TRANSCONTINENTAL

Press Release

For Immediate Release

TRANSCONTINENTAL INC. SECOND QUARTER: REVENUES INCREASE 6% AND RENEWS MULTI-YEAR AGREEMENTS VALUED AT OVER $1.5 BILLION IN REVENUES

Highlights

(in millions of dollars, except per share data)	Q2-12	Q2-11	%	YTD Q2-12	YTD Q2-11	%
Revenues	**$529.4**	**$498.7**	**6%**	**$1,025.3**	**$1,013.5**	**1%**
Adjusted operating income (1)	**55.8**	**60.2**	**(7%)**	**98.8**	**108.9**	**(9%)**
Adjusted net income applicable to participating shares (2)	**35.4**	**39.1**	**(9%)**	**62.5**	**67.9**	**(8%)**
Per share	**0.44**	**0.48**	**(8%)**	**0.77**	**0.84**	**(8%)**
Net income applicable to participating shares	**(106.2)**	**32.7**	**---**	**(139.5)**	**58.4**	**---**
Per share	**(1.31)**	**0.40**	**---**	**(1.72)**	**0.72**	**---**

Notes 1 and 2 please refer to the table “Reconciliation of Non-IFRS financial measures” in this press release.

- Renewed and expanded six multi-year agreements valued at over $1.5 billion in revenues with major Canadian retail customers.
- Closed the transaction for the indirect acquisition of the shares of Quad/Graphics Canada, Inc. and rapidly announced the reorganization of its print operations across Canada. The integration is on track to deliver more than $40 million in synergies as expected.
- Continued to develop its digital and interactive business by expanding its digital advertising representation deals and acquiring a majority stake in Redux Media, a leading online advertising network.
- Launched a television production house.

Montreal, June 7, 2012 – Transcontinental Inc. (TSX: TCL.A TCL.B TCL.PR.D) increased its revenues by 6% in the second quarter, from $498.7 million to $529.4 million, driven primarily by the acquisition of Quad/Graphics Canada, Inc. as well as numerous acquisitions and launches of community newspapers in Quebec, and new contracts such as Canadian Tire. This growth was mitigated primarily by the sale of its black and white book printing business, destined for U.S. exports, to Quad/Graphics last September and by lower volume from the non-recurring revenue from the printing contract for the Canadian Census last year. Excluding acquisitions, divestitures and closures, the impact of the exchange rate and the paper component variance, organic revenue growth was essentially flat.

For this same period, adjusted operating income decreased 7%, from $60.2 million to $55.8 million, driven primarily by a new provincial legislation in Quebec under Bill 88 that imposes greater recycling fees on publishers, lower volume from the non-recurring revenue from the printing contract for the Canadian Census last year and lower volume from its educational book publishing group due to the end of the school reform in Quebec. This decrease was partially offset by synergies from the use of its most productive assets. Net income applicable to participating shares decreased from $32.7 million, or $0.40

per share, to a loss of $106.2 million, or $1.31 per share. This decrease is mainly due to an impairment of assets of $180.0 million, in the newspaper and magazine activities of the Media sector, which is non-cash and non-operational. Excluding unusual items and discontinued operations, adjusted net income applicable to participating shares decreased 9%, from $39.1 million, or $0.48 per share, to $35.4 million, or $0.44 per share.

"Our second quarter results are in line with our strategy to strengthen our existing assets and develop our new media and marketing services. We are in the process of integrating our Quad/Graphics Canada, Inc. acquisition and we are on track to generate more than $40 million in synergies and therefore become even more efficient. We also secured a large part of our cash flow for the coming years by renewing six multi-year agreements valued at over $1.5 billion in revenues with major Canadian retail customers for both existing and new services. These agreements are a testament to the strength of our customer relationships and the confidence they have in our ability to execute their integrated marketing communication programs, to the quality of our state-of-the-art national printing platform and of our flyer distribution network, the reach of our national media properties and the success of our strategy to expand our product and service offering into new marketing and communication services. In addition, we continued to develop our offering of products and services by expanding our digital advertising representation house, with the acquisition of a majority stake in Redux Media, and by launching a television production house.

Financially speaking, we continue to generate strong cash flow and have a solid financial position with a net debt to EBITDA ratio at 1.43x at the end of the quarter. For the balance of the year, we expect our results to ramp up, especially in the fourth quarter, as the previously announced synergies start to benefit our results in a more meaningful way. Therefore, we are very well positioned to continue to transform TC Transcontinental to meet our customers' evolving marketing needs," said François Olivier, President and Chief Executive Officer.

Financial Highlights of the Quarter

- As at April 30, 2012, the adjusted net indebtedness ratio was 1.43x, as compared to 1.42x as at January 31, 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.
- Transcontinental Inc. put in place a normal course issuer bid. It has been authorized to purchase for cancellation on the open market, between April 13, 2012 and April 12, 2013 up to 5% of its Class A Subordinate Voting Shares and Class B Shares. The program was not used as at April 30, 2012.

For more detailed financial information, please see *Management's Discussion and Analysis for the second quarter ended April 30, 2012* and the complete financial statements on our website at www.tc.tc, under "Investors."

Operating Highlights of the Quarter

- Renewed and expanded, since January 2012, six multi-year agreements valued at over $1.5 billion in revenues with major Canadian retail customers in the food, hardware, general merchandise and pharmaceutical verticals. These agreements have been extended for periods varying from three to six years and besides printing, include flyer distribution through Publisac in Quebec and often include many other products and services from the

Corporation's new marketing and media services, such as digital advertising representation, e-flyers, email marketing, mobile solutions, database analytics, premedia and custom communications.

- Closed the transaction for the indirect acquisition of the shares of Quad/Graphics Canada, Inc. and rapidly announced the reorganization of its print operations across Canada. About half of the Quad/Graphics' Canada, Inc. facilities have been closed so far. The integration is on track to deliver more than $40 million in synergies as expected.

- Recent management changes: On February 16th, Remi Marcoux stepped down as Executive Chairman of the Board and Isabelle Marcoux was elected Chair of the Board; on February 2nd, Alain Gignac was appointed Chief Marketing Activation Officer, a new senior management position with responsibility for the integration of print product and services, print and digital media, and interactive marketing solutions for major accounts; on May 9th, Natalie Larivière resigned as President of TC Media, effective end of June.

- Expanded its digital advertising representation by signing numerous deals and partnerships with Cinoche.com, PoolExpert®, Hearst Digital Media and Homes Publishing Group as well as acquiring a majority stake in Redux Media, a leading online advertising network. TC Transcontinental now reaches over 18.7 million unique monthly visitors per month in Canada or two thirds of all online Canadians, through more than 3,500 websites.

- Launched a television production house to create content for all communication platforms, from TV channels for general consumption to new Internet and mobile media for on-demand delivery. Also launched FRESH JUICE, a new healthy living media brand in collaboration with Loblaw Companies Limited.

- Broadened its extensive community newspaper network in Quebec by acquiring *Édition Beauce* and *Courrier Frontenac* and strengthened its position as the leader in the supplemental educational publishing market in Quebec by the acquisition of the shares of *Les Éditions Caractère*.

- Launched its third Sustainability Report, based on the Global Reporting Initiative (GRI), an international standard for sustainability methodology. The Report meets Application Level B of the GRI standard. The full web report, a downloadable pdf as well as a highlights brochure are all available at www.tctranscontinental-ecodev.com.

Highlights for the Six-month Period

For the first six-month period of fiscal 2012, Transcontinental's revenues increased 1%, from $1,013.5 million to $1,025.3 million. This increase was driven primarily by the acquisition of Quad/Graphics Canada, Inc. and numerous acquisitions and launches of community newspapers in Quebec. This growth was mitigated primarily by the sale of its black and white book printing business, destined for U.S. exports, to Quad/Graphics last September and lower volume from the non-recurring revenue from the printing contract for the Canadian Census last year. Adjusted operating income decreased 9%, from $108.9 million to $98.8 million. This decrease was primarily due to the non-recurrence of the Canadian Census contract, margin erosion from competitive pressures in the local solutions marketplace and new provincial legislation in Quebec under Bill 88 that imposes greater recycling fees on publishers. Net income applicable to participating shares decreased from $58.4 million, or $0.72 per share, to a loss of $139.5 million, or $1.72 per share. This decrease is mainly due to an impairment of assets of $180.8 million, which is non-cash and non-operational and to notices of re-assessment received from the federal and provincial tax authorities last February, totaling $58 million, for which the Corporation is currently contesting. Excluding unusual items and discontinued operations, adjusted net income applicable to participating shares decreased 8%, from $67.9 million, or $0.84 per share, to $62.5 million, or $0.77 per share.

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.

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Reconciliation of Non-IFRS financial measures

(unaudited)

	Three months ended April 30		Six months ended April 30	
(in millions of dollars, except per share amounts)	**2012**	2011	**2012**	2011
Net income (loss) applicable to participating shares	**$ (106.2)**	$ 32.7	**$ (139.5)**	$ 58.4
Dividends on preferred shares	**1.7**	1.7	**3.4**	3.4
Net loss (income) related to discontinued operations (after tax)	**1.3**	(0.7)	**1.3**	(1.3)
Non-controlling interest	**0.2**	0.5	**0.2**	0.8
Unusual adjustments to income taxes	**-**	-	**42.0**	-
Income tax expenses	**(10.0)**	7.4	**(4.4)**	13.1
Expenses related to long-term debt prepayment	**-**	5.8	**-**	5.8
Financial expenses related to unusual adjustments to income taxes	**-**	-	**16.0**	-
Financial expenses	**6.1**	8.7	**13.8**	19.5
Gain on business acquisition	**(31.7)**	-	**(31.7)**	-
Impairment of assets	**180.0**	-	**180.8**	3.5
Restructuring and integration expenses and acquisition costs	**14.4**	4.1	**16.9**	5.7
Adjusted operating income	**$ 55.8**	$ 60.2	**$ 98.8**	$ 108.9
Amortization	**28.3**	30.0	**57.2**	61.0
Adjusted operating income before amortization	**$ 84.1**	$ 90.2	**$ 156.0**	$ 169.9
Net income (loss) applicable to participating shares	**$ (106.2)**	$ 32.7	**$ (139.5)**	$ 58.4
Net loss (income) from discontinued operations (after tax)	**1.3**	(0.7)	**1.3**	(1.3)
Unusual adjustments to income taxes (after tax)	**-**	-	**42.0**	-
Expenses related to long-term debt prepayment (after tax)	**-**	4.2	**-**	4.2
Financial expenses related to unusual adjustments to income taxes (after tax)	**-**	-	**16.0**	-
Gain on business acquisition (after tax)	**(31.7)**	-	**(31.7)**	-
Impairment of assets (after tax)	**162.1**	-	**162.7**	2.5
Restructuring and integration expenses and acquisition costs (after tax)	**9.9**	2.9	**11.7**	4.1
Adjusted net income applicable to participating shares	**$ 35.4**	$ 39.1	**$ 62.5**	$ 67.9
Average number of participating shares outstanding	**81.1**	81.0	**81.0**	81.0
Adjusted net income applicable to participating shares per share	**$ 0.44**	$ 0.48	**$ 0.77**	$ 0.84

	As at April 30, 2012	As at October 31, 2011
Long-term debt	**$ 210.4**	$ 292.5
Current portion of long-term debt	**325.1**	271.9
Cash and cash equivalents	**(22.2)**	(75.0)
Net indebtedness	**$ 513.3**	$ 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
Adjusted net indebtedness	**$ 513.3**	$ 539.4
Adjusted operating income before amortization (last 12 months)	**$ 359.5**	$ 373.4
Net indebtedness ratio	**1.43x**	1.31x
Adjusted net indebtedness ratio	**1.43x**	1.44x

Dividend

At its June 7, 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 July 20, 2012 to participating shareholders of record at the close of business on July 3, 2012. On an annual basis, this represents a dividend of $0.58 per share. 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 July 16, 2012. On an annual basis, this represents a dividend of $1.6875 per preferred share.

Additional Information

Upon releasing its second quarter results, Transcontinental Inc. will hold a conference call for the financial community today at 4:15 p.m. The dial-in numbers are (514) 807-9895 or (647) 427-7450 or 1-888-231-8191 and the access code is: 86629492#. 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 major 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 3,500 websites, the Corporation reaches over 18.7 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* (*MD&A) for the fiscal year ended on October 31st, 2011* and in the *Annual Information Form* and have been updated in the *MD&A for the second quarter ended April 30th, 2012*.

