defined contribution pension plans and registered savings plans

Under the defined contribution pension plans, the Corporation makes contributions to the participating employees' pension plans using a predetermined percentage of the employees salary and has no legal or implicit obligation to pay additionnal amounts. The cost for these plans is recorded when services are rendered by employees, which is generally at the same time the contributions are made.

The Corporation's contributions to state plans, which are operated by government bodies, are also included in its defined contribution plan expense.

t) Stock-based compensation

The Corporation offers stock option plans and share unit plans for certain senior executives and directors.

i) Stock option plans

Stock options are valued at fair value at the time they are granted using the Black-Scholes model, and are recognized to income on a straight-line basis at a rate of 25% per year, which is the period over which the rights on the options vest, and according to the Corporation's estimate of the number of options that will vest. On each reporting date, the Corporation reviews its estimates of the number of options that are expected to vest and recognizes the impact of this review in profit or loss as required.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Share unit plans for senior executives
Compensation costs related to share unit plans for senior executives are recognized on a straight-line basis over the three-year vesting period, either on the achievement of performance targets for the units related to performance, or on tenure for other units. The liability for these units is remeasured at fair value at the end of each reporting period. Any changes in the fair value is recognized in profit or loss. At the end of each reporting period, the Corporation reviews its estimate of the number of units expected to vest, and recognizes the impact in profit or loss when applicable.

iii) Share unit plans for directors
Compensation costs related to share units for directors are recognized at the time they are granted. These units are initially measured at fair value based on the trading price of Class A Subordinate Voting Shares of the Corporation, and are revalued at the end of each reporting period, until settlement. Any changes in fair value are recognized in profit or loss.

u) Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation. The functional currency is the currency of the primary economic environment in which the Corporation operates. The functional currency of the Corporation's foreign subsidiaries is the U.S. dollar.

Transactions denominated in a currency other than the functional currency of the Corporation or a subsidiary are recognized by applying the exchange rate prevailing on the transaction date. On each reporting date, monetary items denominated in a foreign currency are translated using the exchange rate prevailing on that date, and non-monetary items that are measured at historical cost are not adjusted. Exchange differences are recognized in profit or loss in the period during which they occur.

The assets and liabilities of foreign subsidiaries whose functional currency is not the Canadian dollar are translated into Canadian dollars by applying the exchange rate prevailing as at the reporting date. Revenue and expense items are translated at the average exchange rate for the period. Exchange differences are recognized in other comprehensive income (loss) under "Cumulative translation differences" and are accumulated in equity. The accumulated amount of exchange differences is reclassified in net income (loss) upon disposal or partial disposal of an interest in a foreign operation.

v) Financial instruments

Financial assets and liabilities are initially recognized at fair value and their subsequent valuation is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments.

Financial assets and liabilities are classified and subsequently valued as follows:

	Category	Subsequent valuation
Cash and cash equivalents	Loans and receivables	Amortized cost, at the effective interest rate
Accounts receivable, other receivables and other financial assets	Loans and receivables	Amortized cost, at the effective interest rate
Investments	Available for sale	Fair value or cost if there is no quoted market
Accounts payable, other accrued liabilities and other financial liabilities	Other financial liabilities	Amortized cost, at the effective interest rate
Long-term debt	Other financial liabilities	Amortized cost, at the effective interest rate
Derivative financial instruments	Held for trading	Fair value

Transaction costs directly related to the acquisition or issue of a financial asset or liability are capitalized to the cost of financial assets and liabilities when they are not classified as held for trading. Thus, issuance costs of long-term debt are classified as a reduction in long-term debt, and amortized using the effective interest rate method.

Changes in fair value of financial instruments held for trading are recorded in the Consolidated Statement of Income (Loss) in the appropriate period. Changes in fair value of financial instruments designated as cash flow hedges are recorded, for the effective portion, in the Consolidated Statement of Comprehensive Income (Loss) in the appropriate period until their realization, after which they are recorded in the Consolidated Statement of Income (Loss).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

w) Derivative financial instruments and hedge accounting

The Corporation identifies, evaluates and manages financial risks related to changes in interest rates and foreign exchange rates in order to minimize the effect on its results and financial position, using derivative financial instruments for which parameters have been defined and approved by the Board of Directors. If the Corporation did not use derivative financial instruments, exposure to market volatility would be greater.

When applying hedge accounting, the Corporation formally documents the relationship between the financial instruments and the hedged items, as well as its objective and risk management strategy underlying its hedging activities, as well as the methods that will be used to assess hedge effectiveness. This process includes linking all derivative financial instruments designated as a hedge to specific assets and liabilities, firm commitments or specific anticipated transactions.

At the inception of the hedging relationship and throughout its duration, the Corporation must have reasonable assurance that the relationship will remain effective and in accordance with its risk management objective and strategy as initially documented. The effectiveness of the hedging relationship must be confirmed at each reporting date. The effective portion of the hedging relationship, and the effective portion of changes in fair value of the derivative, are recognized in other comprehensive income (loss) and the ineffective portion is recognized in the Consolidated Statement of Income (Loss). The effective portion of the currency risk hedging relationship related to future purchases of production equipment, deferred in accumulated other comprehensive income (loss), is reclassified against the production equipment at its initial recognition. The effective portion of the currency risk hedging relationship related to interest and capital payments is reclassified to income during the period in which the hedged item affects earnings.

When hedging instruments mature or become ineffective before their maturity, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income (loss) as a result of applying hedge accounting are carried forward to be recognized in net income (loss) in the same period or periods during which the asset acquired or liability incurred affects net income (loss). If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise before the hedging instrument expires, any gains, losses, revenues or expenses associated with the hedging instrument that had previously been recognized in other comprehensive income (loss) as a result of applying hedge accounting are recognized in the reporting period's net income (loss) along with the corresponding gains, losses, revenues or expenses recognized on the hedged item.

Derivative financial instruments offering economic hedging without being eligible for hedge accounting are accounted for at fair value with changes in fair value recorded in profit or loss. The Corporation does not use derivative financial instruments for speculative or trading purposes.

x) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and contingent liabilities on the reporting date, and amounts of revenues and expenses for the relevant period. Although management regularly reviews its estimates, actual results may differ. The impact of changes to accounting estimates is recognized in the period during which the change occurs, and in the affected future periods, when applicable. The preparation of financial statements in accordance with IFRS also requires that management use its judgment when applying the accounting policies of the Corporation. Areas in which the estimates and assumptions are significant, which require more judgment, or which are complex, are as follows:

i) Business combination

Determination of fair value associated with identifiable intangible assets following a business combination requires management to make assumptions. More specifically, this is the case when the Corporation calculates fair values internally using appropriate valuation techniques, which are generally based on a prediction of expected future cash flows. These valuations are closely related to the assumptions made by management about the future return on the related assets and the discount rate applied.

ii) Property, plant and equipment and intangible assets

Valuations of property, plant and equipment and intangible assets are influenced by management's estimates of the useful lives of depreciable assets. In addition, management must use its judgment when determining depreciation methods and the residual value of an asset, the capitalization rate on internal labour costs and the presence of assets that qualify for the capitalization of borrowing costs in the case of property, plant and equipment. The estimates and assumptions are reviewed at each reporting date. The impact of this review is recognized prospectively in profit or loss, as required.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iii) Impairment of assets

As part of assessing goodwill, property, plant and equipment and intangible assets for impairment, the recoverable value of a CGU is determined using a complex valuation method that requires the use of a number of methods, including the method based on discounting future cash flows. Cash flow projections are made for the next three years, based on past experience, and represent management's best estimate of future results. Beyond this period, cash flows are extrapolated using estimated growth rates. The recoverable value of a CGU is also influenced by the discount rate used in the model, the growth rate used to make the extrapolation, the average weighted cost of capital and tax rates. This method relies on numerous assumptions and estimates that may have a material impact on the recoverable value of a CGU and, consequently, on the depreciation amount.

