transcontinental

PRESS RELEASE

For Immediate Release

TRANSCONTINENTAL'S FIRST QUARTER: REVENUES UP 4% WITH ORGANIC GROWTH GENERATED IN ALL THREE SECTORS

Highlights

(in millions of dollars, except per share data)	Q1-2011	Q1-2010	%
Revenues	530.1	511.6	4%
Adjusted operating income	49.8	47.3	5%
Adjusted net income applicable to participating shares	$29.9	$27.1	10%
Per share	$0.37	$0.34	9%
Net income applicable to participating shares	26.2	26.2	-%
Per share	$0.32	$0.32	-%

- Concluded an agreement with Canadian Tire, worth several hundred million dollars, starting in January 2012
- Launched new digital products and services in its Media and Interactive sectors
- Optimized its debt portfolio and increased its financial flexibility
- Released its second Sustainability Report

Montreal, March 9, 2011 – Transcontinental's revenues increased 4% in the first quarter of 2011, from $511.6 million to $530.1 million. This increase was primarily due to a number of new printing contracts, including the impact from the expanded relationship with *The Globe and Mail*, as well as an increase in volume from its Local Solutions Group, which includes its distribution and newspaper publishing operations. Excluding acquisitions, divestitures and closures, the impact of the exchange rate and the paper component variance, organic revenue growth was 3%, with all three sectors contributing. Similarly, adjusted operating income increased 5%, from $47.3 million to $49.8 million, representing the 7th consecutive quarter of year over year growth, while the adjusted operating income margin increased from 9.2% to 9.4%. This increase was mainly due to the contribution from new contracts and continued efficiency improvement initiatives in the Printing sector, partially compensated by continued strategic investments in the Media and Interactive sectors. Net income applicable to participating shares was stable at $26.2 million or $0.32 per share as impairment of assets and restructuring costs were higher than in the first quarter last year. Excluding these unusual items, adjusted net income applicable to participating shares increased 10%, from $27.1 million to $29.9 million. On a per share basis it increased 9% from $0.34 to $0.37. In addition, Transcontinental improved its financial condition by optimizing its debt portfolio, increasing its financial flexibility and reducing its capital expenditures.

"Our first quarter results continue to reflect the execution of our strategy: strengthening our existing assets and developing new digital products and services." said Francois Olivier, President and Chief Executive Officer. "Our Printing sector is reaping the benefits from our recent investments by leveraging its most productive assets to gain synergies as well as market share. The new Canadian Tire win is one example of this. Our Media and Interactive sectors, for their part, are continuing to make strategic investments in the digital area. The launch of our group buy websites LaMegaPrise.com and TheMegaCatch.com, our web site design services as well as Search Engine Marketing services, for small and medium-sized businesses, are just a few examples of this." said Mr. Olivier. "I am very pleased with our first quarter results, especially the organic revenue growth we were able to generate, and look forward to the future with confidence as we are responding to our customers' evolving needs." concluded Mr. Olivier.

Other Financial Highlights

- Free cash flow from operations increased significantly as cash flow from operations, before changes in non-cash operating items, increased 9%, from $64.5 million to $70.2 million and capital expenditures decreased, from $62.7 million to $20.7 million.

- As at January 31, 2011, the ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization was 1.78x, as compared to 1.82x as at October 31, 2010 and 2.40x as at January 31, 2010. The ratio of net indebtedness to operating income before amortization is slightly above the target of 1.5x set by management. Over the next few quarters, it should get closer to the target given the expected increase in cash flow generation and reduction in capital expenditures.

- In the past few months, Transcontinental improved its financial flexibility and optimized its debt portfolio. On December 21, 2010, Standard & Poor's raised Transcontinental's credit rating from BBB- (stable) to BBB (stable) reflecting the continued improvement in Transcontinental's financial position and prospects. In addition, after the end of the quarter, Transcontinental prepaid and cancelled its $100 million term credit facility with Caisse de dépôt et placement du Québec. To increase its financial flexibility, Transcontinental also set up a new two-year $200 million securitization program with a Canadian bank, however it does not believe it will use this program in the near term.

For more detailed financial information, please see *Management's Discussion and Analysis for the First Quarter Ended January 31, 2011* at www.transcontinental.com, under "Investors."

Operating Highlights

- Transcontinental concluded a four-year agreement with Canadian Tire, worth several hundred million dollars, starting in January 2012. This new agreement expands services to cover Canadian Tire's flyer printing needs on a national scale, for all of its banners, and the printing of marketing materials as well as distribution service in Eastern Canada. In addition, Canadian Tire will be able to draw on Transcontinental's other services, such as data analytics, Canada-wide distribution, e-

flyer production, direct marketing programs via print, mobile and email channels, and advertising campaigns in Transcontinental's consumer magazines, newspapers and media websites. This new agreement will add about $30 to $40 million in incremental revenues on an annual basis and makes Transcontinental Canadian Tire's leading provider of marketing solutions across Canada.

- Transcontinental continued to invest in new digital products and services in its Media and Interactive sectors. It recently launched Search Engine Marketing (SEM) services and web site design services for its small and medium-sized business customers in local communities. It also acquired Vortex, a leading provider of integrated mobile solutions located in Toronto and developed the first mobile portal for Quebec's job seekers for Tele-Ressources.

- Transcontinental launched its second 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, an improvement over Level C received last year. The 2010 Sustainability Report includes the results from stakeholder engagement initiatives as well as the elaboration of objectives and targets. The full web report, a downloadable pdf as well as a highlights brochure are all available at www.transcontinental-ecodev.com.

Reconciliation of Non-GAAP Financial Measures

Financial data have been prepared in conformity with Canadian Generally Accepted Accounting Principles (GAAP). However, certain measures used in this press release do not have any standardized meaning under GAAP and could be calculated differently by other companies. The Corporation believes that certain non-GAAP financial measures, when presented in conjunction with comparable GAAP financial measures, are useful to investors and other readers because that information is an appropriate measure for evaluating the Corporation's operating performance. Internally, the Corporation uses this non-GAAP 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 GAAP.

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

Reconciliation of Non-GAAP financial measures
For first quarters ended January 31
(unaudited)

(in millions of dollars, except per share amounts)		2011		2010
Net income applicable to participating shares	$	26.2	$	26.2
Dividends on preferred shares		1.7		1.7
Net loss related to discontinued operations (after tax)		-		1.8
Non-controlling interest		0.3		0.3
Income taxes		5.7		4.8
Discount on sale of accounts receivable		-		0.6
Financial expenses		10.8		10.0
Impairment of assets and restructuring costs		5.1		1.9
Adjusted operating income	$	49.8	$	47.3
Net income applicable to participating shares	$	26.2	$	26.2
Net loss related to discontinued operations (after tax)		-		1.8
Impairment of assets and restructuring costs (after tax)		3.7		1.5
Unusual adjustments to income taxes		-		(2.4)
Adjusted net income applicable to participating shares	$	29.9	$	27.1
Average number of participating shares outstanding		81.0		80.8
Adjusted net income applicable to participating shares per share	$	0.37	$	0.34
Cash flow related to continuing operations	$	54.0	$	56.6
Changes in non-cash operating items		(16.2)		(7.9)
Cash flow from continuing operations before changes in non-cash operating items	$	70.2	$	64.5

Dividend

At its March 9, 2011 meeting, the Corporation's Board of Directors declared a quarterly dividend of $0.11 per Class A Subordinate Voting Shares and Class B shares. This dividend is payable on April 21, 2011 to participating shareholders of record at the close of business on April 4, 2011. On an annual basis, this represents a dividend of $0.44 per participating share.

Furthermore, at the same meeting, the Board also declared a quarterly dividend of $0.4161 per share on cumulative 5-year rate reset first preferred shares, series D. This dividend is payable on April 15, 2011. On an annual basis, this represents a dividend of $1.6875 per preferred share.

Additional Information

Upon releasing its quarterly results, Transcontinental will hold a conference call for the financial community today at 4:15 p.m. (ET). 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 Transcontinental, at 514-954-2809.

Profile

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 Mexico, and fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces, it is also one of Canada's top media groups. In addition, its digital platforms deliver unique content through more than 250 websites. Transcontinental also offers interactive marketing products and services that use new communications platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental (TSX: TCL.A, TCL.B, TCL.PR.D) has 10,500 employees in Canada, the United States and Mexico, and reported revenues of C$2.1 billion in 2010. For more information about the Corporation, please visit www.transcontinental.com.

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 implement its strategic plan and rationalization plan, engage in strategic transactions and integrate acquisitions into its activities. The risks, uncertainties and other factors that could influence actual results are described in the *Management's Discussion and Analysis* and *Annual Information Form*.

The forward-looking information in this release is based on current expectations and information available as at March 9, 2011. 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 first quarter ended January 31, 2011

The purpose of this Management's Discussion and Analysis is to explain management's point of view on Transcontinental's past performance and future outlook. More specifically, it outlines 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. It should therefore be read in conjunction with those documents. This Management's Discussion and Analysis is dated March 9, 2011.

In this document, unless otherwise indicated, all financial data are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All amounts are in Canadian dollars, and the term "dollar", as well as the symbols "$" and "C$", designate Canadian dollars unless otherwise indicated. In this Management's Discussion and Analysis we also use non-GAAP financial measures. Please refer to the section of this report entitled "Reconciliation of Non-GAAP Financial Measures" for a complete description of these measures, on page 11.

The consolidated financial statements include the accounts of the Corporation and those of its subsidiaries, joint ventures and variable interest entities for which the Corporation is the principal beneficiary. Business acquisitions are accounted for under the acquisition method and the results of operations of these businesses are included in the consolidated financial statements from the acquisition date. Investments in joint ventures are accounted for using the proportionate consolidation method and investments in companies subject to significant influence are accounted for using the equity method. Other investments are recorded at either amortized cost or marked-to-market through comprehensive income depending on their classification as either financial assets held to maturity or available-for sale.