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The forward-looking information in this release is based on current expectations and information available as at June 7, 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 April 30, 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 April 30, 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 20 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 April 30, 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 11. 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 April 30, 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 and the euro; 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 June 7, 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, before restructuring, integration and acquisition costs, asset depreciation and gain on business acquisition, and before expenses related to long-term debt prepayment (net of related income taxes) and unusual adjustments to income taxes and related financial expenses
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, Inc.
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, integration and acquisition costs, asset depreciation and gain on business acquisition
Adjusted operating income before amortization	Operating income from continuing operations before amortization, restructuring, integration and acquisition costs, asset depreciation and gain on business acquisition
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 the amount drawn on the securitization program plus bank overdraft, less cash and cash equivalents
Net indebtedness ratio	Net indebtedness divided by the last 12 months’ adjusted operating 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

PROFILE OF TC TRANSCONTINENTAL

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 major 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 3,500 websites, the Corporation reaches over 18.7 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

HIGHLIGHTS

- Revenues for the second quarter of 2012 were up 6.2% over 2011, from $498.7 million to $529.4 million.
- Adjusted operating income declined 7.3%, from $60.2 million in the second quarter of 2011 to $55.8 million in 2012.
- Adjusted net income applicable to participating shares was down $3.7 million, or 9.5%, from $39.1 million in the second quarter of 2011 to $35.4 million in 2012.
- An asset impairment charge of $180.0 million ($162.1 million after tax) was recorded relating to goodwill in the Media Sector.
- Adjusted net debt ratio remained relatively stable, from 1.42x at January 31, 2012 to 1.43x at April 30, 2012.
- We finalized the transaction to indirectly acquire the shares of Quad/Graphics Canada, Inc. on March 1, 2012 and began the integration.
- We renewed and expanded six multi-year agreements ranging from three to six years valued at over $1.5 billion in revenues with major retail customers, both from the Quad/Graphics Canada, Inc. customer base as well as our long standing customer base.
- We launched a television production house that will allow us to create, among other things, content for our entire digital network.
- On February 2, 2012, we announced the appointment of Alain Gignac as Chief Marketing Activation Officer. Mr. Gignac will be responsible for integrating the print product and service offering with that of print and digital media and interactive marketing solutions for major accounts.

ANALYSIS OF CONSOLIDATED RESULTS – SECOND QUARTER

(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares	%
Second quarter of 2011	**$ 498.7**		**$ 60.2**		**$ 32.7**	
Acquisitions/Divestitures/Closures	31.4	6.3 %	1.9	3.2 %	1.1	3.4 %
Existing operations						
Paper effect	1.4	0.3 %	0.1	0.2 %	0.1	0.3 %
Exchange rates	(1.5)	(0.3) %	(1.7)	(2.8) %	(0.8)	(2.4) %
Organic growth (negative)	(0.6)	(0.1) %	(4.7)	(7.8) %	(4.1)	(12.5) %
Discontinued operations					(2.0)	(6.1) %
Restructuring, integration and acquisitions costs					(7.0)	(21.4) %
Impairment of assets					(162.1)	n/a
Gain on business acquisition					31.7	96.9 %
Expenses related to debt repayment					4.2	12.8 %
Second quarter of 2012	**$ 529.4**	**6.2 %**	**$ 55.8**	**(7.3) %**	**$ (106.2)**	**n/a**

As shown in the above table, certain factors had an impact on the differences in results for the second quarter of 2012 compared to those of the second quarter of 2011.

Revenues

Revenues rose 6.2%, from $498.7 million in the second quarter of 2011 to $529.4 million in the second quarter of 2012, due to the following factors:

- The net impact of acquisitions, divestitures and closures resulted in a $31.4 million increase in revenues, primarily due to the acquisition of Quad/Graphics Canada, Inc. and recent acquisitions in the Media Sector, partially offset by the sale to Quad/Graphics, Inc. of our black and white book printing business destined for U.S. export.
- The paper effect had a positive impact of $1.4 million in the Printing Sector 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 Canadian/U.S. dollar exchange rate led to a $1.5 million decrease in revenue, mainly due to the negative impact of export sales from Canadian operations, net of the currency-hedging program.

- Organic growth was down $0.6 million, or 0.1%, in the second quarter of 2012. This slight decrease stems mainly from the completion of a major contract to print Canada census forms, and completion of the Quebec educational reform, which affected sales in our educational book publishing operations. However, these factors were partially offset by revenue from new printing contracts, primarily with respect to flyers and the magazine, book and catalogue group, and higher revenue from our digital and interactive solutions.

Adjusted Operating Income

Adjusted operating income was down 7.3%, from $60.2 million in the second quarter of 2011 to $55.8 million in the second quarter of 2012, due to the following factors:

- The net effect of acquisitions, divestitures and closures increased adjusted operating income by $1.9 million, principally due to plant closures in the Printing Sector and the sale of our black and white book printing business destined for U.S. export to Quad/Graphics, Inc. As expected, the activities of Quad/Graphics Canada, Inc. resulted in adjusted operating income of -$0.4 million in the last two months of the second quarter of 2012 and the impact of the rationalization measures will only take effect starting in the third quarter of 2012.

- The paper effect had a positive $0.1 million impact on adjusted operating income in the Media Sector in the second quarter of 2012, due to variations in paper price.

- Fluctuations in the Canadian/U.S. dollar exchange rate led to a $1.7 million decrease in adjusted operating income. The decrease stemmed mainly from export sales, net of the currency-hedging program.

- Organic growth in adjusted operating income was -$4.7 million, or -7.8%, in the second quarter of 2012. This was mainly due to a $2.0 million charge recorded in our Media Sector following the adoption, in April 2012, of new rates for 2010-2012 concerning contributions by businesses to cover the costs incurred by Quebec municipalities regarding waste recovery services, as well as the decrease in consolidated revenues mentioned above.

Net Income Applicable to Participating Shares

Net income applicable to participating shares fell from $32.7 million in the second quarter of 2011 to -$106.2 million in the second quarter of 2012. The decrease is mainly due to a $180.0 million ($162.1 million after tax) asset impairment charge, offset by a $31.7 million ($31.7 million after tax) gain on business acquisition in the second quarter of 2012. On a per share basis, net income applicable to participating shares decreased from $0.40 to -$1.31.

Adjusted net income applicable to participating shares was down $3.7 million, or 9.5%, from $39.1 million in the second quarter of 2011 to $35.4 million in the second quarter of 2012. On a per share basis, it declined from $0.48 to $0.44.

Restructuring, integration and acquisition costs

In the second quarter of 2012, an amount of $14.4 million ($9.9 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs. Of that amount, $13.1 million is related to workforce reductions, mainly due to the integration of the Quad/Graphics Canada, Inc. printing operations.

In the second quarter of 2011, an amount of $4.1 million ($2.9 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs. Of that amount, $3.2 million was from workforce reductions in the Printing Sector.

Asset impairment

In the second quarter of 2012, an asset impairment charge of $180.0 million ($162.1 million after tax) was recorded as a goodwill write-down in the Media Sector, with no impact on cash flows. An impairment charge of $89.0 million was recorded in the Local Solutions Group due to a decline in national advertising, particularly outside Quebec, and increased competition within Quebec, which had a negative impact on the operating income. An impairment charge of $70.6 million was recorded in the Business and Consumer Solutions Group due to a decline in advertising, which had a negative impact on the operating income. Furthermore, the adoption in 2012 of new rates for 2010, 2011 and 2012 concerning contributions by businesses to cover the costs incurred by Quebec municipalities regarding waste recovery services had a negative impact on the operating income for both of these groups. Finally, an impairment charge of $20.4 million was recorded in the Educational Book Publishing Group due to lower profitability resulting from the end of educational reforms in Quebec's high school education program.

Gain on business acquisition

In the second quarter of 2012, we recorded a gain on business acquisition of $31.7 million ($31.7 million after tax) related to the Quad/Graphics Canada, Inc. transaction. Given the short period between the acquisition date and the end of our second quarter, this gain results from a preliminary assessment that the estimated fair value of net assets acquired exceeds the consideration transferred. We expect to finalize the initial recording of this transaction by the end of our fiscal year following the final evaluation of the fair value of net assets acquired.

Financial expenses

Financial expenses decreased by $8.4 million in the second quarter of 2012, from $14.5 million in 2011 to $6.1 million in 2012. The decrease is principally due to expenses of $5.8 million associated with long-term debt prepayment in the second quarter of 2011.

However, excluding the expenses associated with long-term debt repayment were down $2.6 million, from $8.7 million in 2011 to $6.1 million in 2012. This 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 an optimization in recent quarters and a higher exchange gain in 2012.

Income taxes

Income taxes decreased from $7.4 million in the second quarter of 2011 to a recovery of $10.0 million in the second quarter of 2012, primarily due to the asset impairment charge. Excluding income taxes on restructuring and integration expenses, acquisition costs, asset impairment and the gain on business acquisition, income taxes would have amounted to $12.4 million in the second quarter of 2012, for a tax rate of 24.9%, compared to $10.2 million, or 19.8%, in the second quarter of 2011 mainly due to higher non-deductible expenses and the geographic distribution of income before income taxes.

Discontinued operations

Net loss related to discontinued operations was -$1.3 million, net of related income taxes, in the second quarter of 2012. The loss stems primarily from an unfavourable adjustment related to a price adjustment clause based on working capital at the close of the sale of our print operations in Mexico. In the second quarter of 2011, these Mexican operations generated net income of $0.7 million.

ANALYSIS OF SECTOR RESULTS – SECOND QUARTER

(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment Eliminations and Other acitivities	Consolidated Results
Revenues - Second quarter of 2011	**$ 352.2**	**$ 171.3**	**$ (24.8)**	**$ 498.7**
Acquisitions/Divestitures/Closures	25.0	6.4	-	31.4
Existing operations				
Paper effect	1.4	-	-	1.4
Exchange rates effect	(1.3)	(0.2)	-	(1.5)
Organic growth (negative)	0.8	(3.9)	2.5	(0.6)
Revenues - Second quarter of 2012	**$ 378.1**	**$ 173.6**	**$ (22.3)**	**$ 529.4**
Adjusted operating income (loss) - Second quarter of 2011	**$ 49.4**	**$ 14.8**	**$ (4.0)**	**$ 60.2**
Acquisitions/Divestitures/Closures	1.7	0.2	-	1.9
Existing operations				
Paper effect	-	0.1	-	0.1
Exchange rates effect	(1.6)	(0.1)	-	(1.7)
Organic growth (negative)	(2.3)	(2.3)	(0.1)	(4.7)
Adjusted operating income (loss) - Second quarter of 2012	**$ 47.2**	**$ 12.7**	**$ (4.1)**	**$ 55.8**

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 up 7.4%, or $25.9 million, from $352.2 million in the second quarter of 2011 to $378.1 million in the second quarter of 2012. The increase is mainly due to the acquisition of the Quad/Graphics Canada, Inc. operations on March 1, 2012, which contributed $32.9 million to sector revenues in the final two months of the second quarter of 2012, partially offset by the sale to Quad/Graphics of our black and white book printing business destined for the U.S. market. Excluding acquisitions, divestitures, closures and the paper and exchange rate effects, revenues were up $0.8 million, or 0.2%. This organic growth is primarily from new printing contracts in our Magazine, Book and Catalogue Group and with Canadian Tire. However, these additional revenues were partially offset by the completion of a major contract to print forms for the Canada census, conducted every five years, and the incentives given for early renewal of several major contracts in our retail segment.

Adjusted operating income was down 4.5%, from $49.4 million in the second quarter of 2011 to $47.2 million in 2012. The adjusted operating margin declined from 14.0% in the second quarter of 2011 to 12.5% in the second quarter of 2012. Excluding acquisitions, divestitures, closures and the paper and exchange rate effects, organic growth was -$2.3 million, or -4.7%. The decrease was mainly due to completion of a major contract to print Canada census forms, and to contract renewals mentioned above.

The adjusted operating margin decreased from 14.0% in the second quarter of 2011 to 12.5% in the second quarter of 2012. This decrease was due to printing operations of Quad/Graphics Canada, Inc. that have generated revenues of $32.9 million and adjusted operating income of -$0.4 million. However, we quickly announced a rationalization measures in the second quarter of 2012, including the closure of two printing plants and premedia center, which were implemented after the end of this quarter. These initiatives will have a positive effect on the adjusted operating margin in the coming quarters.

Media Sector

Media Sector revenues were up 1.3%, or $2.3 million, from $171.3 million in the second quarter of 2011 to $173.6 million in the second quarter of 2012. Excluding acquisitions, divestitures, closures and the exchange rate effects, organic growth was down -$3.9 million, or -2.3%. The decrease was mainly from lower revenues in our educational book publishing operations, resulting from the completion of Quebec's educational reform, partially offset by higher revenues from our digital activities and the launch of new community papers in Quebec in recent quarters.

Adjusted operating income was down $2.1 million, or 14.2%, from $14.8 million in the second quarter of 2011 to $12.7 million in the second quarter of 2012 and organic growth was -$2.3 million. The decrease was mainly from a $2.0 million charge recorded in our Media Sector following the Quebec government's adoption, in April 2012, of new rates for 2010-2012 concerning contributions by businesses to cover the costs incurred by Quebec municipalities regarding waste recovery services, as well as to the above-mentioned decrease in consolidated revenues. As a result, the adjusted operating margin went from 8.6% in the second quarter of 2011 to 7.3% in the second quarter of 2012.