When a market-based method is used, the Corporation estimates the fair value of the CGU by multiplying the normalized results before depreciation, interest and taxes by a multiple that is based on market data. This exercise requires that management exercise considerable judgment.

iv) Provisions

Provisions are liabilities of uncertain timing or amount. Determination of an amount for provisions requires that management make assumptions and estimates of discount rates, projected costs and timelines, and the probability of occurence of the obligations.

v) Revenue recognition

Publishing, content preparation and marketing project revenues are recognized based on the percentage of completion. Use of this method requires that the Corporation estimate the work completed to date in relation to all the work to be performed, including the estimated costs to complete the work, percentage of completion of the work and margins recognized for each individual contract. Management regularly reviews these estimates and assumptions, and the impact of this review is recognized prospectively in profit or loss, as required.

vi) Income taxes

In the calculation of current tax, considerable judgment must be exercised since the Corporation is subject to the tax laws of many jurisdictions. Similarly, the amount of current tax may change as a result of various factors, such as future events, changes in income tax laws or the outcome of reviews by tax authorities and related appeals.

In the calculation of deferred tax, judgment and estimates must be used to determine the appropriate rates and amounts and to take into account the probability of their occurence.

Once the final amounts have been determined, they may result in adjustments to current and deferred income tax assets and liabilities.

vii) Employee benefits

The costs of defined benefit pension plans and accrued pension benefit assets (liabilities) are valued using actuarial methods. Actuarial valuations are based on assumptions such as discount rates, expected rates of return on assets, compensation growth rates and mortality rates. Due to the long-term nature of these obligations, these estimates are subject to significant uncertainty.

viii) Stock-based compensation

In the calculation of the grant date fair value of stock options and senior executive share units, management uses various assumptions, such as the expected volatility of the underlying security, option life, the risk-free rate and the historical dividend payout rate of the Corporation. Important changes to assumptions may result in significant changes to the fair value of stock options.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ix) Fair value of financial instruments

The fair value of financial instruments is determined using information available in the market on the reporting date. When no active market exists for a financial instrument, the Corporation uses various valuation methods to determine the fair value of the instrument, methods that require making assumptions. The following valuation methods and assumptions are used to estimate the fair value of financial instruments:

- The carrying value is used to estimate the fair value of most current assets and liabilities due to their relatively short periods to maturity;
- The cash flow discounting method is used to estimate the fair value of finance leases;
- Present cash flows, calculated using current interest rates for instruments with similar terms and remaining maturities, are used to calculate the fair value of certain non-current assets and liabilities;
- Valuation techniques that take into account assumptions such as estimated future cash flows, interest rate curves adjusted for credit risk and exchange rates are used to determine the fair value of derivative financial insruments.

3 FUTURE CHANGES IN ACCOUNTING POLICIES

a) Financial instruments

In October 2010, the IASB issued IFRS 9, "Financial Instruments," the first part of a three-part project to replace IAS 39, "Financial Instruments: Recognition and Measurement" and IFRIC 9, "Reassessment of Embedded Derivatives." This first part covers classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting will be addressed in the other two parts.

In order to determine whether a financial asset should be measured at amortized cost or fair value, IFRS 9 uses a single approach that replaces the multiple measurement and category models established by IAS 39. Under IFRS 9, determination is based on how an entity manages its financial instruments and the characteristics of the contractual cash flows of its financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward to IFRS 9. However, requirements concerning measurement of financial liabilities at fair value have changed; the portion of changes in fair value related to the entity's own credit risk must be presented in other comprehensive income (loss) rather than in the Consolidated Statement of Income (Loss). IFRS 9 will apply to annual periods beginning on or after January 1, 2015, and earlier application is permitted.

b) Consolidated financial statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements," intended to replace IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation - Special Purpose Entities." IFRS 10 defines the concept of control as the determining factor in whether an entity should be included in the basis of consolidation in an entity's consolidated financial statements. IFRS 10 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

c) Joint arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements," intended to replace IAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers." IFRS 11 deals with the contractual rights and obligations inherent in a joint arrangement, rather than the legal form of the arrangement. IFRS 11 eliminates the election to use the proportionate consolidation method when recognizing interests in jointly controlled entities, and requires use of the equity method. IFRS 11 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Currently, the Corporation uses the proportionate consolidation method to recognize interests in joint ventures, but will have to apply the equity method under IFRS 11. Under this method, the Corporation's share of the net assets, net income (loss) and other comprehensive income (loss) in the joint ventures will be presented in a single line item in the Consolidated Statement of Financial Position, the Consolidated Statement of Income (Loss) and the Consolidated Statement of Comprehensive Income (Loss), respectively.

3 FUTURE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

d) Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities." IFRS 12 complements the disclosure requirements concerning interests that an entity holds in subsidiaries, joint ventures, associates and consolidated structured entities. The standard requires an entity to disclose information regarding the nature and risks associated with all its interests in other entities and the effect of those interests on its financial position, financial performance and cash flows. IFRS 12 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

e) Fair value measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement." IFRS 13 improves consistency and reduces complexity by providing a specific definition of fair value. IFRS 13 therefore replaces the guidance on measurement of fair value contained in individual IFRS with a single source of guidance on all measurements of fair value. IFRS 13 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

f) Employee benefits

In June 2011, the IASB issued an amended version of IAS 19, "Employee Benefits," in order to reflect significant changes in the recognition and measurement of the defined benefit pension expense and termination benefits. Under the amended IAS 19, use of the "corridor" approach, under which the recognition of actuarial gains and losses could be deferred, has been eliminated. The amended IAS 19 introduces a new approach to calculating and presenting net interest expense on defined benefit liabilities (assets), under which the return on the asset will be identical to the rate used to discount the liability. The amended IAS 19 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

The Corporation is currently evaluating the impact of these new standards on its consolidated financial statements.

4 IMPAIRMENT OF ASSETS

	Three months ended January 31	
	2012	2011
Property, plant and equipment	**$ 0.8**	$ 3.5

5 AMORTIZATION

	Three months ended January 31	
	2012	2011
Property, plant and equipment	**$ 25.2**	$ 26.6
Intangible assets	**3.7**	4.4
	28.9	31.0
Intangible assets and other assets, recognized in revenues and operating expenses	**4.9**	5.8
	$ 33.8	$ 36.8

6 FINANCIAL EXPENSES

		Three months ended January 31	
		2012	2011
Financial expenses on long-term debt		**$ 6.9**	$ 10.1
Interest on tax contingencies	7	**16.0**	-
Other expenses		**0.8**	1.0
Foreign exchange gain		**-**	(0.3)
		$ 23.7	$ 10.8

7 INCOME TAXES

	Three months ended January 31	
	2012	2011
Income before income taxes	**$ 16.0**	$ 32.8
Canadian Statutory tax rate	**27.1 %**	28.6 %
Income taxes at the statutory tax rate	**4.3**	9.4
Effect of contributions for previous years (a)	**42.0**	-
Effect of differences in tax rates in other jurisdictions	**(1.0)**	(1.7)
Income taxes on non-deductible expenses and non-taxable portion of capital gain	**3.1**	1.1
Tax benefits of capital losses not previously recognized	**(0.3)**	(1.8)
Other	**(0.5)**	(1.3)
Income taxes at effective tax rate	**$ 47.6**	$ 5.7
Effective tax rate	**297.5 %**	17.4 %

Income taxes include the following items:

	2012	2011
Income taxes before the following items:	**$ 48.5**	$ 7.1
Income taxes on restructuring costs	**(0.7)**	(0.4)
Income taxes on impairment of assets	**(0.2)**	(1.0)
Income taxes at effective tax rate	**$ 47.6**	$ 5.7

(a) In February 2012, the federal and provincial tax authorities informed the Corporation that it would receive notices of re-assessment estimated to $58.0 million, including applicable interest and penalties for its fiscal years 2006 to 2010. The notices of re-assessments relate to deductions on investments in capital assets made by the Corporation, as well as the interprovincial allocation of income. The Corporation recorded a provision of $58.0 million with respect to these matters, of which $16.0 million was included in financial expenses and $42.0 million in income taxes, although it intends to contest these re-assessments. Therefore, the outcome of this dispute could favorably influence the amounts recognized in the consolidated financial statements of the Corporation.