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

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DEFINITIONS 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 operating income before amortization	Operating income from continuing operations before amortization, asset impairment and restructuring costs and impairment of goodwill and intangible assets
Adjusted operating income	Operating income from continuing operations before impairment of assets, restructuring costs and impairment of goodwill and intangible assets
Net income (loss) applicable to participating shares	Net income (loss) minus dividends on preferred shares
Net income (loss) from continuing operations applicable to participating shares	Net income (loss) minus dividends on preferred shares and excluding discontinued operations
Adjusted net income applicable to participating shares	Net income (loss) from continuing operations applicable to participating shares before impairment of assets and restructuring costs, impairment of goodwill and intangible assets, less related income taxes and unusual adjustments to income taxes
Net indebtedness	Total of long-term debt plus current portion of long-term debt plus bank overdraft, less cash and cash equivalents
Organic growth	Growth in revenues or adjusted operating income excluding the effect of acquisitions, divestitures, closures, the exchange rate and paper

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 Canadian, Mexican and United States' economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, more particularly the U.S. dollar, the euro and the Mexican peso; the impact from raw material and energy prices; the seasonal and cyclical nature of certain businesses, notably the book publishing activities, 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 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, 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 the Corporation, 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" for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as of March 9, 2011.

TRANSCONTINENTAL PROFILE

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 Mexico, and fourth largest in North America. As the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces, it is also one of Canada's top media groups. In addition, its digital platforms deliver unique content through more than 250 websites. Transcontinental also offers interactive marketing products and services that use new communications platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental (TSX: TCL.A, TCL.B, TCL.PR.D) has 10,500 employees in Canada, the United States and Mexico, and reported revenues of C$2.1 billion in 2010. For more information about the Corporation, please visit www.transcontinental.com.

SUMMARY OF ACTIVITIES IN FIRST QUARTER 2011

Transcontinental's momentum continued in the first quarter of 2011, with organic growth in revenues and in adjusted operating income versus the same quarter a year earlier. The contribution from new printing contracts and its distribution operations mainly resulted in higher consolidated revenues for the Corporation, which, combined with ongoing efficiency improvements, enabled it to increase its adjusted operating income despite accelerated strategic investments in the Media and Interactive sectors.

The Printing Sector had another excellent quarter marked by gains in market share and further consolidation of its leading position in Canada, stemming from, among other things, recent capital investments. Print volumes rose over first quarter 2010, primarily due to the printing of *The Globe and Mail* on the sector's new Canada-wide hybrid press platform for a first full quarter. This highly flexible state-of-the-art platform will allow the sector to significantly reduce its capital spending going forward. It will also provide more efficient printing, higher quality and optimized use of equipment.

In the first quarter, the Media Sector continued its recent strategic investments, such as its online advertising representation agency and the launch of newspapers; it also accelerated its investments in other projects such as weblocal.ca. These investments mainly benefited the Local Solutions Group, with revenues up more than 5% despite intensified competition in some niches. Advertising spending by national retailers was relatively stable during the quarter, but given efficiency gains, adjusted operating income for the Business and Consumer Solutions Group was higher than that of first quarter 2010.

In early fiscal 2011, the Corporation announced that its Marketing Communications Sector had changed its name to the Interactive Sector. The name change shows the sector's commitment to becoming a leader in interactive marketing solutions and to further integrating the acquisitions made in recent years. Now under the umbrella of Transcontinental Interactive, these entities will be in a better position to join forces and provide customers with integrated marketing services, data analytics, premedia, online direct marketing, one-to-one marketing, mobile marketing and custom communications, as well as digital printing of marketing products. Similarly, on November 1, 2010, the Corporation acquired Vortxt Interactive, a Canadian leader in mobile solutions, to further enhance its interactive marketing solutions offering. This acquisition complements the 2010 acquisition of LIPSO, which designs and deploys marketing campaigns on mobile and new media platforms. In the first quarter of 2011, this sector continued its strategic investments in order to enhance its integrated offering of interactive marketing services.

Transcontinental improved its financial position for the seventh consecutive quarter, lowering its debt levels and steadily increasing its profitability. Standard & Poor's credit rating agency acknowledged the Corporation's improved financial situation by raising its credit rating from BBB- (stable) to BBB (stable) due to the Corporation's continued improvement in its risk profile. The Corporation's net indebtedness ratio (including use of the securitization program) was 1.78 as at January 31, 2011 compared to 2.40 and 3.25 at the same date, respectively, in 2010 and 2009. This major improvement stems mainly from the sale of almost all our direct mail operations in the United States, the effective rationalization measures implemented in 2008 and 2009, the return on recent investments and new contracts.

HIGHLIGHTS OF FIRST QUARTER 2011

- First quarter 2011 revenues were up 3.6% compared to the same quarter in 2010, from $511.6 million to $530.1 million. Excluding divestitures or closures of publications and plants, the exchange rate effect, the paper effect and business acquisitions made in fiscal 2010, revenues would have risen 3.2%.
- Adjusted operating income rose by 5.3% from $47.3 million in the first quarter of fiscal 2010 to $49.8 million in 2011. As a result, operating income margin also rose, from 9.2% to 9.4%. The increase is mainly due to continuous improvement, which has made our production equipment more efficient, and to higher print volume, partially offset by further strategic investments in the Media and Interactive sectors. With respect to organic growth, adjusted operating income grew 10.1%, primarily from new printing contracts and increased performance from its distribution business in Quebec.
- Net income applicable to participating shares remained stable at $26.2 million, mainly due to an increase in adjusted operating income and a decrease in the net loss from discontinued operations, offset by an increase in impairment of assets, restructuring costs and income taxes. On a per-share basis, it stood at $0.32.
- Adjusted net income applicable to participating shares rose by $2.8 million, or 10.3%, from $27.1 million in 2010 to $29.9 million in 2011. On a per-share basis, it rose from $0.34 to $0.37.
- On December 8, 2010, the Corporation announced that it had increased its quarterly dividend per share for its Class A and Class B shares by 22.2%, from $0.09 to $0.11.

STRATEGY

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010.*

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010* and our second sustainability report *Connecting Words to Actions*, prepared in accordance with Global Reporting Initiative (GRI) standards, at www.transcontinental.com.

SELECTED FINANCIAL DATA

For first quarters ended January 31
(unaudited)

(in millions of dollars, except per share data)

	2011	2010	Variation in %
Operations			
Revenues	$ 530.1	$ 511.6	4%
Adjusted operating income before amortization [1]	82.0	81.1	1%
Operating income	44.7	45.4	-2%
Adjusted operating income [1]	49.8	47.3	5%
Net income applicable to participating shares	26.2	26.2	0%
Adjusted net income applicable to participating shares [1]	29.9	27.1	10%
Cash flow from operating activities before changes in non-cash operating items [1]	70.2	64.5	9%
Cash flow related to operating activities of continuing operations	54.0	56.6	-5%
Investments			
Acquisitions of property, plant and equipment	20.7	62.7	-67%
Business acquisitions [2]	4.8	0.6	n/a
Per share data (basic)			
Net income applicable to participating shares	0.32	0.32	0%
Adjusted net income applicable to participating shares [1]	0.37	0.34	9%
Cash flow from operating activities before changes in non-cash operating items [1]	0.87	0.80	9%
Cash flow related to operating activities of continuing operations	0.67	0.70	-4%
Dividends on participating shares	0.11	0.08	38%
Average number of participating shares outstanding (in millions)	81.0	80.8	

	As at January 31 2011	As at October 31 2011	As at January 31 2010 [3]
Financial condition			
Total assets	$ 2,528.6	$ 2,594.7	$ 2,518.2
Net indebtedness [1]	680.3	694.4	804.1
Shareholders' equity	1,263.3	1,247.0	1,130.5
Net indebtedness (including utilization of securitization program) / adjusted operating income before amortization	1.78	1.82	2.40
Shareholders' equity per participating share	$ 14.36	$ 14.16	$ 12.75
Number of participating shares at end of period (in millions)	81.0	81.0	80.8

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

[2] Total consideration in cash or otherwise for businesses acquired through the purchase of shares or assets.

[3] As initially reported.

DETAILED ANALYSIS OF FIRST QUARTER 2011 OPERATING RESULTS

Analysis of Main Variances – Consolidated Results
For the first quarter ended January 31, 2011
(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income applicable to participating shares	%
Results - First Quarter 2010	**$ 511.6**		**$ 47.3**		**$ 26.2**	
Acquisitions/Divestitures/Closures	(6.2)	(1.2) %	(1.8)	(3.8) %	(1.4)	(5.3)
Discontinued operations	-	- %	-	- %	1.8	6.9
Existing operations						
Paper effect	10.2	2.0 %	(0.3)	(0.6) %	(0.2)	(0.8)
Exchange rate	(1.7)	(0.3) %	(0.2)	(0.4) %	(0.7)	(2.7)
Organic growth	16.2	3.2 %	4.8	10.1 %	5.2	19.8
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	- %	-	- %	(4.7)	(17.9)
Results - First Quarter 2011	**$ 530.1**	**3.6 %**	**$ 49.8**	**5.3 %**	**$ 26.2**	**-**

As shown in the above table, a number of factors contributed to the variation between results in first quarter 2011 and first quarter 2010.

- The net effect of acquisitions, divestitures and closures reduced revenues by $6.2 million and adjusted operating income by $1.8 million. Net of financial expenses and income taxes, the negative impact on net income was $1.4 million. The reduction stems mainly from the closure of the Boucherville and Moncton plants in the Printing Sector in first quarter 2011.

- The paper effect had a $10.2 million positive impact on revenues. This effect includes variations in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for our printing operations, these elements affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had a negative effect of $0.3 million on adjusted operating income and $0.2 million on net income.