In the second quarter of 2012, we continued our efforts to improve operating efficiency by further developing new products and services, which included the launch of our television production house and new digital initiatives. Also, after the close of our second quarter of 2012, we announced the acquisition of Redux Media, thereby strengthening our digital advertising network.

Inter-Segment Eliminations and Other Activities

Eliminations of inter-segment revenues and other activities went from -$24.8 million in the second quarter of 2011 to -$22.3 million in the second quarter of 2012. The change is mainly due to a decrease in inter-segment transactions during this period. Adjusted operating income was down $0.1 million, from -$4.0 million in the second quarter of 2011 to -$4.1 million in the second quarter of 2012.

ANALYSIS OF CONSOLIDATED RESULTS – CUMULATIVE

(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares	%
Six months ended April 30, 2011	**$ 1,013.5**		**$ 108.9**		**$ 58.4**	
Acquisitions/Divestitures/Closures	27.0	2.7 %	6.0	5.5 %	4.5	7.7 %
Existing operations						
Paper effect	5.4	0.5 %	-	- %	-	- %
Exchange rates effect	(2.8)	(0.3) %	(3.1)	(2.8) %	(1.9)	(3.3) %
Organic growth (negative)	(17.8)	(1.8) %	(13.0)	(11.9) %	(8.0)	(13.7) %
Discontinued operations					(2.6)	(4.5) %
Restructuring, integration and acquisitions costs					(7.6)	(13.0) %
Impairment of assets					(160.2)	n/a
Gain on business acquisition					31.7	54.3 %
Expenses related to debt repayment					4.2	7.2 %
Financial expenses related to unusual adjustments to income taxes					(16.0)	(27.4) %
Unsual adjustments to income taxes					(42.0)	(71.9) %
Six months ended April 30, 2012	**$ 1,025.3**	**1.2 %**	**$ 98.8**	**(9.3) %**	**$ (139.5)**	**n/a**

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

Revenues

Revenues were up 1.2%, from $1,013.5 million in the first six months of 2011 to $1,025.3 million for the same period in 2012, due to the following elements:

- The net effect of acquisitions, divestitures and closures increased revenues by $27.0 million, mainly due to the acquisition of Quad/Graphics Canada, Inc. and recent acquisitions in the Media Sector, partially offset by the sale to Quad/Graphics of our black and white book printing business destined for U.S. export.

- The paper effect had a positive impact of $5.4 million on Printing Sector 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 Canadian/U.S. dollar exchange rate led to a $2.8 million revenue decrease, mainly due to the negative impact of export sales from Canadian operations, net of the currency-hedging program.

- Organic growth amounted to -$17.8 million, or -1.8%, in the first half of 2012. The decrease stems mainly from the completion of a major contract to print Canada census forms, and lower spending by national advertisers, which affected our newspaper publishing operations outside Quebec and our magazine publishing activities. This decrease was, however, partially offset by higher revenues from our digital and interactive solutions and the launch of new community newspapers in Quebec in recent quarters.

Adjusted Operating Income

Adjusted operating income was down 9.3%, from $108.9 million in the first half of 2011 to $98.8 million in the first half of 2012, due to the following elements:

- The net effect of acquisitions, divestitures and closures increased adjusted operating income by $6.0 million, principally due to plant closures in the Printing Sector and the sale of our black and white book printing business destined for U.S. export. As expected, the Quad/Graphics Canada, Inc. printing operations generated a slightly negative adjusted operating income of -$0.4 million in the second quarter of 2012; the impact of rationalization measures will take effect starting in the third quarter of 2012.

- Variations in paper price (the paper effect) did not have any impact on adjusted operating income in the Media Sector in the first six months of 2012.

- Fluctuations in the Canadian/U.S. dollar exchange rate led to a $3.1 million decrease in adjusted operating income. The decrease stemmed mainly from export sales, net of the currency-hedging program and conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency.

- Organic growth in adjusted operating income amounted to -$13.0 million, or -11.9%, in the first six months of 2012. This was mainly due to the above-mentioned decrease in consolidated revenues as well as to a $2.0 million charge recorded in our Media Sector following the adoption, in April 2012, of new rates for 2010, 2011 and 2012 concerning contributions by businesses to cover the costs incurred by Quebec municipalities regarding waste recovery services.

Net Income Applicable to Participating Shares

Net income applicable to participating shares fell from $58.4 million in the first half of 2011 to -$139.5 million in the first half of 2012. The decrease is mainly due to an asset impairment of $180.8 million ($162.7 million after tax) and a provision for $58.0 million ($58.0 million after tax) with respect to the re-assessment notice issued by tax authorities, of which $42.0 million was included in income taxes and $16.0 million in financial expenses. However, these factors were offset by a gain on business acquisition of $31.7 million ($31.7 million after tax). On a per share basis, net income applicable to participating shares decreased from $0.72 to -$1.72. Adjusted net income applicable to participating shares was down $5.4 million, or 8.0%, from $67.9 million in the first half of 2011 to $62.5 million in the first half of 2012. On a per share basis, it declined from $0.84 to $0.77.

Restructuring, integration and acquisition costs

In the first six months 2012, an amount of $16.9 million ($11.7 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs. Of that amount, $14.7 million stems from workforce reductions, mainly due to the integration of the Quad/Graphics Canada, Inc. printing operations.

In the first six months of 2011, an amount of $5.7 million ($4.1 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs. Of that amount, $4.3 million stems from workforce reductions in the Printing Sector.

Asset impairment

In the first six months of fiscal 2012, an asset impairment charge of $180.8 million ($162.7 million after tax) was recorded, almost all related to a goodwill write-down in the Media Sector, with no impact on cash flows. An impairment charge of $89.0 million was recorded in the Local Solutions Group due to a decline in national advertising, particularly outside Quebec, and increased competition within Quebec, which had a negative impact on the operating income. An impairment charge of $70.6 million was recorded in the Business and Consumer Solutions Group due to a decline in advertising, which had a negative impact on the operating income. Furthermore, the adoption in 2012 of new rates for 2010, 2011 and 2012 concerning contributions by businesses to cover the costs incurred by Quebec municipalities regarding waste recovery services had a negative impact on the operating costs for both of these groups. Finally, an impairment charge of $20.4 million was recorded in the Educational Book Publishing Group due to the end of educational reforms in Quebec's high school education program.

In the first six months of fiscal 2011, an amount of $3.5 million before tax ($2.5 million after tax) was accounted for separately on the Consolidated Statement of Income as asset impairment related to the closure of Printing Sector plants.

Gain on business acquisition

During the first half of 2012, we recorded a gain on business acquisition of $ 31.7 million ($31.7 million after tax). This gain results from the initial recording of the transaction for the acquisition of Quad/Graphics Canada, Inc.. Given the short period between the acquisition date and the end of our second quarter, this gain comes from a preliminary assessment that the estimated fair value of net assets acquired exceeds the consideration transferred. We expect to finalize the initial recording of this transaction by the end of our fiscal year following the final evaluation of the fair value of net assets acquired.

Financial expenses

Financial expenses rose by $4.5 million in the first six months of 2012, from $25.3 million in 2011 to $29.8 million in 2012. The increase is principally due to financial expenses related to unusual income tax adjustments in the first quarter of 2012, explained in the "Income taxes" section below, offset by expenses associated with long-term debt prepayment in the second quarter of 2011.

However, excluding the financial expenses associated with the unusual income tax adjustments and long-term debt prepayment, financial expenses were down $5.7 million, from $19.5 million in 2011 to $13.8 million in 2012. The decrease is due to a significant reduction in our net indebtedness and the weighted average interest rate of our debt portfolio compared to last year, due to an optimization in recent quarters and a higher gain on foreign exchange in 2012.

Income taxes

Income taxes increased $27.6 million, from $13.1 million in the first half of 2011 to $37.6 million in the first half of 2012. The increase is mainly due to a $42.0 million provision in the first quarter of 2012 pertaining to notices of tax re-assessment. Therefore, the outcome of this dispute could favorably influence the amounts recognized in the consolidated financial statements of the Corporation. This item is, however, offset by lower income taxes related to the asset impairment charge in the second quarter of 2012.

Excluding income taxes on restructuring and integration expense, acquisition costs, asset impairment, the gain on business acquisition, and unusual adjustments, income taxes would have amounted to $18.9 million in the first half of 2012, for a tax rate of 22.2%, compared to $17.3 million, or 19.4%, in the first half of 2011 mainly due to higher non-deductible expenses and the geographic distribution of income before income taxes.

Discontinued operations

Net loss related to discontinued operations was -$1.3 million, net of related income taxes, in the first half of 2012. The loss stems primarily from an unfavourable adjustment related to a price adjustment clause based on working capital at the close of the sale of our print operations in Mexico in the fourth quarter of 2011. These Mexican operations generated net income of $1.3 million in the first half of 2011.

ANALYSIS OF SECTOR RESULTS - CUMULATIVE

(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment Eliminations and Other acitivities	Total
Revenues - Second quarter of 2011	**$ 726.3**	**$ 330.5**	**$ (43.3)**	**$ 1,013.5**
Acquisitions/Divestitures/Closures	17.4	9.6	-	27.0
Existing operations				
Paper effect	5.4	-	-	5.4
Exchange rates effect	(2.5)	(0.3)	-	(2.8)
Organic growth (negative)	(14.2)	(7.7)	4.1	(17.8)
Revenues - Second quarter of 2012	**$ 732.4**	**$ 332.1**	**$ (39.2)**	**$ 1,025.3**
Adjusted operating income (loss) - Second quarter of 2011	**$ 96.3**	**$ 20.8**	**$ (8.2)**	**$ 108.9**
Acquisitions/Divestitures/Closures	5.5	0.5	-	6.0
Existing operations				
Paper effect	-	-	-	-
Exchange rates effect	(2.9)	(0.2)	-	(3.1)
Organic growth (negative)	(6.4)	(7.5)	0.9	(13.0)
Adjusted operating income (loss) - Second quarter of 2012	**$ 92.5**	**$ 13.6**	**$ (7.3)**	**$ 98.8**

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 increased 0.8%, or $6.1 million, from $726.3 million for the first two quarters of 2011 to $732.4 million for the same period in 2012. Excluding acquisitions, divestitures, closures and the paper and exchange rate effects, revenues were down $14.2 million, or 2.0%. The negative organic growth stems mainly from the completion of a major contract to print forms for the Canada census, conducted every five years, and the incentives provided for the early renewal of several contracts with retailers. However, these factors were offset by new printing contracts, particularly in our Magazine, Book and Catalogue Group, as well as with Canadian Tire.

Adjusted operating income was down 3.9%, from $96.3 million in the first two quarters of 2011 to $92.5 million for the same period in 2012. Adjusted operating margin was down slightly, from 13.3% in the first half of 2011 to 12.6% for the same period in 2012. Excluding acquisitions, divestitures, closures and the exchange rate effects, adjusted operating income was down $6.4 million, or 6.6%. The decrease was mainly from the above mentioned decrease in revenues, partially offset by the efficiency gains made possible by our hybrid printing platform.

Media Sector

Media Sector revenues grew 0.5%, or $1.6 million, from $330.5 million in the first two quarters of 2011 to $332.1 million for the same period in 2012. Excluding acquisitions, divestitures, closures and the exchange rate effects, organic growth was -$7.7 million, or -2.3%. The decrease is mainly related to lower spending by national advertisers, which primarily affected our newspaper publishing operations outside Quebec, and the completion of Quebec's educational reform, which affected the Educational Book Group. The decrease was partially offset by higher revenues from our digital and interactive activities, and the launch of new community papers in Quebec in recent quarters.

In the first half of 2012, adjusted operating income was down $7.2 million, or 34.6%, from $20.8 million in the first two quarters of 2011 to $13.6 million in the first two quarters of 2012. Excluding acquisitions, divestitures, closures and the paper and exchange rate effects, organic growth was -$7.5 million. Apart from the negative impact of lower revenues as indicated above, adjusted operating income was decreased by a $2.2 million charge recorded in our Media Sector following the adoption, in April 2012, of new rates for 2010, 2011 and 2012 concerning contributions by businesses to cover the costs incurred by Quebec municipalities regarding waste recovery services. As a result, the adjusted operating margin went from 6.3% for the first two quarters of 2011 to 4.1% for the same period in 2012.

Inter-Segment Eliminations and Other Activities

Eliminations of inter-segment revenues and other activities went from -$43.3 million in the first half of 2011 to -$39.2 million in the first half of 2012. The positive change of $4.1 million is mainly due to a decrease in inter-segment transactions during this period. Adjusted operating income improved, from -$8.2 million in the first half of 2011 to -$7.3 million in the first half of 2012, primarily due to compensation received from Quad/Graphics between the time we sold them our Mexican operations in September 2011 and the transaction to acquire the shares of Quad/Graphics Canada, Inc. was finalized on March 1, 2012.