8 DISCONTINUED OPERATIONS

On July 12, 2011, the Corporation entered into a final agreement with Quad/Graphics, Inc. to sell its Mexican printing operations. Net income, assets and liabilities related to these activities have been reclassified distinctly to the Consolidated Statement of Income (Loss) as well as the Consolidated Statement of Financial Position. Note 15 provides more detailed information on the terms and conditions of this transaction.

The following table presents the results of discontinued operations:

	Three months ended January 31	
	2012	2011
Revenues	**$ -**	$ 15.3
Expenses	**-**	14.4
Income before income taxes	**-**	0.9
Income taxes	**-**	0.3
Net income from discontinued operations	**$ -**	$ 0.6

9 EMPLOYEE BENEFITS

The Corporation offers various contributory and non-contributory defined benefit pension plans, post-employment benefits, defined contribution pension plans and registered group savings plans to its employees and those of its participating subsidiaries.

The following table presents the costs related to these plans and costs related to State plans:

	Three months ended January 31	
	2012	2011
Defined benefit pension plans and post-employment benefits	**$ -**	$ (0.3)
Defined contribution plans	**4.5**	4.5
State plans	**3.9**	3.6
	$ 8.4	$ 7.8

10 ACCOUNTS RECEIVABLE

The Corporation has a securitization program maturing in 2013 with a trust whose financial services agent is a Canadian bank, for the sale, from time to time, of certain accounts receivable of its subsidiaries. The maximum net consideration permitted under the program is $200.0 million, of which a maximum of 20% in accounts receivable may be in U.S. dollars.

No amount had been drawn on this source of financing as at January 31, 2012, nor as at October 31, 2011.

11 PROVISIONS

	Restructuring costs	Onerous contracts	Other	Total
Balance as at October 31, 2011	$ 7.6	$ 9.6	$ 2.2	$ 19.4
Provisions recorded	2.9	0.4	0.1	3.4
Amounts used	(5.7)	(0.4)	(0.5)	(6.6)
Provisions reversed	(0.4)	-	(0.4)	(0.8)
Other	-	0.1	-	0.1
Balance as at January 31, 2012	$ 4.4	$ 9.7	$ 1.4	$ 15.5
Current portion	4.4	1.8	0.7	6.9
Non-current portion	-	7.9	0.7	8.6
	$ 4.4	$ 9.7	$ 1.4	$ 15.5

Restructuring costs
The Corporation is currently implementing rationalization measures that will affect all its operating segments. Among other things, these measures will address excess production capacity in some specialized plants of the Printing sector due to major structural changes in the printing industry that have reduced demand in certain niche markets. These measures also address the implementation of a new operating structure, effective November 1, 2011, by combining the majority of the Interactive sector's activities with those of the Media sector to form a single sector to better meet the multi-platform marketing communication needs of customers.

Onerous contracts
The provisions for onerous contracts are related to operating leases for spaces not used by the Corporation and represent the present value of future rental expenses that the Corporation must pay under contracts that cannot be cancelled, net of estimated future sub-leasing revenues expected to be received on these sub-leases. The terms on these contracts vary from 6 to 7 years.

Other
Other provisions include provisions for asset retirement obligations, and provisions related to claims and litigations and other obligations.

12 NET INCOME (LOSS) PER PARTICIPATING SHARE

The following table is a reconciliation of the items used to calculate basic and diluted net income (loss) from continuing operations per share for the three-month periods ended January 31:

	2012	2011
Numerator		
Net income (loss) from continuing operations	**$ (31.6)**	$ 27.1
Non-controlling interests	**-**	0.3
Dividends on preferred shares, net of related taxes	**1.7**	1.7
Net income (loss) from continuing operations, attributable to participating shares	**$ (33.3)**	$ 25.1
Denominator (in millions)		
Weighted average number of participating shares outstanding - basic	**81.0**	81.0
Weighted average number of dilutive options	**-**	0.1
Weighted average number of participating shares outstanding - diluted	**81.0**	81.1

In the calculation of the diluted net income (loss) per share, 1,449,524 stock options were considered anti-dilutive as at January 31, 2012 (1,040,657 as at January 31, 2011), since their exercise price was greater than the average share price of Class A Subordinate Voting Shares during the period. Therefore, these stock options were excluded from the calculation.

13 STOCK-BASED COMPENSATION

Stock option plan

The Corporation offers a stock option plan to certain senior executives. Under the plan, each stock option entitles its holder to receive upon exercise one Class A Subordinate Voting Share, The exercise price of each option is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option.

Stock-based compensation expenses of $0.2 million were charged to income and increased contributed surplus included in shareholders' equity for the three-month periods ended January 31, 2012 and 2011.

The following table summarizes the changes in the plan's status:

	Three months ended January 31			
	2012		2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options issued at beginning of period	**1,572,640**	**$ 16.67**	1,542,490	$ 16.76
Granted	**235,984**	**12.40**	164,672	16.20
Exercised	**(12,400)**	**11.13**	(10,840)	9.96
Cancelled	**(28,800)**	**20.68**	(17,725)	12.52
Expired	**(15,000)**	**11.13**	-	-
Options outstanding at end of period	**1,752,424**	**$ 16.12**	1,678,597	$ 16.79
Options exercisable as at January 31	**1,247,980**	**$ 17.40**	1,205,750	$ 18.19

Exercise of stock options

When exercising their stock options, any consideration paid by executives are credited to share capital and the amount previously credited to contributed surplus is also transferred to share capital. For the three-month periods ended January 31, 2012 and 2011, considerations of $0.1 million were received and no amount was transferred from contributed surplus to share capital.

The following table summarizes the weighted average assumptions used to calculate, using the Black-Scholes option pricing model, the fair value on the grant date of the options granted during the three-month periods ended January 31:

	2012	2011
Share price of Class A Subordinate Voting Shares on the stock option grant date	**$ 12.40**	$ 16.20
Weighted average fair value of the stock options	**$ 3.01**	$ 4.82
Assumptions:		
Dividend yield	**4.4 %**	2.7 %
Expected volatility	**40.5 %**	39.0 %
Risk-free interest rate	**1.4 %**	2.6 %
Expected remaining life	**5 years**	5 years

The dividend yield is based on the actual average dividend rate of the Corporation's participating shares. The expected volatility is based on the historical volatility of the price of the Corporation's Class A Subordinate Voting Shares over a period equal to the expected remaining life of the options. The risk-free rate is the rate of return on Government of Canada bonds over a period equal to the expected remaining life of the options. The expected remaining life of the options represents the period of time during which the options granted are expected to be outstanding.