- The variations in the exchange rate between the Canadian dollar and its U.S. and Mexican counterparts had a slight impact on first quarter 2011 results, resulting in a $1.7 million decrease in revenues and a $0.2 million decrease in adjusted operating income. In first quarter 2011, the relative impact of the exchange rate stemmed mainly from the variation in the exchange rate between the Canadian and U.S. dollars. The negative variation in average exchange rates in first quarter 2011 versus first quarter 2010 was 4.6% for the CAD/USD and was stable for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of about $1.5 million. The negative impact of export sales, net of the currency hedging program, was $0.2 million. The conversion of results for the U.S. and Mexican units had a negative impact of $0.2 million on adjusted operating income. The negative impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was $1.2 million on adjusted operating income. Finally, the positive impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was $1.2 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net negative effect was $0.7 million.

- Positive organic growth in revenues amounted to $16.2 million, or 3.2% in first quarter 2011. The increase stems largely from the contribution of new contracts in the Printing Sector's Newspaper and Retail groups and to increased revenues in the Local Solutions Group, mainly related to its distribution operations.

- Positive organic growth in adjusted operating income was $4.8 million, or 10.1%, in first quarter 2011, mainly due to continuous improvement in printing operations and the contribution from new printing contracts. However, these elements were partially offset by the acceleration of strategic investments in the Media and Interactive sectors aimed at further developing the digital solutions and interactive marketing services offering.

Impairment of Assets and Restructuring Costs

In first quarter 2011, an amount of $5.1 million before tax ($3.7 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $3.5 million is due to asset impairment in the Printing Sector.

In first quarter 2010, an amount of $1.9 million before tax ($1.5 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Most of that amount is due to workforce reduction costs and equipment transfers in the Printing Sector.

Financial Expenses and Discount on Sale of Accounts Receivable

Combined, financial expenses and discount on sale of accounts receivable increased by $0.2 million, or 1.9%, from $10.6 million in first quarter 2010 to $10.8 million in first quarter 2011. The increase was stemmed mainly from the capitalization of higher financial expenses in 2010, mainly related to the project to print *The Globe and Mail* newspaper, partially offset by lower net indebtedness (including use of the securitization program) versus 2010.

Income Taxes

Income taxes increased by $0.9 million, from $4.8 million in first quarter 2010 to $5.7 million in first quarter 2011. Excluding income taxes on impairment of assets and restructuring costs and unusual adjustments to income taxes, income taxes would have been $7.1 million, with an income tax rate of 18.2%, compared to $7.6 million, or 20.7%, in first quarter 2010. This decrease is due to, among other factors, the change in the geographic distribution of pre-tax earnings.

Discontinued Operations

In first quarter 2010, the Corporation reported a net loss from its discontinued operations of $1.8 million, net of related income taxes. This loss is related to the sale of almost all its direct mail operations in the United States.

Net Income Applicable to Participating Shares

Net income applicable to participating shares remained stable at $26.2 million. This was primarily due to an increase in adjusted operating income and a decrease in the net loss related to discontinued operations, offset by an increase in asset impairment, restructuring costs and income taxes. On a per-share basis, net income applicable to participating shares remained stable at $0.32.

Adjusted net income applicable to participating shares rose by $2.8 million, or 10.3%, from $27.1 million in first quarter 2010 to $29.9 million in first quarter 2011, mainly due to an increase in adjusted operating income. On a per-share basis, it rose $0.03, from $0.34 to $0.37.

REVIEW OF OPERATING SECTORS FOR FIRST QUARTER 2011

Analysis of Main Variances – Sector Results
For the first quarter ended January 31, 2011
(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Interactive Sector	Inter-segment and Other Results	Consolidated Results
Revenues - First Quarter 2010	**$ 362.5**	**$ 135.7**	**$ 30.3**	**$ (16.9)**	**$ 511.6**
Acquisitions/Divestitures/Closures	(6.6)	(0.5)	0.9	-	(6.2)
Existing operations					
Paper effect	10.2	-	-	-	10.2
Exchange rate effect	(1.1)	-	(0.6)	-	(1.7)
Organic growth (negative)	13.2	4.0	0.6	(1.6)	16.2
Revenues - First Quarter 2011	**$ 378.2**	**$ 139.2**	**$ 31.2**	**$ (18.5)**	**$ 530.1**
Adjusted operating income (loss) - First Quarter 2010	**$ 40.3**	**$ 12.0**	**$ 0.2**	**$ (5.2)**	**$ 47.3**
Acquisitions/Divestitures/Closures	(0.8)	(0.2)	(0.8)	-	(1.8)
Existing operations					
Paper effect	-	(0.3)	-	-	(0.3)
Exchange rate effect	-	-	(0.2)	-	(0.2)
Organic growth (negative)	7.8	(2.3)	(1.3)	0.6	4.8
Adjusted operating income (loss) - First Quarter 2011	**$ 47.3**	**$ 9.2**	**$ (2.1)**	**$ (4.6)**	**$ 49.8**

This review of operating sectors should be read in conjunction with the above table and the information disclosed in (note 14) to the Consolidated Financial Statements for the quarter ended January 31, 2011.

Management believes that adjusted operating income by business segment used in this section is a meaningful measure of its financial performance.

Printing Sector

Printing Sector revenues grew by $15.7 million, or 4.3%, from $362.5 million in first quarter 2010 to $378.2 million in first quarter 2011. Excluding divestitures, closures, the variation in paper prices and the exchange rate, revenues grew $13.2 million, or 3.6%. This organic growth stems mainly from new printing contracts, partially offset by market conditions, which are still having an impact on our magazine, book and catalogue printing operations.

Adjusted operating income rose from $40.3 million in first quarter 2010 to $47.3 million in 2011, up 17.4%. This significant increase also affected the adjusted operating income margin, which rose from 11.1% in first quarter 2010 to 12.5% in first quarter 2011. Excluding divestitures, closures and the exchange rate effect, adjusted operating income rose $7.8 million, or 19.4%. This positive growth in adjusted operating income stems mainly from higher revenues and greater operational efficiency across all groups.

In fiscal 2011, in addition to the contract to print *The Globe and Mail*, the signing of three new contracts for our printing plant in Fremont, California and possible gains in market share will generate additional revenues by the fiscal year end. Also, the new agreement with Canadian Tire concluded after the close of the first quarter will generate $30 million to $40 million per year in additional revenues for the Corporation as a whole starting in January 2012, primarily in the Printing Sector. The Printing Sector will continue to optimize the use of its equipment in order to further consolidate its leading position in Canada.

Media Sector

Media Sector revenues rose from $135.7 million in first quarter 2010 to $139.2 million in first quarter 2011, up $3.5 million or 2.6%. Excluding acquisitions and divestitures of publications, revenues rose $4.0 million or 2.9%.

Positive organic growth in sector revenues in the first quarter of 2011 stemmed mainly from distribution operations in the Local Solutions Group. The strategic investments made in recent quarters to develop and enhance our digital products and services benefited the areas focused on new media and digital solutions, since revenues in these areas were also up.

Adjusted operating income was down $2.8 million, from $12.0 million in first quarter 2010 to $9.2 million in first quarter 2011. Excluding acquisitions, divestitures, closures and the paper effect, it was down $2.3 million. The negative organic growth is mainly the result of ongoing strategic investments in our digital platforms and the launch of new community papers in the Local Solutions Group. This group was also affected by intensified competition in some of its markets, partially offset by higher revenues compared to 2010. In other respects, a change in accounting policies in the Educational Book Publishing Group resulted in lower operating costs of $1.6 million in the quarter. For the above reasons, the adjusted operating income margin in the Media Sector decreased to 6.6% in first quarter 2011, versus 8.8% in first quarter 2010.

In fiscal 2011, the Media Sector will accelerate its strategic investments in its digital and paper platforms, such as weblocal.ca, themegacatch.com and recent community newspaper launches. The Local Solutions Group will feel the impact of some of these investments, as well as increased competition in some of its niches. Through the New Media and Digital Solutions Group, the sector will focus on monetizing its digital offering, including its new online advertising representation agency, to take advantage of new emerging markets.

Interactive Sector

Interactive Sector revenues rose $0.9 million, or 3.0%, from $30.3 million in first quarter 2010 to $31.2 million in first quarter 2011. Recent acquisitions added $0.9 million to revenues in first quarter 2011 compared to 2010. This increase was partially offset by the rise in the Canadian dollar versus its U.S. counterpart, which added a negative impact of $0.6 million compared to 2010. Excluding the impact of acquisitions and the exchange rate, positive organic growth of $0.6 million stemmed mainly from new contracts in the Custom Communications Division and the Premedia Division, partially offset by lower revenues from the One-to-One Marketing Solutions Division.

Adjusted operating income went from $0.2 million in first quarter 2010 to a loss of $2.1 million in first quarter 2011, down $2.3 million. Excluding acquisitions and the exchange rate effect, adjusted operating income was down $1.3 million. This decrease stems mainly from higher costs related to strategic investments to develop the sector's integrated interactive marketing services. Adjusted operating income margin was also down, from 0.7% in first quarter 2010 to minus 6.7% in 2011.

Revenue growth is expected to continue in fiscal 2011, given the recent acquisitions and the initiatives to develop and optimize integrated interactive marketing solutions. With higher revenues, the operating income should also improve; this will however be offset by ongoing strategic investments to further enhance our digital communications platforms.

Inter-Segment and Other Activities

Revenues of inter-segment and other activities went from a negative total of $16.9 million in first quarter 2010 to a negative total of $18.5 million in 2011. The variation is mainly attributable to an increase in inter-segment transactions. Adjusted operating income went from a negative total of $5.2 million in first quarter 2010 to a negative total of $4.6 million in 2011, due mainly to a decrease in corporate costs.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

Financial data have been prepared in conformity with Canadian Generally Accepted Accounting Principles (GAAP). However, certain measures used in this discussion and analysis do not have any standardized meaning under GAAP and could be calculated differently by other companies. The Corporation believes that certain non-GAAP financial measures, when presented in conjunction with comparable GAAP financial measures, are useful to investors and other readers because that information is an appropriate measure for evaluating the Corporation's operating performance. Internally, the Corporation uses this non-GAAP 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 GAAP. Below is a table reconciling GAAP financial measures to non-GAAP financial measures.