SUMMARY OF CONSOLIDATED INTERIM RESULTS

(unaudited)

	IFRS						Canadian GAAP	
	2012		2011				2010	
(in millions of dollars, except per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	$ 529	$ 496	$ 537	$ 493	$ 499	$ 515	$ 556	$ 481
Adjusted operating income before amortization [1]	84	72	117	87	90	80	119	87
Adjusted operating income margin before amortization	15.9 %	14.5 %	21.8 %	17.6 %	18.0 %	15.5 %	21.4 %	18.1 %
Adjusted operating income [1]	56	43	86	57	60	49	89	57
Adjusted operating income margin	10.6 %	8.7 %	16.0 %	11.6 %	12.0 %	9.5 %	16.0 %	11.9 %
Adjusted net income applicable to participating shares [1]	35	27	59	32	39	29	63	33
Per share	0.44	0.33	0.73	0.40	0.48	0.36	0.78	0.41
% of fiscal year	- %	- %	37 %	20 %	25 %	18 %	40 %	21 %

[1] Please refer to the section "Reconciliation of non-IFRS Financial Measures" on page 11 of this Management's Discussion and Analysis.

The above table shows changes in our quarterly results for the past eight quarters. The Quad/Graphics Canada, Inc. acquisition in the second quarter of 2012 contributed to revenues without significantly impacting adjusted operating income. However, completion of the contract to print the five-year Canada census forms affected our fourth-quarter revenues in 2011 and those of the first half of 2012 versus the corresponding quarter of the previous fiscal year. The sale of our black and white book printing business destined for U.S. export also had an adverse impact on revenues for the first two quarters 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 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)

	Three months ended April 30		Six months ended April 30	
(in millions of dollars, except per share amounts)	**2012**	2011	**2012**	2011
Net income (loss) applicable to participating shares	**$ (106.2)**	$ 32.7	**$ (139.5)**	$ 58.4
Dividends on preferred shares	**1.7**	1.7	**3.4**	3.4
Net loss (income) related to discontinued operations (after tax)	**1.3**	(0.7)	**1.3**	(1.3)
Non-controlling interest	**0.2**	0.5	**0.2**	0.8
Unusual adjustments to income taxes	**-**	-	**42.0**	-
Income tax expenses	**(10.0)**	7.4	**(4.4)**	13.1
Expenses related to long-term debt prepayment	**-**	5.8	**-**	5.8
Financial expenses related to unusual adjustments to income taxes	**-**	-	**16.0**	-
Financial expenses	**6.1**	8.7	**13.8**	19.5
Gain on business acquisition	**(31.7)**	-	**(31.7)**	-
Impairment of assets	**180.0**	-	**180.8**	3.5
Restructuring and integration expenses and acquisition costs	**14.4**	4.1	**16.9**	5.7
Adjusted operating income	**$ 55.8**	$ 60.2	**$ 98.8**	$ 108.9
Amortization	**28.3**	30.0	**57.2**	61.0
Adjusted operating income before amortization	**$ 84.1**	$ 90.2	**$ 156.0**	$ 169.9
Net income (loss) applicable to participating shares	**$ (106.2)**	$ 32.7	**$ (139.5)**	$ 58.4
Net loss (income) from discontinued operations (after tax)	**1.3**	(0.7)	**1.3**	(1.3)
Unusual adjustments to income taxes (after tax)	**-**	-	**42.0**	-
Expenses related to long-term debt prepayment (after tax)	**-**	4.2	**-**	4.2
Financial expenses related to unusual adjustments to income taxes (after tax)	**-**	-	**16.0**	-
Gain on business acquisition (after tax)	**(31.7)**	-	**(31.7)**	-
Impairment of assets (after tax)	**162.1**	-	**162.7**	2.5
Restructuring and integration expenses and acquisition costs (after tax)	**9.9**	2.9	**11.7**	4.1
Adjusted net income applicable to participating shares	**$ 35.4**	$ 39.1	**$ 62.5**	$ 67.9
Average number of participating shares outstanding	**81.1**	81.0	**81.0**	81.0
Adjusted net income applicable to participating shares per share	**$ 0.44**	$ 0.48	**$ 0.77**	$ 0.84

	As at April 30, 2012	As at October 31, 2011
Long-term debt	**$ 210.4**	$ 292.5
Current portion of long-term debt	**325.1**	271.9
Cash and cash equivalents	**(22.2)**	(75.0)
Net indebtedness	**$ 513.3**	$ 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
Adjusted net indebtedness	**$ 513.3**	$ 539.4
Adjusted operating income before amortization (last 12 months)	**$ 359.5**	$ 373.4
Net indebtedness ratio	**1.43x**	1.31x
Adjusted net indebtedness ratio	**1.43x**	1.44x

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES – SECOND QUARTER

(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	**$**	**69.8**	$	92.1
Changes in non-cash operating items		**(28.1)**		(8.4)
Income tax paid		**(2.1)**		(16.6)
Cash flow related to operating activities of continuing operations	**$**	**39.6**	$	67.1
Investing activities				
Business acquisitions	**$**	**(57.8)**	$	(0.6)
Acquisitions of property, plant and equipment, net of disposals		**(8.5)**		(7.5)
Acquisitions of intangible assets and other assets		**(4.8)**		(3.2)
Cash flow related to investing activities of continuing operations	**$**	**(71.1)**	$	(11.3)
Financing activities				
Reimbursement of long-term debt	**$**	**(73.1)**	$	(100.8)
Increase (decrease) in revolving term credit facility		**89.9**		24.5
Financial expenses on long-term debt		**(6.3)**		(8.2)
Expenses related to debt repayment		**-**		(3.4)
Issuance of participating shares		**0.2**		0.1
Dividends on participating shares		**(11.8)**		(8.9)
Dividends on preferred shares		**(1.7)**		(1.7)
Cash flow related to financing activities of continuing operations	**$**	**(2.8)**	$	(98.4)

Financial position		**As at April 30, 2012**		As at October 31, 2011
Adjusted net indebtedness [1]	**$**	**513.3**	$	539.4
Adjusted net indebtedness ratio [1]		**1.43x**		1.44x
Credit rating				
DBRS		**BBB high**		BBB high
		Negative		Stable
Standard and Poor's		**BBB**		BBB
		Stable		Stable

[1] Please refer to the section "Reconciliation of non-IFRS Financial Measures" on page 11 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 $92.1 million in 2011 to $69.8 million in 2012. Changes in non-cash operating items and income taxes led to a cash outflow of $30.2 million in 2012, compared to $25.0 million in 2011. Consequently, cash flow from operating activities decreased, leading to a cash inflow of $39.6 million in 2012, compared to $67.1 million in 2011, primarily due to higher restructuring expenses in 2012 due to the integration of Quad/Graphics Canada, Inc. and a decrease in adjusted operating income before amortization.

Cash Flow Related to Investing Activities of Continuing Operations

In the second quarter of 2012, $57.8 million was invested in business acquisitions, primarily consisting of the $50.0 million paid to Quad/Graphics upon conclusion of the transaction to acquire the shares of Quad/Graphics Canada, Inc., which closed on March 1, 2012.

Investments in tangible and intangible assets, net of disposals, rose from $10.7 million in the second quarter of 2011 to $13.3 million in 2012.

Cash Flow Related to Financing Activities of Continuing Operations

In the second quarter of 2012, we paid $11.8 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 increases announced in recent quarters, which raised the quarterly dividend from $0.11 in the second quarter of 2011 to $0.145 in 2012.

Debt Instruments

At April 30, 2012, the adjusted net indebtedness ratio stood at 1.43x (1.44x at October 31, 2011). This slight improvement stems primarily from the cash flows generated and the reduction in our spending on tangible and intangible assets, partially offset by a decrease in our adjusted operating income before amortization. Adjusted net debt thus decreased from $539.4 million at October 31, 2011 to $513.3 million at April 30, 2012.

In the second quarter of 2012, 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 and will remain in place until it matures in September 2012. An amount of $237.1 million was drawn on these credit facilities at April 30, 2012. Note that our $200.0 million securitization program was unused at April 30, 2012.

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

Share Capital

In the second quarter of 2012, the Corporation was authorized to purchase for cancellation on the open market, between April 13, 2012 and April 12, 2013, up to 3,295,096 of its Class A Subordinate Voting Shares, representing 5% of the 65,901,932 issued and outstanding Class A Subordinate Voting Shares as of April 2, 2012, and up to 757,561 of its Class B Shares, representing 5% of the 15,151,235 issued and outstanding Class B Shares as of April 2, 2012. In accordance with the Toronto Stock Exchange requirements, the maximum daily purchase is 23,975 Class A Subordinate Voting Shares and a total of 1,000 Class B Shares. The purchases will be made in the normal course of business at market prices through the facilities of the Toronto Stock Exchange and/or alternative Canadian trading platforms in accordance with the requirements of the exchange. No shares were purchased in the second quarter of 2012.

The following table provides data on shares issued and outstanding at April 30, 2012 and May 31, 2012:

Shares Issued and Outstanding	At April 30, 2012	At May 31, 2012
Class A (Subordinate Voting Shares)	66,001,932	66,001,932
Class B (Multiple Voting Shares)	15,051,235	15,051,235
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 assets will be identical to the rate used to discount the liability. The amended IAS 19 applies to annual periods beginning 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 second quarter ended April 30, 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.

As at April 30, 2012, Management excluded Quad/Graphics Canada, Inc. from its assessment of internal control over financial reporting, a measure which is accepted by the Autorité des marchés financiers (AMF) in the first year following acquisition. These operations, acquired on March 1, 2012, generated revenues of $32.9 million in the second quarter of 2012 and adjusted operating income of -$0.4 million. Quad/Graphics Canada, Inc. had six printing plants, a premedia centre and close to 1,000 employees.

SUBSEQUENT EVENTS

Departure from Senior Management

After our second quarter 2012 closed, we announced the departure of Natalie Larivière, President of TC Media, who will leave her position on June 29, 2012. François Olivier, President and CEO of TC Transcontinental will take over the duties of this position on an interim basis.

OUTLOOK

Integration of the printing operations of Quad/Graphics Canada, Inc., acquired on March 1, 2012, will accelerate in the coming quarters with the closure of two plants and the premedia centre that should bear fruit in the third quarter of 2012 while we are maintaining initiatives to optimize our print network in order to reduce the impact of more competitive marketplace conditions in the printing industry.

Also, in line with our strategy to strengthen our core operations and develop new sources of revenue, we were able to renew a number of contracts with major retailers for periods of three to six years, thereby securing a significant revenue stream for coming years, in both our Printing Sector, distribution and premedia operations as well as our new digital and interactive products and services. In total, the early renewals should generate more than $1.5 billion in revenues during this period.

The Media Sector will focus on its strategy of integrating its marketing product and service offering, aiming for steady improvement in profitability across all digital and paper platforms going forward, as well as the generation of new revenue streams through our television production house and the integration of our recent acquisition. At the same time, efforts to achieve greater operational efficiency are being implemented to improve the sector's operating margin by the end of the fiscal year. Our educational book publishing operations could be more affected between now and the end of the year due to the student strike in Quebec. Lastly, market conditions for national advertising spending could remain weak in coming quarters, which would have an adverse impact on the sector, especially the Business and Consumer Solutions Group.

The synergies from the integration of Quad/Graphics Canada, Inc. printing operations, combined with the rationalization plan in the Media Sector should produce cost savings of close to $10 million by the end of the fiscal year, and more than $50 million on an annualized basis over the next 12 to 24 months.

Finally, given the substantial cash flow generated by our operations, we should be able to maintain and even improve our financial flexibility in coming quarters. Also, given the significant investments made in recent years, the level of investment in tangible and intangible assets should be about $60 million in fiscal 2012. On the other hand, we expect to record $40 - $60 million on the integration of the Quad/Graphics Canada, Inc. operations with about $25 - $30 million of cash disbursements in fiscal 2012. In short, we are in good financial health, enabling the further development of new products and services, both through in-house projects and strategic acquisitions deemed valuable to the Corporation.