13 STOCK-BASED COMPENSATION (CONTINUED)

Senior executive share unit plan

The Corporation offers a share unit plan to its senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted. A portion of share units will vest based on performance targets being met and another portion of share units will vest based on the passage of time. Vested DSUs and RSUs will be paid, at the Corporation's option, in cash or with Class A Subordinate Voting Shares of the Corporation purchased on the open market.

The following table provides plan details:

	Three months ended January 31			
Number of units	**2012**	2011	**2012**	2011
	DSU		RSU	
Balance, beginning of period	**201,981**	121,110	**679,884**	676,627
Units granted	**-**	40,123	**309,097**	233,383
Units cancelled	**-**	-	**(113,289)**	(69,584)
Units paid	**-**	(872)	**(139,506)**	(53,824)
Units converted	**17,956**	41,874	**(17,956)**	(41,874)
Dividends paid in units	**2,085**	1,162	**-**	-
Balance, end of period	**222,022**	203,397	**718,230**	744,728

As at January 31, 2012, the liability related to the senior executive share unit plan was $5.5 million ($6.1 million as at October 31, 2011). The expenses recorded in the Consolidated Statement of Income (Loss) for the three-month periods ended January 31, 2012 and 2011 were $0.9 million and $1.3 million, respectively. Amounts of $1.5 million and $0.9 million were paid under this plan for the three-month periods ended January 31, 2012 and 2011, respectively.

Directors share unit plan

The Corporation offers a deferred share unit plan for its directors. Under this plan, directors may elect to receive as compensation either cash, deferred share units, or a combination of both.

The following table provides plan details:

	Three months ended January 31	
Number of units	**2012**	2011
Balance, beginning of period	**201,257**	159,803
Directors' compensation	**12,323**	6,627
Dividends paid in units	**2,146**	1,044
Balance, end of period	**215,726**	167,474

As at January 31, 2012, the liability related to the director share unit plan was $2.6 million ($2.4 million as at October 31, 2011). The expenses recorded in the Consolidated Statement of Income (Loss) for the three-month periods ended January 31, 2012 and 2011 were $0.2 million and $0.5 million, respectively. No amount has been paid under this plan for the these periods.

14 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Cash flow hedges	Cumulative exchange differences	Actuarial gains and losses related to defined benefit plans	Accumulated other comprehensive income (loss)
Balance as at November 1, 2010	$ (4.5)	$ -	$ -	$ (4.5)
Net change in gains (losses), net of income taxes	1.2	(1.7)	16.5	16.0
Balance as at January 31, 2011	$ (3.3)	$ (1.7)	$ 16.5	$ 11.5
Balance as at November 1, 2011	**$ (6.3)**	**$ (1.9)**	**$ (19.9)**	**$ (28.1)**
Net change in gains (losses), net of income taxes	**(0.2)**	**0.5**	**(10.7)**	**(10.4)**
Balance as at January 31, 2012	**$ (6.5)**	**$ (1.4)**	**$ (30.6)**	**$ (38.5)**

As at January 31, 2012, the amounts expected to be reclassified to net income (loss) are as follows:

	2012	2013	2014	2015	2016 and thereafter	Total
Losses on derivatives designated as cash flow hedges	$ (1.2)	$ (1.5)	$ (1.3)	$ (0.8)	$ (2.5)	$ (7.3)
Income taxes	0.2	(0.2)	-	0.1	0.7	0.8
	$ (1.0)	$ (1.7)	$ (1.3)	$ (0.7)	$ (1.8)	$ (6.5)

15 BUSINESS ACQUISITIONS

Quad/Graphics Canada, Inc.

On July 12, 2011, the Corporation and Quad/Graphics, Inc. have entered into a definitive agreement under which the Corporation agreed to acquire all the shares of Quad/Graphics Canada, Inc., subject to regulatory approval, including approval under the Canadian Competition Act, as well as an agreement to sell to Quad/Graphics, Inc. its Mexican printing operations, and to transfer its black and white book printing business for U.S. export. Essentially, these transactions represent an exchange of assets of a net value of approximately $85.0 million, including $80.0 million, before adjustment for working capital and transaction costs, for the Mexican printing operations, and $5.0 million for the black and white book printing business for U.S. export.

The closing of the Mexican transaction took place on September 8, 2011, for net proceeds of $81.8 million, subject to a price adjustment clause based on working capital at closing date. The Corporation received an amount of $50.0 million and recorded an amount of $32.8 million in its accounts receivable. This transaction resulted in a net gain on disposal of $26.8 million, after application of the exemption under IFRS 1. Note 19 B) explains in more detail the nature of this exemption.

The closing of the Canadian transaction took place on March 1, 2012, and has been settled in cash totalling $50.0 million, and by compensation the amount related to the sale of the Mexican printing operations of $32.8 million and black and white book printing business for U.S. export of $5.0 million.

Given that the transaction closed shortly before the date of approval of these interim financial statements, the Corporation did not have sufficient information to be able to make an initial allocation of the purchase price of this acquisition. The Corporation intends to disclose information relating to the initial recognition of the acquisition over the next two quarters.

Quad/Graphics Canada, Inc. is active in the printing sector and has seven facilities in Canada: three in Ontario, two in Québec, one in Alberta and one in Nova-Scotia, representing six printing plants and one premedia facility. Quad / Graphics Canada, Inc. generates revenues of approximately $230 million and has over 1000 employees. This acquisition enables the Corporation to strengthen its printing assets.

16 RELATED PARTY TRANSACTIONS

Transactions with joint ventures

The Printing sector prints the newspapers or magazines of certain joint ventures of the Media sector. These transactions are carried out in the normal course of business and are recorded at the exchange amount. The portion of the Corporation's revenues with its joint ventures that was not eliminated during the three-month periods ended January 31, 2012 and 2011 is negligible compared to consolidated revenues of the Corporation. It is the same for amounts receivable from these joint ventures as at January 31, 2012 and 2011.

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly, including any director (whether executive or otherwise) of the Corporation. Key management personnel earned the following amounts in the three months ended January 31:

	2012	2011
Salaries and other short-term employee benefits	**$ 1.9**	$ 2.7
Post-employment benefits	**0.2**	0.4
Stock-based compensation	**0.8**	1.4
	$ 2.9	$ 4.5

17 SEGMENT REPORTING

On November 1, 2011, the Corporation implemented a new operating structure, combining the majority of the Interactive sector activities with those of the Media sector to form a single sector, in order to better meet the multi-platform marketing communication needs of customers. Digital printing activities established in the United States will complete the product offering of the Printing sector. Therefore, comparative data have been restated to reflect this change.

The operating segments are defined in terms of the types of products and services offered by the Corporation. The Printing sector generates revenues through printing activities for magazine, book and newspaper publishers, as well as for retail customers. The Media sector generates revenues through database publishing, distribution, analysis and management, as well as through interactive marketing solutions (mobile, digital platforms, etc.) and digital media. Sales between the Corporation's segments are recognized at the exchange amount. Transactions other than sales are recognized at carrying value.