For first quarters ended January 31
(unaudited)

(in millions of dollars, except per share amounts)		**2011**		2010	
Net income applicable to participating shares	$	**26.2**	$	26.2	
Dividends on preferred shares		**1.7**		1.7	
Net loss from discontinued operations (after tax)		**-**		1.8	
Non-controlling interest		**0.3**		0.3	
Income taxes		**5.7**		4.8	
Discount on sale of accounts receivable		**-**		0.6	
Financial expenses		**10.8**		10.0	
Impairment of assets and restructuring costs		**5.1**		1.9	
Adjusted operating income	$	**49.8**	$	47.3	
Amortization		**32.2**		33.8	
Adjusted operating income before amortization	$	**82.0**	$	81.1	
Net income applicable to participating shares	$	**26.2**	$	26.2	
Net loss from discontinued operations (after tax)		**-**		1.8	
Impairment of assets and restructuring costs (after tax)		**3.7**		1.5	
Unusual adjustments to income taxes		**-**		(2.4)	
Adjusted net income applicable to participating shares	$	**29.9**	$	27.1	
Average number of participating shares outstanding		**81.0**		80.8	
Adjusted net income applicable to participating shares per share	$	**0.37**	$	0.34	
Cash flow related to continuing operations	$	**54.0**	$	56.6	
Changes in non-cash operating items		**(16.2)**		(7.9)	
Cash flow from continuing operations before changes in non-cash operating items	$	**70.2**	$	64.5	
Long-term debt	$	**706.2**	$	826.4	(1)
Current portion of long-term debt		**16.6**		7.4	(1)
Cash and cash equivalents		**(42.5)**		(29.7)	(1)
Net indebtedness	$	**680.3**	$	804.1	

(1) As initially reported.

SUMMARY OF QUARTERLY RESULTS

Selected Quarterly Financial Results
(unaudited)

	2011	2010				2009			
(in millions of dollars, except per share amounts)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Revenues	**$ 530**	$ 570	$ 500	$ 510	$ 512	$ 570	$ 504	$ 531	$
Adjusted operating income before amortization	**82**	120	90	91	81	120	83	77	
Adjusted operating income margin before amortization	**15.5 %**	21.1 %	18.0 %	17.8 %	15.8 %	21.1 %	16.4 %	14.5 %	
Operating income (loss)	**$ 45**	$ 65	$ 58	$ 56	$ 45	$ 72	$ 47	$ (146)	$
Adjusted operating income	**50**	88	59	58	47	85	53	48	
Adjusted operating income margin	**9.4 %**	15.4 %	11.8 %	11.4 %	9.2 %	14.9 %	10.5 %	9.0 %	
Net income (loss) applicable to participating shares	**$ 26**	$ 45	$ 29	$ 67	$ 26	$ 43	$ 25	$ (144)	$
Per share	**0.32**	0.56	0.35	0.83	0.32	0.54	0.31	(1.79)	
Adjusted net income applicable to participating shares	**30**	63	34	34	27	53	31	30	
Per share	**0.37**	0.77	0.43	0.42	0.34	0.65	0.39	0.37	
% of fiscal year	**- %**	40 %	22 %	21 %	17 %	39 %	24 %	22 %	

The table above shows the evolution of the Corporation's quarterly results. With respect to adjusted operating income before amortization, the rationalization measures implemented in 2009 limited the impact of the slowdown on earnings starting in the third quarter of fiscal 2009. From the third quarter of 2010, adjusted operating income before amortization stabilized, due to the limited impact of the rationalization measures implemented in 2009, partially offset by the contribution from new contracts and continuous improvement in operations. The fourth quarter is higher than the others since advertising spending is generally higher in the fall; also it is the peak period for book printing and for our educational book publishing segment.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Principal Cash Flows and Financial Condition
For quarters ended January 31
(unaudited)

(in millions of dollars)	2011	2010
Operating activities		
Cash flow from continuing operations before changes in non-cash operating items	$ 70.2	$ 64.5
Changes in non-cash operating items	(16.2)	(7.9)
Cash flow related to operating activities of continuing operations	54.0	56.6
Investing activities		
Business acquisitions, net of disposals	(4.8)	(0.6)
Acquisitions of property, plant and equipment, net of disposals	(20.6)	(61.9)
Other	(5.5)	(3.2)
Cash flow related to investing activities of continuing operations	(30.9)	(65.7)
Financing activities		
Increase in long-term debt	-	32.9
Reimbursement of long-term debt	(7.3)	(5.1)
Decrease (increase) in revolving term credit facility	7.2	(12.7)
Dividends on participating shares	(8.9)	(6.5)
Dividends on preferred shares	(1.7)	(1.9)
Bond forward	(6.0)	-
Other	0.1	(0.6)
Cash flow related to financing activities of continuing operations	(16.6)	6.1
Other relevant information		
Net indebtedness	680.3	804.1 (1)
Shareholders' equity	1,263.3	1,247.0 (1)
Net indebtedness (including usage of the securitization program) / adjusted operating income before amortization	1.78	2.40 (1)
Credit rating		
DBRS	BBB high	BBB high
	Stable	Stable
Standard and Poor's	BBB	BBB-
	Stable	Stable

(1) As initially reported.

Cash Flow Related to Continuing Operations

Cash flow from operating activities before changes in non-cash operating items increased to $70.2 million in 2011, compared to $64.5 million in 2010. The change is primarily due to the increase in adjusted operating income before amortization, partially offset by the increase in financial expenses. Changes in non-cash operating items led to a cash outflow of $16.2 million in 2011, compared to a cash outflow of $7.9 million in 2010. The difference is mainly due to a decrease in income taxes recovered. Consequently, cash flow from operating activities decreased, leading to a cash inflow of $54.0 million in 2011, compared to $56.6 million in 2010.

Cash Flow Related to Investing Activities of Continuing Operations

In first quarter 2011, $20.6 million was invested in property, plant and equipment, net of disposals, which was significantly less (by $41.3 million) than the $61.9 million invested in first quarter 2010. The decrease is primarily because the project to print *The Globe and Mail* has now been completed.

Cash Flow Related to Financing Activities of Continuing Operations

The Corporation paid $8.9 million, or 11 cents per share, in dividends on participating shares in first quarter 2011, compared to $6.5 million in 2010. The 36.9% increase is from raising its quarterly dividend by one cent per share after the first quarter 2010 and by another two cents per share after the close of fiscal 2010. In addition, the bond forward related to one Solidarity Fund QFL debenture expired on November 5, 2010 which led to a cash outflow of $6.0 million in first quarter 2011. Also, in first quarter 2011, the Corporation paid $1.7 million in dividends on preferred shares, or $0.2 million less than in 2010, due to the fact that the dividends paid in 2010 covered a period of 105 days, hence from the date the preferred shares were issued.

Dividends paid by Transcontinental to Canadian residents are eligible dividends as per provincial and federal income tax laws.

Shares Issued and Outstanding	At January 31, 2011	At February 28, 2011
Class A (Subordinate Voting Shares)	65,817,337	65,817,337
Class B (Multiple Voting Shares)	15,196,840	15,196,840
Series D Preferred (with rate reset)	4,000,000	4,000,000

Debt Instruments

As at January 31, 2011, net indebtedness (including use of the securitization program) to adjusted operating income before amortization ratio stood at 1.78 (2.40 as at January 31, 2010) mainly due to the sale of almost all the assets of the Direct Mail Group in the United States and the increase in adjusted operating income before amortization. Management plans to reduce this ratio even further and to keep it at about 1.50.

The term revolving credit of the Corporation, an amount of $400 million, of which $184.0 million was used as at January 31, 2011, matures in September 2012. The applicable interest rate on the term revolving credit facility is based on the credit rating assigned by Standard & Poor's Ratings Services. Depending on the form of borrowing chosen by the Corporation, the interest rate applicable to the line of credit is currently either bank prime rate, bankers' acceptance rate + 0.44%, or LIBOR + 0.44%. Fees of 0.11% are also applicable, whether the line of credit is drawn or not, and utilization fees of 0.05% are applicable if the amount drawn exceeds $66^{2/3}$% of the term revolving credit.

As of January 31, 2011, letters of credit amounting to C$0.4 million and US$3.0 million were drawn on the term revolving credit, in addition to the amounts presented in the above paragraph.

In January 2011, the Corporation began reimbursing a six-year loan from a European bank bearing interest at EURIBOR + 1.60%, in equal instalments of capital plus interest. This debt instrument was arranged to purchase production equipment and is payable every six months from January 2011. As at January 31, 2011, the capital amount remaining to be paid is €44.3 million ($60.2 million). On December 1, 2009, the Corporation arranged a cross-currency swap, which matures in six years, to set the exchange rate at 1.5761 and the interest rate on this facility at bankers' acceptance rate plus 2.55%.

On February 1, 2011, the Corporation entered into an agreement setting the interest rate at 5.58% on an unsecured debenture with the Solidarity Fund QFL for the eight years remaining on the debenture's 10-year term. The bond forward contract entered into to lock the portion of the rate based on the Canadian Government Bonds rate at 4.34%, came to maturity on November 5, 2010 and resulted in a cash disbursement which will increase the effective rate by 1.50%. In addition, on February 17, 2011, the Corporation repaid, more than three years before the end of its term, its five-year $100.0 million term credit facility with Caisse de dépôt et placement du Québec. The financing was repaid in accordance with the contract terms and conditions.

Off-Balance-Sheet Arrangements (Securitization)

As at January 31, 2010, the accounts receivable sold under the securitization program amounted to $254.0 million, of which $162.5 million was kept by the Corporation as retained interest, resulting in a net consideration of $91.5 million, including C$57.3 million and US$32.0 million. As at January 31, 2010, the maximum net consideration the Corporation could have obtained under the terms of the program was $210.4 million. The retained interest is recorded in the Corporation's accounts receivable at the lower of cost and fair market value. Under the program, the Corporation recognized a total discount of $0.6 million for first quarter 2010 on the sale of accounts receivable.