On behalf of Management,

(s) Nelson Gentiletti
Chief Financial and Development Officer

June 7, 2012

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Unaudited

(in millions of Canadian dollars, except per share data)	Notes	Three months ended April 30 **2012**	Three months ended April 30 2011	Six months ended April 30 **2012**	Six months ended April 30 2011
Revenues		**$ 529.4**	$ 498.7	**$ 1,025.3**	$ 1,013.5
Operating expenses	4	**445.3**	408.5	**869.3**	843.6
Restructuring, integration and acquisition costs	12	**14.4**	4.1	**16.9**	5.7
Impairment of assets	5	**180.0**	-	**180.8**	3.5
Gain on business acquisition	17	**(31.7)**	-	**(31.7)**	-
Operating income (loss) before amortization		**(78.6)**	86.1	**(10.0)**	160.7
Amortization	6	**28.3**	30.0	**57.2**	61.0
Operating income (loss)		**(106.9)**	56.1	**(67.2)**	99.7
Financial expenses	7	**6.1**	14.5	**29.8**	25.3
Income (loss) before income taxes		**(113.0)**	41.6	**(97.0)**	74.4
Income taxes (recovered)	8	**(10.0)**	7.4	**37.6**	13.1
Net income (loss) from continuing operations		**(103.0)**	34.2	**(134.6)**	61.3
Net income (loss) from discontinued operations	9	**(1.3)**	0.7	**(1.3)**	1.3
Net income (loss)		**(104.3)**	34.9	**(135.9)**	62.6
Non-controlling interests		**0.2**	0.5	**0.2**	0.8
Net income (loss) attributable to shareholders of the Corporation		**(104.5)**	34.4	**(136.1)**	61.8
Dividends on preferred shares, net of related taxes		**1.7**	1.7	**3.4**	3.4
Net income (loss) attributable to participating shares		**$ (106.2)**	$ 32.7	**$ (139.5)**	$ 58.4
Net income (loss) per participating share - basic and diluted					
Continuing operations	14	**$ (1.29)**	$ 0.39	**$ (1.70)**	$ 0.70
Discontinued operations		**(0.02)**	0.01	**(0.02)**	0.02
		$ (1.31)	$ 0.40	**$ (1.72)**	$ 0.72
Weighted average number of shares outstanding - basic (in millions)	14	**81.0**	81.0	**81.0**	81.0
Weighted average number of shares outstanding - diluted (in millions)	14	**81.0**	81.1	**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 April 30 2012	Three months ended April 30 2011	Six months ended April 30 2012	Six months ended April 30 2011
Net income (loss)		**$ (104.3)**	$ 34.9	**$ (135.9)**	$ 62.6
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		**(0.4)**	4.9	**(1.6)**	5.3
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		**2.3**	(3.1)	**4.9**	(1.6)
Related income taxes		**1.2**	0.5	**2.8**	1.2
		0.7	1.3	**0.5**	2.5
Cumulative translation differences					
Net losses on the translation of the financial statements of self-sustaining foreign operations		**(0.6)**	(3.8)	**(0.1)**	(5.5)
Items that will not be reclassified to net income (loss):					
Changes in actuarial gains and losses of defined benefit pension plans					
Actuarial gains and losses of defined benefit pension plans		**(14.7)**	(11.1)	**(30.3)**	11.4
Related income taxes		**(3.9)**	(3.0)	**(8.8)**	3.0
		(10.8)	(8.1)	**(21.5)**	8.4
Other comprehensive income (loss)	16	**(10.7)**	(10.6)	**(21.1)**	5.4
Comprehensive income (loss)		**$ (115.0)**	$ 24.3	**$ (157.0)**	$ 68.0
Attributable to:					
Shareholders of the Corporation		**$ (115.2)**	$ 23.8	**$ (157.2)**	$ 67.2
Non-controlling interests		**0.2**	0.5	**0.2**	0.8
		$ (115.0)	$ 24.3	**$ (157.0)**	$ 68.0

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)	**-**	**-**	**(136.1)**	**-**	**(136.1)**	**0.2**	**(135.9)**
Other comprehensive loss	**-**	**-**	**-**	**(21.1)**	**(21.1)**	**-**	**(21.1)**
Shareholders' contributions and distributions to shareholders							
Exercise of stock options	**0.3**	**-**	**-**	**-**	**0.3**	**-**	**0.3**
Dividends	**-**	**-**	**(26.1)**	**-**	**(26.1)**	**-**	**(26.1)**
Stock-option based compensation	**-**	**0.4**	**-**	**-**	**0.4**	**-**	**0.4**
Balance as at April 30, 2012	**$ 478.4**	**$ 2.2**	**$ 591.9**	**$ (49.2)**	**$ 1,023.3**	**$ 1.0**	**$ 1,024.3**
Balance as at November 1, 2010	$ 477.9	$ 1.1	$ 673.1	$ (4.5)	$ 1,147.6	$ 0.8	$ 1,148.4
Net income	-	-	61.8	-	61.8	0.8	62.6
Other comprehensive income	-	-	-	5.4	5.4	-	5.4
Shareholders' contributions and distributions to shareholders							
Exercise of stock options	0.2	-	-	-	0.2	-	0.2
Dividends	-	-	(21.2)	-	(21.2)	(0.8)	(22.0)
Stock-option based compensation	-	0.3	-	-	0.3	-	0.3
Balance as at April 30, 2011	$ 478.1	$ 1.4	$ 713.7	$ 0.9	$ 1,194.1	$ 0.8	$ 1,194.9

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 April 30, 2012	As at October 31, 2011
Current assets			
Cash and cash equivalents		**$ 22.2**	$ 75.0
Accounts receivable	11	**419.1**	436.3
Income taxes receivable		**7.1**	14.7
Inventories		**85.6**	80.2
Prepaid expenses and other current assets		**14.7**	18.3
		548.7	624.5
Property, plant and equipment		**688.7**	690.6
Intangible assets		**186.0**	149.6
Goodwill	5	**511.4**	682.5
Deferred income taxes		**286.8**	197.7
Other assets		**28.1**	20.2
		$ 2,249.7	$ 2,365.1
Current liabilities			
Accounts payable and accrued liabilities		**$ 266.1**	$ 293.5
Provisions	12	**20.4**	10.7
Income taxes payable	8	**88.7**	33.5
Deferred subscription revenues and deposits		**32.0**	32.5
Current portion of long-term debt		**325.1**	271.9
		732.3	642.1
Long-term debt		**210.4**	292.5
Deferred income taxes		**117.9**	127.2
Provisions	12	**10.3**	8.7
Other liabilities		**154.5**	87.9
		1,225.4	1,158.4
Equity			
Share capital	13	**478.4**	478.1
Contributed surplus		**2.2**	1.8
Retained earnings		**591.9**	754.1
Accumulated other comprehensive loss	16	**(49.2)**	(28.1)
Attributable to shareholders of the Corporation		**1,023.3**	1,205.9
Non-controlling interests		**1.0**	0.8
		1,024.3	1,206.7
		$ 2,249.7	$ 2,365.1

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 April 30 2012	Three months ended April 30 2011	Six months ended April 30 2012	Six months ended April 30 2011
Operating activities					
Net income (loss)		**$ (104.3)**	$ 34.9	**$ (135.9)**	$ 62.6
Less: Net income (loss) from discontinued operations	9	**(1.3)**	0.7	**(1.3)**	1.3
Net income (loss) from continuing operations		**(103.0)**	34.2	**(134.6)**	61.3
Adjustments to reconcile net income (loss) from continuing operations and cash flows from operating activities:					
Amortization	6	**34.4**	37.1	**68.2**	73.9
Impairment of assets	5	**180.0**	-	**180.8**	3.5
Gain on business acquisition	17	**(31.7)**	-	**(31.7)**	-
Financial expenses on long-term debt	7	**6.4**	8.1	**13.3**	18.2
Interest on tax contingencies	7	**-**	-	**16.0**	-
Expenses related to long-term debt prepayment	7	**-**	5.8	**-**	5.8
Net loss (gain) on disposal of assets		**0.1**	(0.3)	**(0.3)**	(0.3)
Income taxes (recovered)	8	**(10.0)**	7.4	**37.6**	13.1
Stock-option based compensation	15	**0.2**	0.1	**0.4**	0.3
Gain on pension plans curtailment	12	**(3.5)**	-	**(3.5)**	-
Other		**(3.1)**	(0.3)	**(2.5)**	(2.0)
Cash flows generated by operating activities before changes in non-cash operating items and income tax paid		**69.8**	92.1	**143.7**	173.8
Changes in non-cash operating items		**(28.1)**	(8.4)	**(44.4)**	(21.1)
Income tax paid		**(2.1)**	(16.6)	**(4.4)**	(23.1)
Cash flows from continuing operations		**39.6**	67.1	**94.9**	129.6
Cash flows from discontinued operations		**-**	0.3	**-**	-
		39.6	67.4	**94.9**	129.6
Investing activities					
Business acquisitions	17	**(57.8)**	(0.6)	**(57.8)**	(5.4)
Acquisitions of property, plant and equipment		**(8.6)**	(8.0)	**(16.9)**	(28.5)
Disposals of property, plant and equipment		**0.1**	0.5	**0.5**	0.6
Increase in intangible assets and other assets		**(4.8)**	(3.2)	**(9.5)**	(8.1)
Cash flows from investments in continuing operations		**(71.1)**	(11.3)	**(83.7)**	(41.4)
Cash flows from investments in discontinued operations		**-**	(0.4)	**-**	(0.8)
		(71.1)	(11.7)	**(83.7)**	(42.2)
Financing activities					
Reimbursement of long-term debt		**(73.1)**	(100.8)	**(81.2)**	(108.1)
Increase in revolving term credit facility		**89.9**	24.5	**55.8**	31.0
Financial expenses on long-term debt		**(6.3)**	(8.2)	**(12.6)**	(16.1)
Expenses related to long-term debt prepayment		**-**	(3.4)	**-**	(3.4)
Dividends on participating shares		**(11.8)**	(8.9)	**(22.7)**	(17.8)
Dividends on preferred shares		**(1.7)**	(1.7)	**(3.4)**	(3.4)
Issuance of participating shares	15	**0.2**	0.1	**0.3**	0.2
Bond forward contract		**-**	-	**-**	(6.0)
Cash flows from the financing of continuing operations		**(2.8)**	(98.4)	**(63.8)**	(123.6)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		**(0.3)**	(0.5)	**(0.2)**	(0.8)
Decrease in cash and cash equivalents		**(34.6)**	(43.2)	**(52.8)**	(37.0)
Cash and cash equivalents at beginning of period		**56.8**	42.5	**75.0**	36.3
Cash and cash equivalents (bank overdraft) at end of period		**$ 22.2**	$ (0.7)	**$ 22.2**	$ (0.7)
Non-cash investing and financing activities					
Net change in capital asset acquisitions financed by accounts payable		**$ 0.3**	$ (0.4)	**$ (2.2)**	$ (14.0)

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 for 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 June 7, 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and, more specifically, 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.

These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2011, established in accordance with Canadian GAAP, and the interim consolidated financial statements for the quarter ended January 31, 2012, established in accordance with IFRS. The Corporation's significant accounting policies in accordance with IFRS are disclosed in Note 2, "Significant accounting policies" of the interim consolidated financial statements for the quarter ended January 31, 2012. Supplemental information on the transition to IFRS is also disclosed in Note 21, "Transition to IFRS" below, which explains the extent to which the transition to IFRS has had an effect on the Corporation's consolidated financial statements for the three-month and six-month periods ended April 30, 2011.

The accounting methods adopted in these interim consolidated financial statements are based on IFRS issued and effective June 7, 2012, the date that the Board of Directors approved the interim consolidated financial statements. Any subsequent changes to IFRS, that are given effect in the Corporation's annual consolidated financial statements for the year ending October 31, 2012, could result in a retrospective restatement of these interim consolidated financial statements, including the transition adjustments recognized on transition to IFRS.

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 Corporation's accounting policies disclosed in Note 2 "Significant accounting policies" of the interim consolidated financial statements for the three-month period ended January 31, 2012. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

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 liabilities, and the two other parts will cover impairment of financial assets and hedge accounting.

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 rather than in the Consolidated Statement of Income. IFRS 9 will apply to annual periods beginning on or after January 1, 2015, and earlier application is permitted.

3 FUTURE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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 and other comprehensive income in its 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.

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.

g) Financial instruments: asset and liability offsetting

In December 2011, the IASB issued amended versions of IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation", to clarify the requirements for offsetting financial instruments and to require new disclosures on the effect of offsetting arrangements on an entity's financial position. The amended IFRS 7 will be applied retrospectively for annual periods beginning on or after January 1, 2013. The amended IAS 32 will be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

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

(in millions of Canadian dollars, except per share data)

4 OPERATING EXPENSES

Operating expenses by major heading were as follows for the three-month and six-month periods ended April 30, 2012 and 2011:

	Three months ended April 30		Six months ended April 30	
	2012	2011	**2012**	2011
Employee-related costs	**$ 184.1**	$ 169.1	**$ 349.5**	$ 338.8
Supply chain and logistics [1]	**228.7**	211.6	**456.4**	445.5
Other goods and services [2]	**32.5**	27.8	**63.4**	59.3
	$ 445.3	$ 408.5	**$ 869.3**	$ 843.6

[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.