The Consolidated Statements of Income for the three-month periods ended January 31 include the following components (by segment):

Operating segments	**2012**	2011
Revenues		
Printing sector	**$ 354.3**	$ 374.1
Media sector	**158.5**	159.2
Other activities and unallocated amounts	**2.2**	2.1
Inter-segment sales	**(19.1)**	(20.6)
	$ 495.9	$ 514.8
Operating income (loss) before amortization		
Printing sector	**$ 64.8**	$ 65.7
Media sector	**6.3**	12.5
Other activities and unallocated amounts	**(2.5)**	(3.6)
	$ 68.6	$ 74.6
Operating income (loss)		
Printing sector	**$ 42.9**	$ 41.8
Media sector	**-**	6.0
Other activities and unallocated amounts	**(3.2)**	(4.2)
	$ 39.7	$ 43.6
Acquisitions of non-current assets [1]		
Printing sector	**$ 17.2**	$ 4.1
Media sector	**10.3**	8.2
Other activities and unallocated amounts	**0.2**	0.2
	$ 27.7	$ 12.5

[1] These amounts include acquisitions of property, plant and equipment, intangible assets and other non-current assets, excluding those acquired in business combinations, whether they have been paid or not.

	2012	2011
Amortization of property, plant and equipment and intangible assets		
Printing sector	**$ 21.4**	$ 23.5
Media sector	**6.1**	6.2
Other activities and unallocated amounts	**1.4**	1.3
	$ 28.9	$ 31.0
Impairment of assets		
Printing sector	**$ 0.8**	$ 3.5

17 SEGMENT REPORTING (CONTINUED)

The Corporation's total assets by segment are as follows:

Operating segments	As at January 31, 2012	As at October 31, 2011
Assets		
Printing sector	**$ 1,166.7**	$ 1,234.8
Media sector	**901.5**	928.7
Other activities and unallocated amounts	**187.3**	201.6
	$ 2,255.5	$ 2,365.1

The Corporation's revenues by main products and services for the three-month periods ended January 31 were as follows:

	2012	2011
Main products and services		
Printed products	**$ 335.8**	$ 355.2
Publishing products	**95.8**	95.5
Interactive and digital solution products	**29.0**	28.5
Other products and services	**35.3**	35.6
	$ 495.9	$ 514.8

18 SUBSEQUENT EVENT

New Credit Facility

On February 17, 2012, the Corporation set up a new five-year unsecured term credit facility of $400 million, which matures in February 2017.

19 TRANSITION TO IFRS

These interim consolidated financial statements represent the Corporation's first financial statements prepared in accordance with IFRS, as described in Note 2, "Significant accounting policies."

The Corporation's date of transition to IFRS is November 1, 2010. For the purposes of preparing the opening Consolidated Statement of Financial Position as at that date, the Corporation applied the accounting policies described in Note 2 and the relief measures, called exemptions and exceptions, permitted under IFRS 1, "First-time Adoption of International Financial Reporting Standards," in order to avoid retroactive application of certain standards. The exemptions are optional, while the exceptions are mandatory. Descriptions of the exemptions and exceptions applicable to the Corporation, along with the Corporation's elections, are presented below:

Exemptions to complete retrospective application of IFRS

a) Business combinations
IFRS 1 permits to not retrospectively apply IFRS 3, "Business Combinations," to business combinations that occured before the transition date. The Corporation has elected to apply IFRS 3 prospectively from the transition date. As a result, the carrying value of goodwill, as determined previously under Canadian GAAP for business combinations that took place before November 1, 2010, has not been restated. On the date of transition, goodwill was tested for impairment in accordance with IFRS 1 requirements with no resulting impairment expense.

b) Share-based payment transactions
IFRS 1 encourages, but does not require, application of IFRS 2, "Share-based Payment" for equity instruments granted on or before November 7, 2002, as well as those that were granted after November 7, 2002 and vested before the date of transition to IFRS. The Corporation has elected to apply IFRS 2 to all the equity instruments granted after November 7, 2002, but not vested before the date of transition to IFRS. For stock options issued and vested before November 1, 2010, the amount recognized in contributed surplus, as well as in share capital in the case of exercised options, has been reversed and recorded in retained earnings.

c) Deemed cost
IFRS 1 allows for property, plant and equipment to be valued on the date of transition at fair value and to use such fair value as deemed cost as at this date. Deemed cost is the amount used as a substitute for cost or amortized cost, with subsequent depreciation calculated based on this amount. The Corporation has elected to apply this exemption to certain items of property, plant and equipment.

d) Employee benefits
IAS 19, "Employee Benefits," requires measuring actuarial gains and losses on defined benefit plans in accordance with IFRS from the commencement of the plans until the date of transition. IFRS 1 permits recognizing cumulative actuarial gains and losses in retained earnings on the date of transition, and prospective application of IAS 19. The Corporation has elected to apply this exemption and, as a result, accumulated actuarial gains and losses as at November 1, 2010 have been recognized in retained earnings for all its defined benefit plans.

e) Cumulative translation differences
IAS 21, "The Effects of Changes in Foreign Exchange Rates," requires computing translation differences in accordance with IFRS since the date that the foreign operation was acquired or established. IFRS 1 permits cumulative translation differences for all foreign operations to be deemed to be zero on the date of transition. The gain or loss on subsequent disposal of a foreign operation must exclude cumulative translation differences from before the date of transition to IFRS. The Corporation has elected to apply this exemption and, consequently, the cumulative translation differences as at November 1, 2010 have been recognized in retained earnings.

f) Borrowing costs
IAS 23, "Borrowing Costs," is more directive than Canadian GAAP regarding the nature of borrowing costs that are directly capitalized as part of the acquisition, construction or production of a qualifying asset. IFRS 1 offers an exemption that permits prospective compliance with the requirements of IAS 23 for all qualifying assets whose capitalization begins on or after the date of transition. The Corporation has elected to use this exemption and apply IAS 23 to all qualifying assets whose capitalization begins on or after the date of transition. Consequently, the balance of the capitalized borrowing costs in property, plant and equipment as at November 1, 2010 under Canadian GAAP has been reversed and recognized in retained earnings.

19 TRANSITION TO IFRS (CONTINUED)

Mandatory exceptions

g) Estimates
IFRS 1 states that an entity's estimates in accordance with IFRS at the date of transition to IFRS shall be consistent with those made on the same date in accordance with Canadian GAAP, unless there is objective evidence that those estimates were in error. As a result, the estimates that the Corporation had prepared under Canadian GAAP were not revised when IFRS were applied.

h) Hedge accounting
IFRS 1 does not allow hedging relationships that do not qualify for the use of hedge accounting under IFRS to be reflected in an entity's opening IFRS statement of financial position. Similarly, IFRS 1 allows for hedge accounting to be applied prospectively from the date of transition only to transactions that meet the hedge accounting criteria in IAS 39, "Financial Instruments: Recognition and Measurement," on this date. Consequently, transactions entered into before November 1, 2010 were not retroactively designated as hedges.

i) Non-controlling interests
The provisions of IAS 27, "Consolidated and Separate Financial Statements," must be applied prospectively on or after the date of transition. These provisions apply in particular to the attribution of deficit balances to non-controlling interests, the recognition of changes in the ownership interests of a parent in a subsidiary that do not result in a loss of control, and accounting for the loss of control over a subsidiary.