Also, on February 16, 2011, the Corporation set up a new, two-year, $200 million receivables securitization program with a Canadian bank. The conditions of the new program take the current market conditions into account and are favourable compared to other sources of financing. Since the Corporation currently has sufficient capital, this program will likely not be used in the short term, but ensures greater financial flexibility.

PRINCIPAL ACCOUNTING ESTIMATES

The Corporation prepares its consolidated financial statements in Canadian dollars and in accordance with Canadian GAAP. A summary of the significant accounting policies is presented in Note 1 of the Consolidated Financial Statements for the fiscal year ended October 31, 2010. Some of the Corporation's accounting policies require estimates and judgments. The most significant areas requiring the use of management estimates and judgments include goodwill, intangible assets, accounting for future employee benefits and income taxes. Management reviews its estimates on an on-going basis, taking into account historical data and other factors, including the current economic situation. Given that future events or changes in circumstances and their effects cannot be determined accurately, actual results could differ materially from Management's estimates. Changes in these estimates resulting from on-going change in the economic situation will be reflected in the financial statements of subsequent periods. For more information, please see *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

CHANGES IN ACCOUNTING POLICIES

Section 3064 of the CICA Handbook, Goodwill and intangible assets, allows the capitalization of employee salaries, wages and benefits directly attributable to an internally generated intangible asset. For its educational books prebublication costs, the Corporation was not capitalizing these costs as its information systems could not allocate this information per book. On November 1st, 2010, the Company modified its information systems in order to compile employee salaries, wages and benefits per book and decided to change its accounting policy. Consequently, for the three-month period ended January 31, 2011, this change in accounting policy resulted in an increase in intangible assets of $1.6 million and in long-term future income tax liability of $0.5 million, as well as a decrease in operating costs of $1.6 million and an increase in income tax expense of $0.5 million. These intangible assets will be amortized as operating costs over a maximum of 5 years, based on historical sales patterns. The application of this accounting

policy is prospective as the Corporation cannot generate the information for prior periods to apply this change retrospectively.

EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

For the Corporation, the conversion to IFRS will be required for interim and annual financial statements for the year ending October 31, 2012. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The Corporation set up an organizational project management team composed of members from different levels and positions to oversee project coordination and monitoring. Staff with the appropriate qualifications and experience have been assigned to the project. Senior management and the Audit Committee receive regular status updates.

The Corporation's conversion plan consists of three phases: evaluation, conversion and implementation of the IFRS. The Corporation started the implementation phase in early 2011 and the conversion is proceeding as planned. Please see *Management's Discussion and Analysis for the Year Ended October 31, 2010* for a detailed description of the phases and conversion plan.

Differences between the IFRS and the Corporation's Accounting Policies

The following items have been identified as possibly having an impact on the Corporation's financial statements. This is not an exhaustive list of the impacts of the transition to IFRS and changes could be made before the changeover.

Subject	Items that could have an impact on the Corporation's financial statements
Employee Benefits (IAS 19)	• Under the IFRS, an entity may elect to recognize actuarial gains and losses using a corridor approach (which the Corporation uses) or recognize them immediately in other comprehensive income. The Corporation plans to continue using the corridor approach to recognition of actuarial gains and losses. • An exposure draft has been issued proposing the immediate recognition of actuarial gains and losses in other comprehensive income and the presentation of service costs and financial expenses in the profit or loss statement. The standard is expected to be published in 2011.
Impairment of Assets (IAS 36)	• Asset impairment testing is done at the lowest cash generating unit (CGU) level. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. According to Canadian GAAP, asset impairment testing is done at the level of the asset group, which is not necessarily defined as a CGU. • Goodwill is allocated to the CGU or groups of CGUs that should benefit from the synergies of a business combination, while under Canadian GAAP, goodwill is allocated to operating units that are equivalent to an operating sector or to one level below. Given that the impairment test could be performed at the level of a group of assets that is smaller than that for Canadian GAAP, asset impairment may be recognized at different times under the IFRS.

	• To determine whether an asset impairment should be recognized, the carrying amount of the asset is compared to its recoverable amount, which is the higher of fair value less costs to sell and value in use (present value of future cash flows). Under Canadian GAAP, a test is performed in two stages: firstly, comparing the book value of the asset to future cash flows, and secondly, if an impairment of the asset is required, the amount of depreciation occurs in comparing its carrying amount to its fair value. • Asset impairments other than goodwill impairments can be reversed under certain circumstances. Canadian GAAP did not allow for reversals. • The Corporation is currently evaluating the impact of these elements as at the transition date.
Income Taxes (IAS 12)	• Under Canadian GAAP and IFRS, future income taxes are calculated on temporary differences, i.e. differences between the tax basis of an asset or liability and its carrying amount on the balance sheet. Under Canada's Income Tax Act, the maximum deductible for "eligible capital expenditures" is 75% of the cost incurred. Canadian GAAP addresses this particular situation and specifies that the tax basis must be increased by 25%, thus eliminating the temporary difference. IFRS does not address this specific situation, and therefore a temporary difference exists between the tax basis and the carrying amount of assets that must be recognized in the case of eligible business combination transactions. • The Corporation is currently evaluating the impact of this difference for intangible assets that qualify as eligible capital expenditures, and anticipates an adjustment that will lead to an increase in future income tax liabilities and an adjustment in retained earnings as at the transition date.
Financial Instruments: Recognition and Measurement (IAS 39)	• Under IFRS, an entity may derecognize a financial asset under certain conditions based on the concept of transferring risks and benefits. Under Canadian GAAP, the conditions for derecognizing a financial asset are based, instead, on the notion of transfer of control of the asset. For the Corporation, accounts receivable sold under the securitization arrangement may no longer satisfy the conditions for being derecognized under IFRS. • As at the IFRS transition date, this difference will have no impact on the financial statements because no securitization program was in effect as at October 31, 2010.
Interests in Joint Ventures (IAS 31)	• IFRS allows the recognition of interests in joint ventures using the proportionate consolidation method (which is used by the Corporation) or the equity method. The Corporation plans to continue using the proportionate consolidation method. • An exposure draft has been issued proposing to eliminate the proportionate consolidation method in some situations. The standard is expected to be published in 2011.

IFRS 1, "First-time Adoption of International Financial Reporting Standards" is the standard which the Corporation must apply in preparing its opening IFRS statement of financial position. The purpose of this standard is to provide a starting point for IFRS-compliant accounting without spending more on the process than the benefits warrant. Thus certain relief measures, called exemptions and exceptions, are permitted to avoid retroactive application of some standards. The exemptions are optional and the exceptions are required. The following list presents some exemptions that could have a significant impact for the Corporation.

Exemption	Description and Status
Employee Benefits	IAS 19 Employee Benefits requires actuarial gains and losses to be measured in accordance with IFRS from plan start dates to the date of transition to IFRS. IFRS 1 allows recognition of accumulated actuarial gains and losses in retained earnings as at the transition date and prospective application of IAS 19. The Corporation plans to use this exemption, which will result in a decrease of about $7 million in accrued benefit assets and $2 million in future income tax liability, an increase of $35 million in accrued benefit liability and $9 million in future income tax assets, and a decrease of about $31 million in retained earnings as at the transition date.

Borrowing Costs	IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Under Canadian GAAP, an entity has the option of capitalizing borrowing costs or recognizing them as an expense. The Corporation's accounting policy is to capitalize borrowing costs. IFRS offers more direct guidance than Canadian GAAP regarding the nature of capitalizable borrowing costs. An exemption under IFRS 1 allows IAS 23 requirements to be applied prospectively for all qualifying assets where capitalization commences on a date earlier than the transition date or on the transition date. The Corporation plans to use this exemption, which will result in a decrease of about $13 million in property, plant and equipment and $3 million in future income tax liability, as well as a decrease of about $10 million in retained earnings as at the transition date.
Deemed Cost	IFRS 1 allows for assets to be evaluated at their fair value at the transition date and to use this fair value as the deemed cost at that date. The deemed cost is then used instead of the cost or amortized cost, and the subsequent amortization is calculated using the deemed cost. The Corporation is evaluating the possibility of using this exemption for certain assets.
Cumulative Translation Differences	IAS 21 Effects of Changes in Foreign Exchange Rates requires that translation differences be calculated in compliance with IFRS from the acquisition date or from the date of creation of the foreign operation. IFRS 1 allows the cumulative translation differences for all foreign operations to be set to zero as at the date of transition. The gain or loss on subsequent disposal of a foreign operation will therefore only include foreign exchange differences arising subsequent to the date of transition to IFRS. The Corporation plans to use this exemption, which will result in an increase in accumulated other comprehensive income and a decrease in retained earnings at the transition date of about $25 million.

RISKS AND UNCERTAINTIES

The Corporation continually manages its exposure to risks and uncertainties that it may encounter in its operating sectors or financial situation. As a result, the Director of Risk Management and Management together continually review overall controls and preventive measures to ensure they are better matched to significant risks to which the Corporation's operating activities are exposed. A report on our risk-management program is reviewed regularly by the Audit Committee.

Managing the Corporation's risks is a major factor in the decisions taken by Management with regard to acquisitions, capital investments, divestiture of assets, grouping of plants, or efforts to create synergies among operating sectors. This focus also guides decisions regarding cost-reduction measures, product diversification, new market penetration, and certain treasury movements. Below is a list of the main risks the Corporation is exposed to that could have a significant impact on its financial situation and the strategies it is taking to mitigate them.

Operational Risks

Economic Cycles

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Competition

In first quarter 2011, some of our more traditional niches faced intensified competition. To limit this impact, the Corporation continues to focus on the development of new products and services in print and digital. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

New Media

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Operational Efficiency

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Regulation

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Geographic Distribution and Exchange Rate

The average exchange rate was 1.0155 CAD/USD in first quarter 2011, compared to an average of 1.0644 CAD/USD in first quarter 2010.