5 IMPAIRMENT OF ASSETS

	Three months ended April 30		Six months ended April 30	
	2012	2011	**2012**	2011
Property, plant and equipment	**$ -**	$ -	**$ 0.8**	$ 3.5
Goodwill	**180.0**	-	**180.0**	-
	$ 180.0	$ -	**$ 180.8**	$ 3.5

Impairment testing of goodwill and intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives (trade names and circulation) acquired in business combinations are attributed to cash generating units ("CGU"). As it pertains to goodwill, a CGU group represents the lowest level for which goodwill is monitored by the Corporation for internal management purposes; this level is lower than that of the Corporation's operating segments.

In the second quarter of fiscal 2012, the Corporation performed its annual goodwill impairment test. The test consists of ensuring that the recoverable amount of a CGU group is greater than its carrying amount, in which case no impairment charge is required. The recoverable amount of a CGU group is the greater of its value in use and its fair value less costs to sell. Value in use is determined by discounting estimated future cash flows, by applying a pre-tax discount rate that reflects current market assessments, the time value of money and risks specific to the CGU group. Fair value less costs to sell is determined using an EBITDA multiplier of comparable companies operating in similar industries for each CGU group. The Corporation has concluded that the recoverable amounts, determined on the basis of fair value less costs to sell for the CGU group of the Business and Consumer Solutions Group and the Educational Book Publishing Group and determined on the basis of value in use for the CGU group of the Local Solutions Group, were lower than their carrying amounts.

The Corporation recorded $180.0 million as impairment charge of goodwill during the three-month period ended April 30, 2012. An impairment charge of $89.0 million was recorded in the CGU group of the Local Solutions Group due to a decline in national advertising, particularly outside Quebec, and increased competition within Quebec, which had a negative impact on the operating income of this CGU group. An impairment charge of $70.6 million was recorded in the CGU group of the Business and Consumer Solutions Group due to a decline in advertising, which had a negative impact on the operating income of this CGU group. Furthermore, the adoption in 2012 of new rates for 2010, 2011 and 2012 concerning contributions by businesses to cover the costs incurred by Quebec municipalities regarding waste recovery services had a negative impact on the operating income in these two CGU groups. Finally, an impairment charge of $20.4 million was recorded in the CGU group of the Educational Book Publishing Group due to lower profitability resulting from the end of educational reform in Quebec's high school education program. These impairment losses had no effect on the Corporation's activities, on cash or on meeting the requirements of debt covenants.

For their part, impairment tests resulted in no impairment losses to trade names and circulation.

(in millions of Canadian dollars, except per share data)

5 IMPAIRMENT OF ASSETS (CONTINUED)

The Corporation uses the following significant assumptions:

Growth

For the purpose of calculating value in use, future cash flows are based on the three-year financial plan approved by management, which has been adjusted to reflect the most recent information available, with no growth factor having been applied after three years. In developing the forecasts, the Corporation considered past experience, certain economic trends and industry and market trends.

Discount rate

For the purpose of calculating value in use, the Corporation used pre-tax discount rates varying between 16.00% and 23.00%. The discount rate represents the weighted average cost of capital ("WACC") for comparable companies operating in similar industries as the applicable CGU groups. The WACC is an estimate of the overall rate of return required by debt and equity holders on their investments. Determining the WACC requires analyzing the cost of equity and debt separately, and takes into account a risk premium that is based on the applicable CGU groups.

Tax rate

For the purpose of calculating value in use, the Corporation used income tax rates varying between 26.00% and 26.90%. These rates were based on the effective rates for the entities comprising the applicable CGU groups.

The Corporation performed a sensitivity analysis of the discount rate in its assessment of the recoverable amounts of the CGU groups tested for impairment. The results of the sensitivity analysis demonstrated that a reasonable change to significant assumptions did not lead to an impairment in the other CGU groups, for which no impairment charge was required.

The carrying amount of trade names and circulation is allocated to the CGU groups as follows:

Operating segments	As at April 30, 2012	As at October 31, 2011
Media Sector		
Business and Consumer Solutions Group	**$ 0.7**	$ 0.7
Local Solutions Group	**85.7**	85.7
Educational Book Publishing Group	**4.6**	4.6
	$ 91.0	$ 91.0

The carrying amount of goodwill is allocated to the CGU groups as follows:

Operating segments	As at April 30, 2012	As at October 31, 2011
Printing Sector		
Magazine, Book and Catalogue Group	**$ 68.7**	$ 68.7
Retail and Newspaper Group	**61.0**	61.0
	129.7	129.7
Media Sector		
Business and Consumer Solutions Group	**138.3**	208.9
Local Solutions Group	**174.4**	256.1
Educational Book Publishing Group	**55.4**	74.2
Content Solutions Group	**12.7**	12.7
	380.8	551.9
Other activities	**0.9**	0.9
	$ 511.4	$ 682.5

(in millions of Canadian dollars, except per share data)

6 AMORTIZATION

	Three months ended April 30		Six months ended April 30	
	2012	2011	**2012**	2011
Property, plant and equipment	**$ 25.2**	$ 25.4	**$ 50.4**	$ 52.0
Intangible assets	**3.1**	4.6	**6.8**	9.0
	28.3	30.0	**57.2**	61.0
Intangible assets and other assets, recognized in revenues and operating expenses	**6.1**	7.1	**11.0**	12.9
	$ 34.4	$ 37.1	**$ 68.2**	$ 73.9

7 FINANCIAL EXPENSES

	Three months ended April 30		Six months ended April 30	
	2012	2011	**2012**	2011
Financial expenses on long-term debt	**$ 6.4**	$ 8.1	**$ 13.3**	$ 18.2
Interest on tax contingencies	**-**	-	**16.0**	-
Expenses related to long-term debt prepayment	**-**	5.8	**-**	5.8
Other expenses	**0.9**	1.1	**1.7**	2.1
Foreign exchange gain	**(1.2)**	(0.5)	**(1.2)**	(0.8)
	$ 6.1	$ 14.5	**$ 29.8**	$ 25.3

8 INCOME TAXES

	Three months ended April 30		Six months ended April 30	
	2012	2011	**2012**	2011
Income (loss) before income taxes	**$ (113.0)**	$ 41.6	**$ (97.0)**	$ 74.4
Canadian statutory tax rate	**27.1 %**	28.6 %	**27.1 %**	28.6 %
Income taxes (recovered) at the statutory tax rate	**(30.6)**	11.9	**(26.3)**	21.3
Effect of assessments related to previous years (a)	**-**	-	**42.0**	-
Effect of differences in tax rates in other jurisdictions	**(1.5)**	(0.9)	**(2.5)**	(2.6)
Income taxes (revenues) on non-deductible (non-taxable) expenses and non-taxable portion of capital gain	**(7.3)**	(0.3)	**(4.2)**	0.8
Tax benefits of capital losses not previously recognized	**(1.1)**	(1.9)	**(1.4)**	(3.7)
Permanent difference related to goodwill impairment	**30.9**	-	**30.9**	-
Other	**(0.4)**	(1.4)	**(0.9)**	(2.7)
Income taxes (recovered) at effective tax rate	**$ (10.0)**	$ 7.4	**$ 37.6**	$ 13.1
Effective tax rate	**8.9 %**	17.8 %	**(38.8) %**	17.6 %

Income taxes (recovered) include the following items:

Income taxes before the following items:	**$ 12.4**	$ 9.6	**$ 60.9**	$ 16.7
Income taxes on restructuring costs	**(4.5)**	(0.5)	**(5.2)**	(0.9)
Income taxes on impairment of assets	**(17.9)**	(0.1)	**(18.1)**	(1.1)
Income taxes on expenses related to long-term debt prepayment	**-**	(1.6)	**-**	(1.6)
Income taxes (recovered) at effective tax rate	**$ (10.0)**	$ 7.4	**$ 37.6**	$ 13.1

(a) In February 2012, the Corporation received notices of re-assessment from the federal and provincial tax authorities estimated at $58.0 million, including applicable interest and penalties to its fiscal years 2006 to 2010. The notices of re-assessment 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, even though the Corporation contests these notices of re-assessment. Consequently, the outcome of this dispute could favorably influence the amounts recognized in the consolidated financial statements of the Corporation.

In May 2012, the Corporation paid the minimum amounts required under the tax laws with respect to the notices of re-assessment received which represents $16.2 million. Notices of objection will also be filed with the relevant tax authorities.

(in millions of Canadian dollars, except per share data)

9 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 (loss) related to these activities has been reclassified separately in the Consolidated Statements of Income (Loss). Note 17 provides more detailed information on the terms and conditions of this transaction.

The following table presents the results of discontinued operations:

	Three months ended April 30		Six months ended April 30	
	2012	2011	**2012**	2011
Revenues	**$ -**	$ 16.0	**$ -**	$ 31.3
Expenses	**-**	14.9	**-**	29.3
Income before income taxes	**-**	1.1	**-**	2.0
Income taxes	**-**	0.4	**-**	0.7
Income related to the operation of discontinued operations	**-**	0.7	**-**	1.3
Adjustment to the gain related to discontinuance of operations (no tax effect)	**(1.3)**	-	**(1.3)**	-
Net income (loss) from discontinued operations	**$ (1.3)**	$ 0.7	**$ (1.3)**	$ 1.3

10 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 April 30		Six months ended April 30	
	2012	2011	**2012**	2011
Defined benefit pension plans and post-employment benefits	**$ 0.4**	$ (0.4)	**$ 0.4**	$ (0.7)
Defined contribution pension plans	**4.6**	4.6	**9.1**	9.1
State plans	**5.9**	5.8	**9.8**	9.4
	$ 10.9	$ 10.0	**$ 19.3**	$ 17.8

11 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 April 30, 2012, nor as at October 31, 2011.

(in millions of Canadian dollars, except per share data)

12 PROVISIONS

	Restructuring costs	Onerous contracts	Other	Total
Balance as at October 31, 2011	$ 7.6	$ 9.6	$ 2.2	$ 19.4
Provisions recorded	21.3	-	1.3	22.6
Business acquisition	1.8	2.7	0.1	4.6
Amounts used	(13.2)	(0.6)	(0.5)	(14.3)
Provisions reversed	(0.9)	-	(0.6)	(1.5)
Other	-	(0.1)	-	(0.1)
Balance as at April 30, 2012	$ 16.6	$ 11.6	$ 2.5	$ 30.7
Current portion	16.6	2.2	1.6	20.4
Non-current portion	-	9.4	0.9	10.3
	$ 16.6	$ 11.6	$ 2.5	$ 30.7

Restructuring costs

The Corporation is currently implementing rationalization measures that will affect all its operating segments. These measures will address excess production capacity in some specialized plants of the Printing Sector following the integration of Quad/Graphics Canada, Inc., and due to major structural changes in the printing industry. These measures also address the implementation of a new operating structure since November 1, 2011, which includes the majority of the Interactive Sector's activities with those of the Media Sector.

The restructuring, integration and acquisition costs in the Consolidated Statement of Income (Loss) included $3.5 million related to the gain on pension plans curtailment following the workforce reductions.

Onerous contracts

The provisions for onerous contracts are related to the 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 leases vary from 6 to 7 years.

Other

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

13 SHARE CAPITAL

The Corporation has been authorized to redeem, for cancellation on the open market, between April 13, 2012 and April 12, 2013, or at an earlier date if the Corporation concludes or cancels the offer, up to 3,295,096 of its Class A Subordinate Voting Shares, representing 5% of its 65,901,932 Class A Subordinate Voting Shares issued and outstanding as at April 2, 2012, and up to 757,561 Class B Shares, representing 5% of its 15,151,235 Class B Shares issued and outstanding as at April 2, 2012. The redemptions are being made in the normal course of business at market prices through the Toronto Stock Exchange and in accordance with the requirements of the Exchange.

The Corporation redeemed no shares in the three-month period ended April 30, 2012, and had no obligation as such to this date.

14 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 and six-month periods ended April 30:

	Three months ended April 30		Six months ended April 30	
	2012	2011	**2012**	2011
Numerator				
Net income (loss) from continuing operations	**$ (103.0)**	$ 34.2	**$ (134.6)**	$ 61.3
Non-controlling interests	**0.2**	0.5	**0.2**	0.8
Dividends on preferred shares, net of related taxes	**1.7**	1.7	**3.4**	3.4
Net income (loss) from continuing operations, attributable to participating shares	**$ (104.9)**	$ 32.0	**$ (138.2)**	$ 57.1
Denominator (in millions)				
Weighted average number of participating shares outstanding - basic	**81.0**	81.0	**81.0**	81.0
Weighted average number of dilutive options	**-**	0.1	**-**	0.1
Weighted average number of participating shares outstanding - diluted	**81.0**	81.1	**81.0**	81.1

In the calculation of the diluted earnings per share, 1,698,791 options were considered anti-dilutive as at April 30, 2012, being all of the options issued and outstanding on such date, considering the situation of loss for that period. As at April 30, 2011, 987,032 options were considered anti-dilutive, 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 of the diluted earnings per share for this period.