Reconciliation of Canadian GAAP and IFRS
The following tables present the impact of adjustments made by the Corporation in order to prepare the opening Consolidated Statement of Financial Position as at November 1, 2010 under IFRS, and to restate the Consolidated Financial Statements under Canadian GAAP for the year ended October 31, 2011 and for the three-month period ended January 31, 2011. Explanations regarding the restatement under IFRS of the Consolidated Financial Statements prepared in accordance with Canadian GAAP are provided in the section that follows the tables.

a) Reconciliation of equity

	Notes	As at October 31, 2011	As at January 31, 2011	As at November 1, 2010
Equity in accordance with Canadian GAAP		$ 1,329.0	$ 1,263.3	$ 1,247.0
IFRS adjustments:				
Employee benefits	D	(67.4)	(19.4)	(41.9)
Borrowing costs	E	(12.0)	(12.9)	(13.2)
Deemed cost	F	(97.1)	(100.4)	(102.4)
Income taxes	G	12.6	15.4	16.3
Business combinations	H	(3.3)	-	-
Tax effect of all restatements	I	51.2	40.7	47.5
Other	J	(7.1)	(6.0)	(5.7)
		(123.1)	(82.6)	(99.4)
Non-controlling interests	A	0.8	0.3	0.8
Equity in accordance with IFRS		$ 1,206.7	$ 1,181.0	$ 1,148.4

19 TRANSITION TO IFRS (CONTINUED)

b) Reconciliation of net income and comprehensive income

Consolidated Statement of Income and Comprehensive Income for the three-month period ended January 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Revenues		$ 514.8	$ -	$ 514.8
Operating expenses	J	435.2	(0.1)	435.1
Restructuring, integration and acquisition costs		1.6	-	1.6
Impairment of assets		3.5	-	3.5
Operating income before amortization		74.5	0.1	74.6
Amortization	E, F, G, J	30.7	0.3	31.0
Operating income		43.8	(0.2)	43.6
Financial expenses		10.8	-	10.8
Income before income taxes		33.0	(0.2)	32.8
Income taxes	I	5.4	0.3	5.7
Non-controlling interests	A	0.3	(0.3)	-
Net income from continuing operations		27.3	(0.2)	27.1
Net income from discontinued operations		0.6	-	0.6
Net income		27.9	(0.2)	27.7
Non-controlling interests	A	-	0.3	0.3
Net income attributable to shareholders of the Corporation		27.9	(0.5)	27.4
Dividends on preferred shares, net of related taxes		1.7	-	1.7
Net income attributable to participating shares		$ 26.2	$ (0.5)	$ 25.7
Net income		$ 27.9	$ (0.2)	$ 27.7
Other comprehensive income (loss)	D, E, F, I	(1.3)	17.3	16.0
Comprehensive income		$ 26.6	$ 17.1	$ 43.7
Net income per participating share - basic and diluted				
Continuing operations		$ 0.31	$ -	$ 0.31
Discontinued operations		0.01	-	0.01
		$ 0.32	$ -	$ 0.32
Weighted average number of shares outstanding - basic (in millions)		81.0	81.0	81.0
Weighted average number of shares outstanding - diluted (in millions)		81.1	81.1	81.1

19 TRANSITION TO IFRS (CONTINUED)

Consolidated Statement of Income and Comprehensive Income for the year ended October 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Revenues		$ 2,043.6	$ -	$ 2,043.6
Operating expenses	J	1,670.6	(0.4)	1,670.2
Restructuring, integration and acquisition costs	H	14.5	3.3	17.8
Impairment of assets	J	56.1	(0.9)	55.2
Operating income before amortization		302.4	(2.0)	300.4
Amortization	E, F, G, J	120.3	1.1	121.4
Operating income		182.1	(3.1)	179.0
Financial expenses		39.3	-	39.3
Expenses related to long-term debt prepayment		5.8	-	5.8
Income before income taxes		137.0	(3.1)	133.9
Income taxes	I	30.3	2.0	32.3
Non-controlling interests	A	0.9	(0.9)	-
Net income from continuing operations		105.8	(4.2)	101.6
Net income (loss) from discontinued operations	B	(21.2)	48.0	26.8
Net income		84.6	43.8	128.4
Non-controlling interests	A	-	0.9	0.9
Net income attributable to shareholders of the Corporation		84.6	42.9	127.5
Dividends on preferred shares, net of related taxes		6.8	-	6.8
Net income attributable to participating shares		$ 77.8	$ 42.9	$ 120.7
Net income		$ 84.6	$ 43.8	$ 128.4
Other comprehensive income (loss)	B, D, E, F, I	43.0	(66.6)	(23.6)
Comprehensive income		$ 127.6	$ (22.8)	$ 104.8
Net income (loss) per participating share - basic and diluted				
Continuing operations		$ 1.22	$ (0.06)	$ 1.16
Discontinued operations		(0.26)	0.59	0.33
		$ 0.96	$ 0.53	$ 1.49
Weighted average number of shares outstanding - basic (in millions)		81.0	81.0	81.0
Weighted average number of shares outstanding - diluted (in millions)		81.1	81.1	81.1

19 TRANSITION TO IFRS (CONTINUED)

c) Reconciliation of financial position

Consolidated Statement of Financial Position as at November 1, 2010

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Current assets				
Cash and cash equivalents		$ 31.9	$ -	$ 31.9
Accounts receivable		440.6	-	440.6
Income taxes receivable		19.5	-	19.5
Inventories		77.6	-	77.6
Prepaid expenses and other current assets		19.3	-	19.3
Deferred income taxes	A	16.6	(16.6)	-
Current assets related to discontinued operations	A	27.5	(1.1)	26.4
		633.0	(17.7)	615.3
Property, plant and equipment	E, F, G	871.6	(99.3)	772.3
Intangible assets		179.1	-	179.1
Goodwill		678.1	-	678.1
Deferred income taxes	A, I	145.3	48.5	193.8
Other assets	D	39.2	(6.9)	32.3
Non-current assets related to discontinued operations	A	48.4	1.1	49.5
		$ 2,594.7	$ (74.3)	$ 2,520.4
Current liabilities				
Accounts payable and accrued liabilities	A, J	$ 345.4	$ (15.8)	$ 329.6
Provisions	A	-	15.7	15.7
Income taxes payable		29.0	-	29.0
Deferred subscription revenues and deposits		38.4	-	38.4
Deferred income taxes	A	2.5	(2.5)	-
Current portion of long-term debt	A	17.8	276.0	293.8
Current liabilities related to discontinued operations		12.8	-	12.8
		445.9	273.4	719.3
Long-term debt	A	712.9	(276.0)	436.9
Deferred income taxes	A, I	137.4	(13.1)	124.3
Provisions	A	-	10.6	10.6
Other liabilities	A, D, J	50.0	30.2	80.2
Non-current liabilities related to discontinued operations		0.7	-	0.7
		1,346.9	25.1	1,372.0
Non-controlling interests	A	0.8	(0.8)	-
Equity				
Share capital	C	478.6	(0.7)	477.9
Contributed surplus	C	13.7	(12.6)	1.1
Retained earnings	B, C, D, E, F, G, I, J	784.0	(110.9)	673.1
Accumulated other comprehensive loss	B	(29.3)	24.8	(4.5)
Attributable to shareholders of the Corporation		1,247.0	(99.4)	1,147.6
Non-controlling interests	A	-	0.8	0.8
		1,247.0	(98.6)	1,148.4
		$ 2,594.7	$ (74.3)	$ 2,520.4