The currency-hedging program uses derivatives to protect the Corporation from the risk of short-term currency fluctuations. Moreover, Transcontinental attempts to match cash inflows and outflows in the same currency. The policy approved by the Corporation's Board of Directors permits hedging of 50% to 100% of net cash flows for a period of one to 12 months, 25% to 50% for the subsequent 12 months and up to 33% for the following 12 months.

As at January 31, 2011, using forward contracts to manage the exchange rate related to its exports to the United States, the Corporation had contracts to sell US$87 million (US$128 million as at January 31, 2010), of which $42 million and $45 million will be sold in fiscal 2011 and 2012, respectively. The terms of these forward contracts range from one month to 20 months, with rates varying from 1.0302 to 1.2800. Hedging relationships were effective and in accordance with risk management objectives and strategies throughout fiscal 2010.

Dependence on Information Systems

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Recruiting and Keeping Talent

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Impairment Tests

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Exchange of Confidential Information and Privacy

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Business Development

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Integration of Acquisitions

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Loss of Reputation

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Participating Shares and Preferred Shares

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Financial Risks

Availability of Capital and Use of Financial Leverage

The Corporation's term revolving credit currently consists only of Tranche A, an amount of $400 million, which matures in September 2012, of which $184.0 million was used as at January 31, 2011. In addition, after the close of first quarter 2011, a new, two-year, $200 million receivables securitization program was set up. This source of financing gives the Corporation greater financial flexibility. This financial risk is mitigated by the fact that the Corporation is in a very good financial position, with a ratio of net indebtedness (including use of the securitization program) to adjusted operating income before amortization of 1.78; furthermore, the Corporation's cash flows should be higher in fiscal 2011 following the significant reduction in our capital spending program and the contribution from printing *The Globe and Mail*. In addition, on February 17, 2011, the Corporation repaid, before the end of its term, the $100.0 million term credit facility with the Caisse de dépôt et placement du Québec.

There is no assurance that the Corporation will be able to increase distributions to shareholders by way of dividends.

Interest Rate

Transcontinental is exposed to market risks related to interest-rate fluctuations. At the end of first quarter 2011, considering the derivative financial instruments used, the fixed rate portion of the Corporation's long-term debt represented 70% of the total, while the floating rate portion represented 30% (63% and 37%, respectively, as at January 31, 2010). The fixed rate portion of the debt increased due to higher cash flows generated in fiscal 2011, which considerably reduced the use of the term revolving credit facility. The floating rate portion of the debt bears interest at rates based on LIBOR or bankers' acceptance rates. In order to mitigate its exposure to the risk of interest rate fluctuations, the Corporation tries to keep a good balance of fixed versus floating rate debt.

Credit

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Pension Plans

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Environmental Risks

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to the "Environment" section in *Management's Discussion and Analysis for the Year Ended October 31, 2010* and the *Sustainability Report 2010 – Connecting Words to Actions.*

Raw Material and Postal Risk

Raw Materials and Energy Prices

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Future Policies of the Canadian and U.S. Postal Systems

No major changes occurred in first quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

SUBSEQUENT EVENTS

Unsecured Debenture with the Solidarity Fund QFL

On February 1, 2011, the Corporation entered into an agreement setting the interest rate at 5.58% on an unsecured debenture with the Solidarity Fund QFL for the eight years remaining on the debenture's 10-year term. The bond forward contract entered into to lock the portion of the rate based on the Canadian Government Bonds rate at 4.34%, came to maturity on November 5, 2010 and resulted in a cash disbursement which will increase the effective rate by 1.50%.

Securitization Program

On February 16, 2011, the Corporation set up a new, two-year, $200 million securitization program with a Canadian bank. The conditions of the new program take the current market conditions into account and are favourable compared to other sources of financing. Since the Corporation currently has sufficient capital, this program will likely not be used in the short term, but ensures greater financial flexibility.

Repayment of Term Credit Facility

On February 17, 2011, the Corporation repaid, more than three years before the end of its term, its five-year $100.0 million term credit facility with Caisse de dépôt et placement du Québec. This repayment was made using the revolving credit facility. This financing was repaid in accordance with the contract terms and conditions.

DISCLOSURE CONTROLS AND PROCEDURES

Transcontinental's President and Chief Executive Officer and its Vice President and Chief Financial Officer are responsible for establishing and maintaining the Corporation's disclosure controls and procedures.

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and Vice President and Chief Financial Officer to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The President and Chief Executive Officer and the Vice President and Chief Financial Officer have evaluated whether there were changes to internal control over financial reporting during the quarter ended January 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

OUTLOOK

Over the next three quarters of fiscal 2011, the Corporation will pursue its strategy of leveraging its existing activities—such as printing, publishing and distribution—while developing new avenues of growth in digital and interactive marketing solutions through its Media and Interactive sectors. Thanks to its integrated marketing solutions, Transcontinental came to a new agreement with Canadian Tire in February 2011 that will generate $30 million to $40 million in additional revenues per year over the next four years. This new agreement will benefit all of the Corporation's sectors and will take effect in January 2012.

The Printing Sector will continue to optimize use of its equipment in order to further consolidate its leading position in Canada. The printing of *The Globe and Mail* will generate an additional amount of close to $20 million by the end of the fiscal year; this is over and above smaller contracts signed at our plant in Fremont, California, which also prints the *San Francisco Chronicle*.

Given the strategic investments made in both its digital platforms and newspapers, the adjusted operating income of the Local Solutions Group and the New Media and Digital Solutions Group will be negatively impacted in coming quarters, while revenues should increase.

The Interactive Sector will accelerate the development of its integrated interactive marketing solutions to better meet its clients growing demand for customized marketing programs, and build on the emerging digital platforms. Revenues in this sector should increase in the coming quarters as a result of the investments to further develop its unique offering of interactive marketing solutions.

We expect that by the end of the fiscal year, the Corporation's financial position will have continued to improve. The considerable reduction in capital spending, which will be at most $75 million in fiscal 2011, along with the generation

of significant cash flows will allow the Corporation to keep improving its net indebtedness ratio over the next several quarters.

On behalf of management,

Benoît Huard
Vice President and Chief Financial Officer
March 9, 2011

CONSOLIDATED STATEMENTS OF INCOME
unaudited

(in millions of dollars, except per share data)	Three months ended January 31			
		2011		2010
Revenues	$	**530.1**	$	511.6
Operating costs		**389.6**		373.7
Selling, general and administrative expenses		**58.5**		56.8
Operating income before amortization, impairment of assets and restructuring costs		**82.0**		81.1
Amortization (Note 3)		**32.2**		33.8
Impairment of assets and restructuring costs (Note 4)		**5.1**		1.9
Operating income		**44.7**		45.4
Financial expenses (Note 5)		**10.8**		10.0
Discount on sale of accounts receivable		**-**		0.6
Income before income taxes and non-controlling interest		**33.9**		34.8
Income taxes (Note 6)		**5.7**		4.8
Non-controlling interest		**0.3**		0.3
Net income from continuing operations		**27.9**		29.7
Net loss from discontinued operations (Note 7)		**-**		(1.8)
Net income		**27.9**		27.9
Dividends on preferred shares, net of related income taxes		**1.7**		1.7
Net income applicable to participating shares	**$**	**26.2**	$	26.2
Net income (loss) per participating share - basic and diluted (Note 9)				
Continuing operations	**$**	**0.32**	$	0.34
Discontinued operations		**-**		(0.02)
	$	**0.32**	$	0.32
Weighted average number of participating shares outstanding - basic (in millions)		**81.0**		80.8
Weighted average number of participating shares outstanding - diluted (in millions)		**81.1**		80.9

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
unaudited

(in millions of dollars)	Three months ended January 31	
	2011	2010
Net income	**$ 27.9**	$ 27.9
Other comprehensive income (loss):		
Net change in fair value of derivatives designated as cash flow hedges, net of income taxes of $0.6 million (($1.9) million in 2010)	**(0.2)**	(5.1)
Reclassification adjustments for net change in fair value of derivatives designated as cash flow hedges in prior periods, transferred to net income in the current period, net of income taxes of $0.1 million ($0.7 million in 2010)	**1.4**	1.9
Net change in fair value of derivatives designated as cash flow hedges	**1.2**	(3.2)
Net losses on translation of financial statements of self-sustaining foreign operations	**(2.5)**	(0.9)
Other comprehensive loss (Note 12)	**(1.3)**	(4.1)
Comprehensive income	**$ 26.6**	$ 23.8

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

(in millions of dollars)	Three months ended January 31	
	2011	2010
Balance, beginning of period	**$ 784.0**	$ 645.9
Net income	**27.9**	27.9
	811.9	673.8
Dividends on participating shares	**(8.9)**	(6.5)
Dividends on preferred shares	**(1.7)**	(1.9)
Balance, end of period	**$ 801.3**	$ 665.4

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

CONSOLIDATED BALANCE SHEETS
unaudited

(in millions of dollars)	As at January 31 2011	As at October 31, 2010
Current assets		
Cash and cash equivalents	$ 42.5	$ 36.3
Accounts receivable	415.8	454.8
Income taxes receivable	21.3	19.7
Inventories	75.5	82.9
Prepaid expenses and other current assets	20.4	21.6
Future income taxes	15.8	17.7
	591.3	633.0
Property, plant and equipment	884.0	918.3
Property, plant and equipment held for sale (Note 4)	5.2	-
Goodwill	682.0	678.1
Intangible assets	178.0	179.1
Future income taxes	149.6	146.7
Other assets	38.5	39.5
	$ 2,528.6	$ 2,594.7
Current liabilities		
Accounts payable and accrued liabilities	$ 280.7	$ 358.2
Income taxes payable	27.3	28.8
Deferred subscription revenues and deposits	40.2	38.6
Future income taxes	2.7	2.5
Current portion of long-term debt	16.6	17.8
	367.5	445.9
Long-term debt	706.2	712.9
Future income taxes	142.5	138.1
Other liabilities	48.8	50.0
	1,265.0	1,346.9
Non-controlling interest	0.3	0.8
Shareholders' equity		
Share capital	478.7	478.6
Contributed surplus (Note 11)	13.9	13.7
Retained earnings	801.3	784.0
Accumulated other comprehensive loss (Note 12)	(30.6)	(29.3)
	770.7	754.7
	1,263.3	1,247.0
	$ 2,528.6	$ 2,594.7