15 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 and $0.1 million were charged to income and increased contributed surplus included in shareholders' equity for the three-month periods ended April 30, 2012 and 2011, respectively. For the six-month periods ended April 30, 2012 and 2011, the expenses amounted to $0.4 million and $0.3 million, respectively.

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

	Three months ended April 30			
	2012		2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options issued at beginning of period	**1,752,424**	**$ 16.12**	1,678,597	$ 16.79
Exercised	**(16,350)**	**9.64**	(7,750)	10.68
Cancelled	**(37,283)**	**15.87**	(56,325)	20.43
Options outstanding at end of period	**1,698,791**	**$ 16.18**	1,614,522	$ 16.70

(in millions of Canadian dollars, except per share data)

15 STOCK-BASED COMPENSATION (CONTINUED)

	Six months ended April 30			
	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	**(28,750)**	**10.28**	(18,590)	10.26
Cancelled	**(66,083)**	**17.96**	(74,050)	18.54
Expired	**(15,000)**	**11.13**	-	-
Options outstanding at end of period	**1,698,791**	**$ 16.18**	1,614,522	$ 16.70
Options exercisable as at April 30	**1,218,530**	**$ 17.47**	1,141,675	$ 18.13

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 April 30, 2012 and 2011, the considerations received were $0.2 million and $0.1 million, respectively. For the six-month periods ended April 30, 2012 and 2011, the considerations received were $0.3 million and $0.2 million, respectively. Negligible amounts were transferred from contributed surplus to share capital during these periods.

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 six-month periods ended April 30:

	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.

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.

(in millions of Canadian dollars, except per share data)

15 STOCK-BASED COMPENSATION (CONTINUED)

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

	Three months ended April 30			
Number of units	**2012**	2011	**2012**	2011
	DSU		RSU	
Balance, beginning of period	**222,022**	203,397	**718,230**	744,728
Units cancelled	**-**	-	**(27,806)**	(4,974)
Units paid	**(24,042)**	(1,358)	**-**	-
Dividends paid in units	**2,113**	1,320	**-**	-
Balance, end of period	**200,093**	203,359	**690,424**	739,754

	Six months ended April 30			
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	**-**	-	**(141,095)**	(74,558)
Units paid	**(24,042)**	(2,230)	**(139,506)**	(53,824)
Units converted	**17,956**	41,874	**(17,956)**	(41,874)
Dividends paid in units	**4,198**	2,482	**-**	-
Balance, end of period	**200,093**	203,359	**690,424**	739,754

As at April 30, 2012, the liability related to the senior executive share unit plan was $5.4 million ($6.1 million as at October 31, 2011). The expense (the reversal) recorded in the Consolidated Statement of Income (Loss) for the three-month periods ended April 30, 2012 and 2011 were $0.2 million and ($0.1) million, respectively. The expenses recorded in the Consolidated Statement of Income (Loss) for the six-month periods ended April 30, 2012 and 2011 were $1.1 million and $1.2 million, respectively. Amount of $0.3 million and a negligible amount were paid under this plan for the three-month periods ended April 30, 2012 and 2011, respectively. Amounts of $1.8 million and $0.9 million were paid under this plan for the six-month periods ended April 30, 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 summarizes the changes in the plan's status:

	Three months ended April 30		Six months ended April 30	
Number of units	**2012**	2011	**2012**	2011
Balance, beginning of period	**215,726**	167,474	**201,257**	159,803
Directors' compensation	**10,938**	8,357	**23,261**	14,984
Units paid	**(18,573)**	-	**(18,573)**	-
Dividends paid in units	**2,419**	1,256	**4,565**	2,300
Balance, end of period	**210,510**	177,087	**210,510**	177,087

As at April 30, 2012, the liability related to the directors share unit plan was $2.5 million ($2.4 million as at October 31, 2011). The expense (the reversal) recorded in the Consolidated Statement of Income (Loss) for the three-month periods ended April 30, 2012 and 2011 were $0.2 million and ($0.2) million, respectively. The expenses recorded in the Consolidated Statement of Income (Loss) for the six-month periods ended April 30, 2012 and 2011 were $0.4 million and $0.3 million, respectively. Amount of $0.3 million has been paid under this plan for the three-month and six-month periods ended April 30, 2012. No amount has been paid under this plan for the three-month and six-month periods ended April 30, 2011.

(in millions of Canadian dollars, except per share data)

16 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Cash flow hedges	Cumulative translation differences	Actuarial gains and losses of 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	2.5	(5.5)	8.4	5.4
Balance as at April 30, 2011	$ (2.0)	$ (5.5)	$ 8.4	$ 0.9
Balance as at November 1, 2011	**$ (6.3)**	**$ (1.9)**	**$ (19.9)**	**$ (28.1)**
Net change in gains (losses), net of income taxes	**0.5**	**(0.1)**	**(21.5)**	**(21.1)**
Balance as at April 30, 2012	**$ (5.8)**	**$ (2.0)**	**$ (41.4)**	**$ (49.2)**

As at April 30, 2012, the amounts expected to be reclassified to net income are as follows:

	2012	2013	2014	2015	2016 and thereafter	Total
Losses on derivatives designated as cash flow hedges	$ (0.4)	$ (0.5)	$ (1.2)	$ (0.9)	$ (2.3)	$ (5.3)
Income taxes	0.3	0.3	0.4	0.1	(0.6)	0.5
	$ (0.7)	$ (0.8)	$ (1.6)	$ (1.0)	$ (1.7)	$ (5.8)

17 BUSINESS ACQUISITIONS

Media Sector

On February 13, 2012, the Corporation acquired 100% of the shares of *Éditions Caractère* , a leader in the extracurricular book market in Quebec and publisher in the trade market. This transaction allows the Media Sector to complete its offer in the educational and extracurricular book markets in Quebec.

On February 15, 2012, the Corporation acquired the print and Internet assets of *Courrier Frontenac* , a weekly newspaper serving Thetford Mines and the surrounding area. With this transaction, the Media Sector has added its first weekly publication to its existing offer in the region of Chaudière-Appalaches.

Printing Sector

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., which operates in the printing sector and has seven facilities in Canada: three in Ontario, two in Quebec, one in Alberta and one in Nova-Scotia, representing six printing plants and one premedia facility. In consideration for this transaction, the Corporation sold its Mexican printing operations and its black and white book printing business for U.S. export. On March 1, 2012, the Corporation completed the acquisition of 100% shares of *Quad/Graphics Canada, Inc* . With this transaction, the Printing Sector has expanded its printing assets, and the Corporation expects to benefit from operating synergies by taking advantage of major investments made in the printing platform over the last few years.

This transaction was settled in cash for an amount of $48.0 million, and by offsetting amounts receivable of $30.0 million related to the sale of the Mexican printing operations and $5.0 million for the black and white book printing business for U.S. export. The Mexican transaction was completed on September 8, 2011, for net proceeds of $80.5 million. This transaction generated a net gain on disposal of $25.5 million. A gain of $26.8 million was recorded in fiscal 2011 and a $1.3 million loss was recorded in the three-month period ended April 30, 2012.

The estimated fair values attributed to assets acquired and liabilities assumed were based on a combination of independent assessments and internal estimates. Since the fair value of net identifiable assets is greater than the consideration paid, a negative goodwill was recorded as a gain on business acquisition in the results of the three-month period ended April 30, 2012. This negative goodwill was mainly due to the recording of deferred income tax assets, in accordance with IAS12 "Income taxes", attributable to the tax losses acquired through the business combination.

(in millions of Canadian dollars, except per share data)

17 BUSINESS ACQUISITIONS (CONTINUED)

The following table presents a summary of the estimated fair value of assets acquired and liabilities assumed on the acquisition date:

	Quad/Graphics Canada, Inc.	Other	Total
Assets acquired			
Current assets	$ 48.0	$ 6.5	$ 54.5
Property, plant and equipment	34.9	0.1	35.0
Intangible assets	38.1	-	38.1
Goodwill (tax basis of 5.5)	-	8.6	8.6
Deferred income taxes	89.6	-	89.6
	$ 210.6	$ 15.2	$ 225.8
Liabilities assumed			
Current liabilities	$ 34.0	$ 4.2	$ 38.2
Deferred income taxes	10.0	-	10.0
Other liabilities	56.8	0.1	56.9
	$ 100.8	$ 4.3	$ 105.1
	$ 109.8	$ 10.9	$ 120.7
Consideration			
Cash paid	$ 48.0	$ 10.0	$ 58.0
Cash of the acquired businesses	-	(0.2)	(0.2)
Amount related to transfered activities	35.0	-	35.0
Short-term receivables	(4.9)	-	(4.9)
Short-term liabilities	-	1.1	1.1
	78.1	10.9	89.0
Negative goodwill	31.7	-	31.7
	$ 109.8	$ 10.9	$ 120.7

Given the short period between the dates of acquisition and the end of the period, management was unable to obtain all the information to complete the initial accounting for business combinations, and therefore it is preliminary and subject to change following a final assessment of the fair value of assets acquired and liabilities assumed. The excess of the price paid over the estimated fair value of the assets acquired and liabilities assumed from acquisitions in the Media Sector was fully attributed to goodwill. Consequently, the intangible assets acquired and the related amortization have not been reflected in these interim consolidated financial statements. The assets acquired and liabilities assumed of Quad/Graphics Canada, Inc. that have been determined provisionally and may be subject to the most significant adjustments at year end include intangible assets, deferred income taxes (given that tax returns are still not available) and other liabilities. If adjustments are necessary, the provisional amounts recognized will be adjusted retrospectively to reflect new information obtained about facts and circumstances existing at the acquisition date. These adjustments may affect the amount of gain on business acquisition of $31.7 million recorded during the three-month period ended April 30, 2012. The Corporation will finalize the initial recognition of business combinations by the end of fiscal 2012.

The Consolidated Statement of Income (Loss) of the Corporation for the six-month period ended April 30, 2012 includes the operating results of the acquired businesses since their acquisition date, including supplementary revenues of approximately $33.0 million, operating income before amortization of $0.7 million, and transaction costs of approximately $0.7 million. The pro forma results have not been presented because the Corporation did not have the information on the date of issue of these interim consolidated financial statements. The fair value of trade receivables acquired of $43.7 million, of which $5.5 million is considered uncollectible at the time of acquisition, is included in the current assets in the initial accounting for business combinations.

(in millions of Canadian dollars, except per share data)

18 COMMITMENTS

Following the acquisition of the shares of Quad/Graphics Canada, Inc., the Corporation is commited, under various leases of premises, to make payments until 2022. Minimum payments required over the following years for these commitments are as follows:

	Less than 1 year	1 - 5 years	More than 5 years	Total
Premises lease contracts	$ 5.4	$ 21.9	$ 21.5	$ 48.7

19 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 and six-month periods ended April 30, 2012 and 2011 was negligible compared to the Corporation's consolidated revenues. It is the same for amounts receivable from these joint ventures as at April 30, 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-month and six-month periods ended April 30:

	Three months ended April 30		Six months ended April 30	
	2012	2011	**2012**	2011
Salaries and other short-term employee benefits	**$ 2.0**	$ 2.7	**$ 3.9**	$ 5.4
Post-employment benefits	**0.3**	0.4	**0.5**	0.8
Stock-based compensation	**0.4**	(0.1)	**1.2**	1.3
	$ 2.7	$ 3.0	**$ 5.6**	$ 7.5

20 SEGMENT REPORTING

On November 1, 2011, the Corporation implemented a new operating structure, combining the majority of 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 organizations. For their part, digital printing activities established in the United States will complete the product offering of the Printing Sector. Comparative data have therefore 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 publishing, distribution, database 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 the carrying amount.

(in millions of Canadian dollars, except per share data)

20 SEGMENT REPORTING (CONTINUED)

The Consolidated Statements of Income (Loss) for the three-month and six-month periods ended April 30 include the following components (by segment):

	Three months ended April 30		Six months ended April 30	
Operating segments	**2012**	2011	**2012**	2011
Revenues				
Printing sector	**$ 378.1**	$ 352.2	**$ 732.4**	$ 726.3
Media sector	**173.6**	171.3	**332.1**	330.5
Other activities and unallocated amounts	**2.1**	2.0	**4.3**	4.1
Inter-segment sales	**(24.4)**	(26.8)	**(43.5)**	(47.4)
	$ 529.4	$ 498.7	**$ 1,025.3**	$ 1,013.5
Operating income (loss) before amortization				
Printing sector	**$ 88.1**	$ 67.0	**$ 152.9**	$ 132.7
Media sector	**(164.9)**	21.8	**(158.6)**	34.3
Other activities and unallocated amounts	**(1.8)**	(2.7)	**(4.3)**	(6.3)
	$ (78.6)	$ 86.1	**$ (10.0)**	$ 160.7
Operating income (loss)				
Printing sector	**$ 66.9**	$ 45.3	**$ 109.8**	$ 87.1
Media sector	**(169.7)**	14.8	**(169.7)**	20.8
Other activities and unallocated amounts	**(4.1)**	(4.0)	**(7.3)**	(8.2)
	$ (106.9)	$ 56.1	**$ (67.2)**	$ 99.7
Acquisitions of non-current assets (1)				
Printing sector	**$ 6.7**	$ 6.7	**$ 16.7**	$ 13.4
Media sector	**7.8**	5.4	**18.1**	13.6
Other activities and unallocated amounts	**1.7**	1.1	**1.9**	1.3
	$ 16.2	$ 13.2	**$ 36.7**	$ 28.3

(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.