19 TRANSITION TO IFRS (CONTINUED)

Consolidated Statement of Financial Position as at October 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Current assets				
Cash and cash equivalents		$ 75.0	$ -	$ 75.0
Accounts receivable		436.3	-	436.3
Income taxes receivable		14.7	-	14.7
Inventories		80.2	-	80.2
Prepaid expenses and other current assets	H	21.6	(3.3)	18.3
Deferred income taxes	A	16.8	(16.8)	-
		644.6	(20.1)	624.5
Property, plant and equipment	E, F, G	787.1	(96.5)	690.6
Intangible assets	J	150.8	(1.2)	149.6
Goodwill		682.5	-	682.5
Deferred income taxes	A, I	144.9	52.8	197.7
Other assets	D	43.7	(23.5)	20.2
		$ 2,453.6	$ (88.5)	$ 2,365.1
Current liabilities				
Accounts payable and accrued liabilities	A, J	$ 303.7	$ (10.2)	$ 293.5
Provisions	A	-	10.7	10.7
Income taxes payable		33.5	-	33.5
Deferred subscription revenues and deposits		32.5	-	32.5
Deferred income taxes	A	2.0	(2.0)	-
Current portion of long-term debt		271.9	-	271.9
		643.6	(1.5)	642.1
Long-term debt		292.5	-	292.5
Deferred income taxes	A, I	140.5	(13.3)	127.2
Provisions	A	-	8.7	8.7
Other liabilities	A, D, J	47.2	40.7	87.9
		1,123.8	34.6	1,158.4
Non-controlling interests	A	0.8	(0.8)	-
Equity				
Share capital	C	478.8	(0.7)	478.1
Contributed surplus	C	14.4	(12.6)	1.8
Retained earnings	B, C, D, E, F, G, H, I, J	822.1	(68.0)	754.1
Accumulated other comprehensive income (loss)	B, D, E, F, I, J	13.7	(41.8)	(28.1)
Attributable to shareholders of the Corporation		1,329.0	(123.1)	1,205.9
Non-controlling interests	A	-	0.8	0.8
		1,329.0	(122.3)	1,206.7
		$ 2,453.6	$ (88.5)	$ 2,365.1

19 TRANSITION TO IFRS (CONTINUED)

d) Reconciliation of cash flows

Consolidated Summary of Cash Flows for the three-month ended January 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Cash flows related to operating activities	A, F, G, I, J	$ 54.0	$ 8.2	$ 62.2
Cash flows related to investing activities	J	(30.9)	0.4	(30.5)
Cash flows related to financing activities	A, J	(16.6)	(8.6)	(25.2)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(0.3)	-	(0.3)
Increase in cash and cash equivalents		6.2	-	6.2
Cash and cash equivalents at beginning of period		36.3	-	36.3
Cash and cash equivalents at end of period		$ 42.5	$ -	$ 42.5

Consolidated Summary of Cash Flows for the year ended October 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Cash flows related to operating activities	A, B, F, G, H, I, J	$ 308.1	$ 30.9	$ 339.0
Cash flows related to investing activities	J	(52.7)	3.6	(49.1)
Cash flows related to financing activities	A, J	(217.0)	(34.5)	(251.5)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		0.3	-	0.3
Increase in cash and cash equivalents		38.7	-	38.7
Cash and cash equivalents at beginning of year		36.3	-	36.3
Cash and cash equivalents at end of year		$ 75.0	$ -	$ 75.0

Restatement in IFRS of the consolidated financial statements prepared in accordance with Canadian GAAP

The following items explain the most significant restatements made to the Corporation's consolidated financial statements, following application of IFRS.

A) Reclassifications

i) Deferred tax

Under Canadian GAAP, future tax assets and liabilities are allocated to short-term and long-term items according to the nature of the underlying assets and liabilities. If the future income tax assets and liabilities are not related to assets and liabilities recognized for accounting purposes, they are classified according to the date on which their realization is expected. Under IFRS, deferred income tax assets are classified as non-current items.

Consequently, as at November 1, 2010, short-term future tax assets and liabilities of $16.6 million and $2.5 million, respectively, were reclassified to deferred income taxes included in the non-current assets and liabilities in the Consolidated Statement of Financial Position. As at October 31, 2011, short-term future tax assets and liabilities that have been reclassified to deferred income taxes included in the non-current assets and liabilities in the Consolidated Statement of Financial Position, were $16.8 million and $2.0 million, respectively. Short-term future income tax assets included in short-term assets of discontinued operations have been reclassified similarly.

19 TRANSITION TO IFRS (CONTINUED)

ii) Provisions

Under Canadian GAAP, provisions are included under the heading "Accounts payable and accrued liabilities." Under IFRS, provisions are presented separately in the Consolidated Statement of Financial Position.

Consequently, as at November 1, 2010, accounts payable and accrued liabilities of $15.7 million and other liabilities of $10.6 million have been reclassified in the current and non-current provisions, respectively, in the Consolidated Statement of Financial Position. As at October 31, 2011, accounts payable and accrued liabilities of $10.7 million and other liabilities of $8.7 million have been reclassified in the current and non-current provisions, respectively, in the Consolidated Statement of Financial Position.

iii) Non-controlling interests

Under Canadian GAAP, non-controlling interests are presented as a separate component between liabilities and equity in the Consolidated Statement of Financial Position and as a reduction of net income (loss) in the Consolidated Statement of Income (Loss). Under IFRS, non-controlling interests are presented in equity in the Consolidated Statement of Financial Position and as a separate component of the Consolidated Statement, net income attributable to non-controlling interests.

Consequently, an amount of $0.8 million was reclassified to equity in the consolidated statements of financial position as at November 1, 2010 and October 31, 2011. An amount of $0.3 million was reclassified to equity in the consolidated statement of financial position as at January 31, 2011.

iv) Classification of long-term debt

Under Canadian GAAP, debts that have short-term characteristics or maturity may be classified as long-term liabilities when the Corporation has the intent and ability to refinance with long-term instruments. Under IFRS, these debts are classified as current liabilities in the Consolidated Statement of Financial Position.

Consequently, as at November 1, 2010, the revolving credit facility of $177.9 million and the term credit facility of $98.1 million granted by Caisse de depot et placement du Quebec, which were presented in long-term liabilities, have been reclassified as current liabilities in the Consolidated Statement of Financial Position. No reclassification was made in the Consolidated Statement of Financial Position as at October 31, 2011, as the revolving credit facility was already presented in short-term liabilities under Canadian GAAP due to its short-term maturity and the term credit facility granted by Caisse de dépôt et placement du Québec was repaid on that date.

v) Interest on long-term debt

Under Canadian GAAP, interest on long-term debt is classified in operating activities in the statement of cash flows. Under IFRS, an entity may elect to classify interest on long-term debt in operating or financing activities in the statement of cash flows. The Corporation has elected to classify interest on long-term debt in financing activities in the Consolidated Statement of Cash Flows.

Consequently, $8.6 million and $34.5 million were reclassified in financing activities in the Consolidated Statement of Cash Flows for the three-month period ended January 31, 2011 and the year ended October 31, 2011, respectively.

B) Cumulative translation differences

The Corporation's application of the IFRS 1 exemption under which cumulative translation differences for all foreign operations are deemed to be zero at the date of transition, resulted in a $24.8 million increase in accumulated other comprehensive loss with a corresponding decrease in retained earnings in the Consolidated Statement of Financial Position as at November 1, 2010. Application of this exemption also resulted in a $48.0 million increase in net income from discontinued operations for the year ended October 31, 2011, in order to reverse the realized foreign exchange loss related to the reduction of net investment in self-sustaining foreign operations on the sale of the Mexican printing operations. Application of this exemption had no other effect on the consolidated financial statements for the three-month period ended January 31, 2011.

C) Share-based payment transactions

The Corporation's application of the IFRS 2 exemption resulted in a $12.6 million decrease in contributed surplus with a corresponding increase in retained earnings in the Consolidated Statement of Financial Position as at November 1, 2010. The main reason for this restatement is that, under Canadian GAAP, the Corporation recognized the cost of compensation related to a share option grant on a straight-line basis over the maximum vesting period. Under IFRS, a cost is associated with each tranche of an award of options, and is recognized on a straight-line basis over the respective vesting period of each tranche of a share option grant. Application of the exemption under IFRS 2 also resulted in a $0.7 million decrease in share capital with a corresponding increase in retained earnings in the Consolidated Statement of Financial Position as at November 1, 2010, for exercised options affected by the exemption for which the amount credited to contributed surplus was transferred to share capital. Application of this exemption had no other effect on the consolidated financial statements for the year ended October 31, 2011.