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
unaudited

(in millions of dollars)	Three months ended January 31 2011	2010
Operating activities		
Net income	$ 27.9	$ 27.9
Less : Net loss from discontinued operations (Note 7)	-	(1.8)
Net income from continuing operations	27.9	29.7
Items not affecting cash and cash equivalents		
Amortization (Note 3)	38.5	40.1
Impairment of assets (Note 4)	3.5	0.1
Gain on disposal of assets	-	(0.4)
Future income taxes	0.3	(6.5)
Stock-based compensation (Note 10)	1.1	0.5
Other	(1.1)	1.0
Cash flow from operating activities before changes in non-cash operating items	70.2	64.5
Changes in non-cash operating items	(16.2)	(7.9)
Cash flow related to operating activities of continuing operations	54.0	56.6
Cash flow related to operating activities of discontinued operations	-	(1.3)
	54.0	55.3
Investing activities		
Business acquisitions (Note 13)	(4.8)	(0.6)
Acquisitions of property, plant and equipment	(20.7)	(62.7)
Disposals of property, plant and equipment	0.1	0.8
Increase in intangible assets and other assets	(5.5)	(3.2)
Cash flow related to investing activities of continuing operations	(30.9)	(65.7)
Cash flow related to investing activities of discontinued operations	-	(0.8)
	(30.9)	(66.5)
Financing activities		
Increase in long-term debt	-	32.9
Reimbursement of long-term debt	(7.3)	(5.1)
Increase (decrease) in revolving term credit facility	7.2	(12.7)
Dividends on participating shares	(8.9)	(6.5)
Dividends on preferred shares	(1.7)	(1.9)
Issuance of participating shares	0.1	-
Bond forward contract	(6.0)	-
Other	-	(0.6)
Cash flow related to financing activities of continuing operations	(16.6)	6.1
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	(0.3)	0.1
Increase (decrease) in cash and cash equivalents	6.2	(5.0)
Cash and cash equivalents at beginning of period	36.3	34.7
Cash and cash equivalents at end of period	$ 42.5	$ 29.7
Additional information		
Interest paid	$ 7.9	$ 9.3
Income taxes paid (recovered)	$ 6.5	$ (0.9)

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

The interim financial statements should be read in conjunction with the most recent annual consolidated financial statements.

1. Significant accounting policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), using the same accounting policies as outlined in Note 1 and Note 2 to the consolidated financial statements for the year ended October 31, 2010. The operating results for the 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 second and fourth quarters. The back-to-school period is also the strongest for book printing and for our educational resources publishing unit.

2. Change in accounting policies

Section 3064 of the CICA Handbook, Goodwill and intangible assets, allows the capitalization of employee salaries, wages and benefits directly attributable to an internally generated intangible asset. For its educational books prebublication costs, the Corporation was not capitalizing these costs as its information systems could not allocate this information per book. On November 1st, 2010, the Company modified its information systems in order to compile employee salaries, wages and benefits per book and decided to change its accounting policy. Consequently, for the three-month period ended January 31, 2011, this change in accounting policy resulted in an increase in intangible assets of $1.6 million and in long-term future income tax liability of $0.5 million, as well as a decrease in operating costs of $1.6 million and an increase in income tax expense of $0.5 million. These intangible assets will be amortized as operating costs over a maximum of 5 years, based on historical sales patterns. The application of this accounting policy is prospective as the Corporation cannot generate the information for prior periods to apply this change retrospectively.

3. Amortization

	Three months ended January 31	
(in millions of dollars)	**2011**	2010
Property, plant and equipment	$ **28.3**	$ 29.8
Intangible assets	**3.9**	4.0
	32.2	33.8
Intangible assets and other assets, presented in revenues, operating costs and financial expenses	**6.3**	6.3
	$ **38.5**	$ 40.1

4. Impairment of assets and restructuring costs

Over the last fiscal years, the Corporation initiated restructuring plans as follows:

a) During the second quarter of fiscal 2009, the Corporation announced major rationalization measures to address the recession, including substantive cost-cutting measures throughout Canada, the United States and Mexico. The deterioration of the economy had reduced the communication and marketing investments of a number of customers of the Corporation. Therefore, commercial printing projects and magazine and newspaper advertising placements were cancelled or postponed by companies also affected by the recession. These measures were completed during fiscal 2010 and final disbursements will be made during fiscal 2011.

b) During the last quarter of fiscal 2010, the Corporation announced rationalization measures to deal with excess production capacity in some specialized plants of the Printing sector, due to important structural changes in the printing industry which result in lower demand in certain niche markets. It is expected that these measures will be completed over fiscal 2011 and 2012.

4. Impairment of assets and restructuring costs (continued)

The following table provides details of these plans:

(in millions of dollars)	Total: Charged to income	Total: Forecasted	2011: Liability as at October 31, 2010	2011: **Charged to income**	2011: **Paid**	2011: Liability as at January 31 2011	2010: Charged to income	2010: Paid
a) Rationalization Measures 2009 - 2010								
Printing								
Workforce reduction costs	$ 28.9	$ 28.9	$ 2.9	**$ -**	**$ 1.8**	$ 1.1	$ 1.3	$ 2.0
Other costs	4.3	4.3	-	**-**	**-**	-	0.3	0.1
Interactive								
Workforce reduction costs	2.1	2.1	0.6	**-**	**0.4**	0.2	-	0.1
Other costs	0.2	0.2	-	**-**	**-**	-	-	-
Media								
Workforce reduction costs	10.4	10.4	0.4	**-**	**0.2**	0.2	0.2	2.9
	45.9	45.9	3.9	**-**	**2.4**	1.5	1.8	5.1
Printing								
Impairment of assets	18.4	18.4	n/a	**-**	**n/a**	n/a	0.1	n/a
Media								
Impairment of assets	1.6	1.6	n/a	**-**	**n/a**	n/a	-	n/a
	$ 65.9	$ 65.9	$ 3.9	**$ -**	**$ 2.4**	$ 1.5	$ 1.9	$ 5.1
b) Rationalization Measures 2011 - 2012								
Printing								
Workforce reduction costs	$ 6.6	$ 6.6	$ 5.5	**$ 1.1**	**$ 4.6**	$ 2.0	$ -	$ -
Other costs	0.5	1.9	-	**0.5**	**0.2**	0.3	-	-
	7.1	8.5	5.5	**1.6**	**4.8**	2.3	-	-
Printing								
Impairment of assets	4.2	4.2	n/a	**3.5**	**n/a**	n/a	-	n/a
	$ 11.3	$ 12.7	$ 5.5	**$ 5.1**	**$ 4.8**	$ 2.3	$ -	$ -
Total								
Workforce reduction costs	$ 48.0	$ 48.0	$ 9.4	**$ 1.1**	**$ 7.0**	$ 3.5	$ 1.5	$ 5.0
Other costs	5.0	6.4	-	**0.5**	**0.2**	0.3	0.3	0.1
Impairment of assets	24.2	24.2	n/a	**3.5**	**n/a**	n/a	0.1	n/a
	$ 77.2	$ 78.6	$ 9.4	**$ 5.1**	**$ 7.2**	$ 3.8	$ 1.9	$ 5.1

Three months ended January 31

Property, plant and equipment held for sale

Property, plant and equipment held for sale include certain real estate assets that were no longer necessary in the ongoing operations following the 2011-2012 rationalization measures. These real estate assets are no longer amortized. No loss was recognized in the consolidated statement of income as the estimated fair value less costs to sell is greater than their carrying amount. The future gain on disposal resulting from the sale of these real estate assets will be presented against restructuring costs.

5. Financial expenses

(in millions of dollars)	Three months ended January 31 **2011**	2010
Financial expenses on long-term debt	**$ 10.1**	$ 10.4
Other expenses	**1.0**	0.7
Foreign exchange gain	**(0.3)**	(1.1)
	$ 10.8	$ 10.0

For the three-month period ended January 31, 2011, capitalized interest on property, plant and equipment amounted to a negligeable amount ($0.7 million for the same period in 2010).

6. Income taxes

(in millions of dollars)	Three months ended January 31 2011	2010
Income taxes at statutory tax rate	$ 9.6	$ 10.5
Effect of foreign tax rate differences	(0.9)	(1.9)
Effect of Ontario corporate income tax rate reductions (a)	-	(2.4)
Other	(3.0)	(1.4)
Income taxes at effective tax rate	$ 5.7	$ 4.8

Income taxes include the following items:

	2011	2010
Income taxes before the following items:	$ 7.1	$ 7.6
Income taxes on impairment of assets and restructuring costs (Note 4)	(1.4)	(0.4)
Effect of Ontario corporate income tax rate reductions (a)	-	(2.4)
Income taxes at effective tax rate	$ 5.7	$ 4.8

a) Corporate tax rate reductions announced in the March 26, 2009 Ontario budget were adopted on December 15, 2009. These reductions in corporation tax rates have reduced the income tax expense and net future income tax liabilities by $2.4 million in the first quarter of fiscal 2010.

7. Discontinued operations

On February 10, 2010, the Corporation signed an agreement with IWCO Direct, a U.S.-company headquartered in Minnesota, to sell substantially all of its high-volume direct mail assets in the United States, for net proceeds of $105.7 million, subject to a price adjustment clause based on the working capital at the date of transaction. This group of the Printing sector generated revenues of approximately US$170.0 million in 2009 and employed about 1,200 people. The closing of the transaction took place on April 1st, 2010.