Amortization of property, plant and equipment and intangible assets				
Printing sector	**$ 21.7**	$ 22.6	**$ 43.1**	$ 46.1
Media sector	**5.0**	6.1	**11.1**	12.3
Other activities and unallocated amounts	**1.6**	1.3	**3.0**	2.6
	$ 28.3	$ 30.0	**$ 57.2**	$ 61.0
Impairment of assets				
Printing sector	**$ -**	$ -	**$ 0.8**	$ 3.5
Media sector	**180.0**	-	**180.0**	-
	$ 180.0	$ -	**$ 180.8**	$ 3.5

(in millions of Canadian dollars, except per share data)

20 SEGMENT REPORTING (CONTINUED)

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

Operating segments		As at April 30, 2012		As at October 31, 2011
Assets				
Printing sector	**$**	**1,383.3**	$	1,234.8
Media sector		**754.4**		928.7
Other activities and unallocated amounts		**112.0**		201.6
	$	**2,249.7**	$	2,365.1

The Corporation's revenues by main products and services for the three-month and six-month periods ended April 30 were as follows:

	Three months ended April 30				Six months ended April 30			
		2012		2011		**2012**		2011
Main products and services								
Printed products	**$**	**353.1**	$	326.5	**$**	**688.9**	$	681.7
Publishing products		**104.4**		102.8		**200.2**		198.3
Digital and interactive products		**38.1**		33.9		**67.1**		62.4
Other products and services		**33.8**		35.5		**69.1**		71.1
	$	**529.4**	$	498.7	**$**	**1,025.3**	$	1,013.5

21 TRANSITION TO IFRS

These interim consolidated financial statements have been prepared in accordance with IFRS, as described in Note 2, "Significant accounting policies".

The Corporation's date of transition to IFRS was 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, "Significant accounting policies", 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. Descriptions of the optional exemptions and mandatory exceptions applicable to the Corporation, as well as the Corporation's elections, are presented in Note 19, "Transition to IFRS", to the interim consolidated financial statements for the three-month period ended January 31, 2012. This note also presents a reconciliation, between GAAP and IFRS, of financial position and equity as at November 1, 2010 and as at October 31, 2011, as well as a reconciliation of the consolidated statements of income, comprehensive income and cash flows for the year ended October 31, 2011.

Reconciliation of Canadian GAAP and IFRS

The following tables present the effect of adjustments made by the Corporation in order to restate the consolidated financial statements under Canadian GAAP as at April 30, 2011, and for the three-month and six-month periods ended as at that date. Explanations regarding the restatement in IFRS of the consolidated financial statements under Canadian GAAP are provided in the section that follows the tables.

a) Reconciliation of equity

	Notes		As at April 31, 2011
Equity in accordance with Canadian GAAP		$	1,282.8
IFRS adjustments:			
Employee benefits	B		(30.5)
Borrowing costs	C		(12.4)
Deemed cost	D		(96.2)
Income taxes	E		14.4
Tax effect of all restatements	F		42.2
Other	G		(6.2)
			(88.7)
Non-controlling interests	A		0.8
Equity in accordance with IFRS		$	1,194.9

21 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 April 30, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Revenues		$ 498.7	$ -	$ 498.7
Operating expenses	G	408.6	(0.1)	408.5
Restructuring, integration and acquisition costs		4.1	-	4.1
Operating income before amortization		86.0	0.1	86.1
Amortization	C, D, E, G	29.8	0.2	30.0
Operating income		56.2	(0.1)	56.1
Financial expenses		14.5	-	14.5
Income before income taxes		41.7	(0.1)	41.6
Income taxes	F	7.2	0.2	7.4
Non-controlling interests	A	0.5	(0.5)	-
Net income from continuing operations		34.0	0.2	34.2
Net income from discontinued operations		0.7	-	0.7
Net income		34.7	0.2	34.9
Non-controlling interests	A	-	0.5	0.5
Net income attributable to shareholders of the Corporation		34.7	(0.3)	34.4
Dividends on preferred shares, net of related taxes		1.7	-	1.7
Net income attributable to participating shares		$ 33.0	$ (0.3)	$ 32.7
Net income		$ 34.7	$ 0.2	$ 34.9
Other comprehensive loss	B, C, D, F	(4.8)	(5.8)	(10.6)
Comprehensive income		$ 29.9	$ (5.6)	$ 24.3
Net income per participating share - basic and diluted				
Continuing operations		$ 0.40	$ -	$ 0.40
Discontinued operations		0.01	-	0.01
		$ 0.41	$ -	$ 0.41
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

21 TRANSITION TO IFRS (CONTINUED)

Consolidated Statement of Income and Comprehensive Income for the six-month period ended April 30, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Revenues		$ 1,013.5	$ -	$ 1,013.5
Operating expenses	G	843.8	(0.2)	843.6
Restructuring, integration and acquisition costs		5.7	-	5.7
Impairment of assets		3.5	-	3.5
Operating income before amortization		160.5	0.2	160.7
Amortization	C, D, E, G	60.5	0.5	61.0
Operating income		100.0	(0.3)	99.7
Financial expenses		25.3	-	25.3
Income before income taxes		74.7	(0.3)	74.4
Income taxes	F	12.6	0.5	13.1
Non-controlling interests	A	0.8	(0.8)	-
Net income from continuing operations		61.3	-	61.3
Net income from discontinued operations		1.3	-	1.3
Net income		62.6	-	62.6
Non-controlling interests	A	-	0.8	0.8
Net income attributable to shareholders of the Corporation		62.6	(0.8)	61.8
Dividends on preferred shares, net of related taxes		3.4	-	3.4
Net income attributable to participating shares		$ 59.2	$ (0.8)	$ 58.4
Net income		$ 62.6	$ -	$ 62.6
Other comprehensive income (loss)	B, C, D, F	(6.1)	11.5	5.4
Comprehensive income		$ 56.5	$ 11.5	$ 68.0
Net income per participating share - basic and diluted				
Continuing operations		$ 0.71	$ (0.01)	$ 0.70
Discontinued operations		0.02	-	0.02
		$ 0.73	$ (0.01)	$ 0.72
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

(in millions of Canadian dollars, except per share data)

21 TRANSITION TO IFRS (CONTINUED)

c) Reconciliation of cash flows

Summary Consolidated Statement of Cash Flows for the three-month period ended April 30, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Cash flows from operating activities	A, D, E, F, G	$ 57.8	$ 9.6	$ 67.4
Cash flows from investing activities	G	(13.9)	2.2	(11.7)
Cash flows from financing activities	A, G	(86.6)	(11.8)	(98.4)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(0.5)	-	(0.5)
Decrease in cash and cash equivalents		(43.2)	-	(43.2)
Cash and cash equivalents at beginning of period		42.5	-	42.5
Cash and cash equivalents (bank overdraft) at end of period		$ (0.7)	$ -	$ (0.7)

Summary Consolidated Statement of Cash Flows for the six-month period ended April 30, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Cash flows from operating activities	A, D, E, F, G	$ 111.8	$ 17.8	$ 129.6
Cash flows from investing activities	G	(44.8)	2.6	(42.2)
Cash flows from financing activities	A, G	(103.2)	(20.4)	(123.6)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(0.8)	-	(0.8)
Decrease in cash and cash equivalents		(37.0)	-	(37.0)
Cash and cash equivalents at beginning of year		36.3	-	36.3
Cash and cash equivalents (bank overdraft) at end of period		$ (0.7)	$ -	$ (0.7)

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 for the three-month and six-month periods ended April 30, 2011, following application of IFRS.

A) Reclassifications

i) 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 in the Consolidated Statement of Income. 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 of Income, as net income attributable to non-controlling interests.

Consequently, an amount of $0.8 million was reclassified to equity as at April 30, 2011.

ii) Financial expenses on long-term debt

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

Consequently, $11.8 million and $20.4 million were reclassified in financing activities in the Consolidated Statement of Cash Flows for the three-month and six-month periods ended April 30, 2011, respectively.

21 TRANSITION TO IFRS (CONTINUED)

B) Employee benefits

IAS 19, "Employee Benefits", requires measuring actuarial gains and losses of defined benefit plans in accordance with IFRS from the commencement of the plans until the date of transition. IFRS 1 permits the recognition of 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. For subsequent periods, the actuarial gains and losses are no longer amortized in the Consolidated Statement of Income, rather they are recognized directly in other comprehensive income.

The effect of this exemption has been a $30.5 million decrease in equity as at April 30, 2011. The reversal of cumulative unamortized actuarial gains and losses, recognized in the three-month period ended April 30, 2011, has resulted in a decrease to other assets of $1.3 million, an increase to other liabilities of $9.8 million and the effect, net of deferred income taxes, has affected the accumulated other comprehensive income. The reversal of cumulative unamortized actuarial gains and losses, recorded in the six-month period ended April 30, 2011, has resulted in an increase to other assets of $6.5 million, a decrease to other liabilities of $4.9 million and the effect, net of deferred income taxes, has affected the accumulated other comprehensive income. The reversal of unamortized actuarial gains and losses has had a negligible effect on the Consolidated Statements of Income for the three-month and six-month periods ended April 30, 2011.

C) 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 a date prior to 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. For subsequent periods, the effect on the Consolidated Statement of Income is a reduction of the amortization expense.

The effect of this exemption has been a $12.4 million decrease in equity as at April 30, 2011. The effect of this exemption for the three-month period ended April 30, 2011 has been a $0.2 million decrease in amortization expense and a $0.3 million increase in cumulative translation differences in the Consolidated Statement of Financial Position. The effect of this exemption for the six-month period ended April 30, 2011 has been a $0.5 million decrease in amortization expense and a $0.3 million increase in cumulative translation differences in the Consolidated Statement of Financial Position.

D) 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 amortization calculated based on this amount. The Corporation has elected to apply this exemption to certain items of property, plant and equipment on the date of transition. For subsequent periods, the effect on the Consolidated Statement of Income is a reduction of the amortization expense.

The effect of this exemption has been a $96.2 million decrease in equity as at April 30, 2011. The effect of this exemption for the three-month period ended April 30, 2011 has been a $0.9 million decrease in amortization expense and a $3.3 million increase in cumulative translation differences in the Consolidated Statement of Financial Position. The effect of this exemption for the six-month period ended April 30, 2011 has been a $1.8 million decrease in amortization expense and a $4.4 million increase in cumulative translation differences in the Consolidated Statement of Financial Position.

E) Income taxes

Under IFRS, a deferred income tax asset must be recognized for all taxable temporary differences, except if the deferred income tax asset arises from the initial recognition of an asset or a liability in a transaction that, at the time of the transaction, affects neither accounting income nor taxable income. The effect of this restatement was a $14.4 million increase in equity as at April 30, 2011. The effect of this restatement for the three-month and six-month periods ended April 30, 2011 was a $1.0 million increase and a $1.9 million increase, respectively, in amortization expense.

Under Canadian GAAP and IFRS, deferred income taxes are calculated based on temporary differences between the tax basis of an asset or liability and its carrying value on 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, such that 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 a business combination. The effect of this restatement on the date of transition resulted in increases in the deferred tax assets and liabilities related to certain intangible assets of $0.6 million and $3.9 million, respectively, with corresponding amounts recorded in retained earnings. This restatement had no other effect on the consolidated financial statements for the three-month and six-month periods ended April 30, 2011.

21 TRANSITION TO IFRS (CONTINUED)

F) Tax effect of all restatements

The tax effect of all these restatements has been a $42.2 million increase in equity as at April 30, 2011. The effect of all these restatements u**nder IFRS** for the three-month period ended April 30, 2011 has resulted in a $0.1 million decrease in income before income taxes and the tax effect of all these restatements has resulted in the recognition of additional income taxes of $0.2 million. The effect of all these restatements under IFRS for the six-month period ended April 30, 2011 has resulted in a $0.3 million decrease in income before income taxes and the tax effect of all these restatements has resulted in the recognition of additional income taxes of $0.5 million.

G) Other

The other adjustments are related to various items whose individual and total effects on the Corporation's consolidated financial statements for the three-month and six-month periods ended April 30, 2011 have been negligible.