19 TRANSITION TO IFRS (CONTINUED)

D) Employee benefits

The Corporation's application of the IFRS 1 exemption has resulted in the recognition of cumulative unamortized actuarial gains and losses to retained earnings at the transition date. The effect of this exemption was a $6.9 million decrease in other assets, a $35.0 million increase in other liabilities and the net effect, considering deferred income taxes, was recognized in retained earnings at the date of transition. The reversal of cumulative unamortized actuarial gains and losses, recorded in the three-month period ended January 31, 2011, increased other assets by $7.8 million, decreased other liabilities by $14.7 million and the net effect, considering deferred income taxes, was recognized in accumulated other comprehensive loss. The reversal of unamortized cumulative actuarial gains and losses, recorded in fiscal year ended October 31, 2011, decreased other assets by $16.6 million, decreased other liabilities by $8.9 million and the net effect, considering deferred income taxes, was recognized in accumulated other comprehensive loss. The reversal of unamortized cumulative actuarial gains and losses had a negligible effect of the consolidated statement of income for the fiscal year ended October 31, 2011.

E) Borrowing costs

The Corporation's application of the IFRS 1 exemption under which interest expense previously capitalized under Canadian GAAP may be reclassified to retained earnings, resulted in a $13.2 million decrease in property, plant and equipment as at November 1, 2010. The effect of this exemption for the three-month period ended January 31, 2011 was a $0.3 million decrease in amortization expense with a negligible effect on the cumulative translation differences in the Consolidated Statement of Financial Position. The effect of this exemption for the year ended October 31, 2011 was a $1.1 million decrease in amortization expense and a $0.1 million increase in the cumulative translation differences in the Consolidated Statement of Financial Position.

F) Deemed cost

The Corporation's application of the IFRS 1 exemption under which the fair value of certain buildings on the date of transition was used as deemed cost, resulted in a $102.4 million decrease in property, plant and equipment as at November 1, 2010. The effect of this exemption for the three-month period ended January 31, 2011 was a $0.9 million decrease in amortization expense and a $1.1 million increase in the cumulative translation differences in the Consolidated Statement of Financial Position. The effect of this exemption for the year ended October 31, 2011 was a $3.6 million decrease in amortization expense and a $1.7 million increase in the cumulative translation differences in the Consolidated Statement of Financial Position.

G) Income taxes

Under IFRS, deferred income tax assets should be recognized for all taxable temporary differences, except to the extent that the deferred income tax asset is generated from the initial recognition of an asset or a liability in a transaction when it affects neither the accounting nor taxable income. The effect of this restatement resulted in a $16.3 million increase in property, plant and equipment as at November 1, 2010. The effect of this restatement for the three-month period ended January 31, 2011 and for the year ended October 31, 2011 was a $0.9 million and a $3.7 million increase in amortization expense, respectively.

Under Canadian GAAP and IFRS, deferred taxes are calculated based on temporary differences, which are the differences between the tax basis of an asset or liability and its carrying value in the Consolidated Statement of Financial Position. Under Canada's Income Tax Act, up to 75% of the cost of "eligible capital property" is deductible. Canadian GAAP addresses this particular situation, stating that the tax basis must be grossed up 25%. Consequently, there are no temporary differences on an accounting basis. IFRS does not address this specific situation, as such temporary differences are created between the tax bases and the carrying values of these assets. These temporary differences must be recognized when the transaction is eligible as with a business combination. The effect of this restatement on the date of transition resulted in an increase in deferred income tax assets and liabilities related to certain intangible assets of $0.6 million and $3.6 million, respectively, with a corresponding amount recorded in retained earnings. This restatement had no other effect on the consolidated financial statements for the three-month period ended January 31, 2001 and fiscal year ended October 31, 2011.

H) Business combinations

The Corporation's application of the IFRS 1 exemption under which it is permitted to apply IFRS 3 "Business Combinations" prospectively from the transition date, resulted in a $3.3 million decrease in prepaid expenses and other current assets with a corresponding increase in restructuring, integration and acquisition costs for the year ended October 31, 2011. Application of this exemption had no effect on the Consolidated Statement of Financial Position as at November 1, 2010, nor on the Consolidated Statement of Income for the three-month period ended January 31, 2011.

19 TRANSITION TO IFRS (CONTINUED)

I) Tax effect of all restatements

The effect of all adjustments as at November 1, 2010 resulted in a $99.4 million decrease in equity. These restatements result in the recognition of deferred tax assets of $31.9 million and a decrease in deferred tax liabilities of $15.6 million.

The effect of all adjustments for the three-month period ended January 31, 2011 resulted in a $0.2 million decrease in income before income taxes and the recognition of a $0.3 million additional income tax expense and the effect on the Consolidated Statement of Financial Position resulted in a decrease in deferred income tax assets of $5.0 million and in an increase in deferred income tax liabilities of $1.8 million. The effect of all adjustments for the year ended October 31, 2011 resulted in a $3.1 million decrease in income before income taxes and the recognition of a $2.0 million additional income tax expense and the effect on the Consolidated Statement of Financial Position resulted in an increase in deferred income tax assets of $4.0 million and in an increase in deferred income tax liabilities of $0.3 million.

J) Other

Other adjustments relate to various elements where individual and total effect is negligible on the consolidated financial statements of the Corporation at the transition date as well as for the three-month period ended January 31, 2011 and fiscal year ended October 31, 2011.

Additional annual disclosures

Certain disclosures that should appear in annual financial statements under IFRS and did not appear in the annual consolidated financial statements for the year ended October 31, 2011 prepared under Canadian GAAP have been included in these interim consolidated financial statements due to the fact that the present interim consolidated financial statements are the Corporation's first consolidated financial statements prepared under IFRS. These disclosures take into account adjustments mentioned in the present note, in order to reconcile Canadian GAAP and IFRS.

Certain disclosures that usually appear in annual consolidated financial statements prepared under IFRS have been omitted or condensed when such disclosures were not important to the understanding of the Corporation's interim financial reporting.

a) Operating expenses

Operating expenses by major headings are as follows for the year ended October 31, 2011:

	2011
Employee-related costs	$ 664.2
Supply chain and logistics (1)	889.0
Other goods and services (2)	117.0
	$ 1,670.2

(1) "Supply chain and logistics" includes production and distribution costs related to external suppliers.

(2) "Other goods and services" includes mainly promotion, advertising and telecommunications costs, office supplies, real estate expenses and professional fees.

b) Goodwill

The following table presents the carrying amount of goodwill allocated by major group of cash-generating units ("CGU"):

Operating segments	Groups of CGU	As at October 31, 2011	As at November 1, 2010
Printing	Magazine, Book and Catalogue Group	$ 68.7	$ 68.7
Printing	Retail & Newpapers Group	61.0	61.0
Printing	Marketing Products Group	-	4.0
Media	Business and Consumers Solutions Group	208.9	208.9
Media	Local Community Solutions Group	256.1	224.3
Media	Educational Book Publishing Group	74.2	74.2
Media	Digital Solutions Group	-	24.9
Media	Content solutions Group	12.7	11.2
Other	Other activities	0.9	0.9
		$ 682.5	$ 678.1