The following table presents the results of discontinued operations:

(in millions of dollars)	Three months ended January 31 2011	2010
Revenues	$ -	$ 47.6
Expenses	-	50.1
Loss before income taxes	-	(2.5)
Income taxes recovered	-	(0.7)
Net loss from discontinued operations	$ -	$ (1.8)

8. Pension plans

The Corporation offers various contributory and non-contributory defined benefit pension plans and defined contribution pension plans to its employees and those of its participating subsidiaries.

The cost related to these plans is as follows:

(in millions of dollars)	Three months ended January 31 2011	2010
Defined benefit pension plans	$ (0.3)	$ 4.0
Defined contribution pension plans	4.5	0.6
	$ 4.2	$ 4.6

9. Net income per participating share

The following table is a reconciliation of the components used in the calculation of basic and diluted net income from continuing operations per participating share for the three-month period ended January 31:

	2011	2010
Numerator (in millions of dollars)		
Net income from continuing operations	$ 27.9	$ 29.7
Dividends on preferred shares, net of related income taxes	1.7	1.7
Net income from continuing operations, applicable to participating shares	$ 26.2	$ 28.0
Denominator (in millions)		
Weighted average number of participating shares - basic	81.0	80.8
Weighted average number of dilutive options	0.1	0.1
Weighted average number of participating shares - diluted	81.1	80.9

In the calculation of the diluted net income per share, 1,040,657 stock options were considered anti-dilutive as at January 31, 2011 (1,492,325 as at January 31, 2010), since their exercise price was greater than the average stock price during the period. Therefore, these stock options were excluded from the calculation.

10. Stock-based compensation plans

Stock option plan

The Corporation offers a stock option plan for the benefit of certain of its officers and senior executives. Under the plan, each stock option entitles its holder to receive one class A subordinate share upon exercise and the exercise price 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 costs of $0.2 million were charged to income and as an increase to contributed surplus of shareholders' equity for the three-month periods ended January 31, 2011 and 2010, respectively.

The following table summarizes the changes in outstanding stock options:

	Three months ended January 31			
	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	1,542,490	$ 16.76	2,006,575	$ 17.23
Granted	164,672	16.20	173,100	13.09
Exercised	(10,840)	9.96	(15,120)	9.16
Cancelled	(17,725)	12.52	(118,970)	19.98
Balance, end of period	1,678,597	$ 16.79	2,045,585	$ 16.78
Options exercisable as at January 31	1,205,750	$ 18.19	1,531,485	$ 18.26

Exercise of stock options

When holders exercise their stock options, the amounts received from them are credited to share capital. For stock options granted since November 1, 2002, the amount previously accounted for as an increase to contributed surplus is also transferred to share capital. For the three-month periods ended January 31, 2011 and 2010, the amount received was $0.1 million for each period.

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

	2011	2010
Fair value of stock options	$ 5.40	$ 4.31
Assumptions:		
Dividend rate	1.6 %	1.5 %
Expected volatility	39.8 %	38.6 %
Risk-free interest rate	2.51 %	2.74 %
Expected life	5 years	5 years

10. Stock-based compensation plans (continued)

Share unit plan for senior executives
The Corporation offers a share unit plan to its senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted.

The following table provides details of this plan:

	Three months ended January 31			
Number of units	**2011**	2010	**2011**	2010
	DSU		RSU	
Balance, beginning of period	**121,110**	127,870	**676,627**	548,808
Units granted	**40,123**	53,240	**233,383**	277,013
Units cancelled	**-**	(58,141)	**(69,584)**	(54,616)
Units paid	**(872)**	(2,493)	**(53,824)**	(6,084)
Units converted	**41,874**	-	**(41,874)**	-
Dividends paid in units	**1,162**	584	**-**	-
Balance, end of period	**203,397**	121,060	**744,728**	765,121

The expense recorded in the consolidated statements of income for the three-month periods ended January 31, 2011 and 2010 were $1.3 million and $0.8 million, respectively. Amounts of $0.9 million and $0.1 million, respectively, have been paid under the plan for the three-month periods ended January 31, 2011 and 2010.

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

The following table provides details of this plan:

	Three months ended January 31	
Number of units	**2011**	2010
Balance, beginning of period	**159,803**	167,783
Directors compensation	**6,627**	7,541
Units paid	**-**	(40,923)
Dividends paid in units	**1,044**	778
Balance, end of period	**167,474**	135,179

The expenses recorded in the consolidated statements of income for the three-month periods ended January 31, 2011 and 2010 were $0.5 million and $0.1 million, respectively. No amount has been paid under the plan for the three-month period ended January 31, 2011 ($0.5 million for the three-month period ended January 31, 2010).

11. Contributed surplus

	Three months ended January 31	
(in millions of dollars)	**2011**	2010
Balance, beginning of period	**$ 13.7**	$ 12.9
Compensation costs relating to stock option plan (Note 10)	**0.2**	0.2
Balance, end of period	**$ 13.9**	$ 13.1

12. Accumulated other comprehensive loss

(in millions of dollars)	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as at November 1, 2009	$ (20.8)	$ 0.7	$ (20.1)
Net change in gains (losses), net of income taxes	(0.9)	(3.2)	(4.1)
Balance as at January 31, 2010	$ (21.7)	$ (2.5)	$ (24.2)
Balance as at November 1, 2010	**$ (24.8)**	**$ (4.5)**	**$ (29.3)**
Net change in gains (losses), net of income taxes	**(2.5)**	**1.2**	**(1.3)**
Balance as at January 31, 2011	**$ (27.3)**	**$ (3.3)**	**$ (30.6)**

As at January 31, 2011, the amounts expected to be reclassified to net income are as follows:

(in millions of dollars)	2011	2012	2013	2014	2015 and following	Total
Gains (losses) on derivatives designated as cash flow hedges	$ 0.9	$ (0.5)	$ (1.0)	$ (0.6)	$ (3.6)	$ (4.8)
Income taxes recovered	-	-	0.3	0.2	1.0	1.5
	$ 0.9	$ (0.5)	$ (0.7)	$ (0.4)	$ (2.6)	$ (3.3)

13. Business acquisitions

On November 1st, 2010, the Corporation acquired 100% of the outstanding shares of Vortxt Interactive Inc., a leading Canadian provider of integrated mobile solutions.

For the three-month period ended January 31, 2011, the Corporation paid an amount of $4.8 million relating to business acquisitions completed in the current and prior periods. Of this amount, $0.5 million was included in short-term liabilities as at October 31, 2010, and $4.1 million was attributed to goodwill.

14. Segmented information

Sales between sectors of the Corporation are measured at the exchange amount. Transactions, other than sales, are measured at carrying amount.

(in millions of dollars)	Three months ended January 31	
	2011	2010
Revenues		
Printing sector	**$ 378.2**	$ 362.5
Interactive sector	**31.2**	30.3
Media sector	**139.2**	135.7
Other activities and unallocated amounts	**2.1**	2.0
Inter-segment sales		
Printing sector	**(18.9)**	(14.8)
Interactive sector	**(0.3)**	-
Media sector	**(1.4)**	(4.1)
Total inter-segment sales	**(20.6)**	(18.9)
	$ 530.1	$ 511.6
Operating income (loss) before amortization, impairment of assets and restructuring costs		
Printing sector	**$ 71.4**	$ 65.6
Interactive sector	**-**	3.1
Media sector	**13.9**	16.3
Other activities and unallocated amounts	**(3.3)**	(3.9)
	$ 82.0	$ 81.1

14. Segmented information (continued)

(in millions of dollars)	Three months ended January 31	
	2011	2010
Operating income (loss)		
Printing sector	**$ 41.8**	$ 38.8
Interactive sector	**(2.2)**	0.2
Media sector	**9.0**	11.9
Other activities and unallocated amounts	**(3.9)**	(5.5)
	$ 44.7	$ 45.4
Acquisitions of property, plant and equipment [1]		
Printing sector	**$ 3.7**	$ 42.2
Interactive sector	**2.2**	2.0
Media sector	**1.0**	2.0
Other activities and unallocated amounts	**0.2**	1.3
	$ 7.1	$ 47.5
Amortization of property, plant and equipment and intangible assets		
Printing sector	**$ 24.1**	$ 25.3
Interactive sector	**2.1**	2.9
Media sector	**4.7**	4.3
Other activities and unallocated amounts	**1.3**	1.3
	$ 32.2	$ 33.8

[1] These amounts represent total expenditures for additions to property, plant and equipment, whether they are paid or not.

(in millions of dollars)	**As at January 31 2011**	As at October 31, 2010
Assets		
Printing sector	**$ 1,440.6**	$ 1,473.8
Interactive sector	**135.9**	130.0
Media sector	**762.9**	783.7
Other activities and unallocated amounts	**189.2**	207.2
	$ 2,528.6	$ 2,594.7
Goodwill		
Printing sector	**$ 129.7**	$ 129.7
Interactive sector	**42.5**	38.6
Media sector	**508.9**	508.9
Other activities and unallocated amounts	**0.9**	0.9
	$ 682.0	$ 678.1

15. Subsequent events

Unsecured Debenture - Solidarity Fund QFL

On February 1st, 2011, the Corporation concluded an agreement regarding the interest rate on a $50.0 million debenture granted by the Solidarity Fund QFL. The interest rate has been set at 5.58% for the eight remaining years of it's ten-year term. The bond forward contract entered into to lock the portion of the rate based on the Canadian Government Bonds rate at 4.34%, came to maturity on November 5, 2010, and resulted in a disbursement which will increase the effective interest rate by 1.50%. This amount is included in the accumulated other comprehensive loss and will be amortized in the financial expenses during the next eight years based on the effective interest rate method.

Securitization program

On February 16, 2011, the Corporation put in place a new $200.0 million securitization program related to the sale of its accounts receivable for two years with a Canadian bank. The conditions of the new program reflect market conditions and are favorable compared to other sources of financing.

Term credit facility repayment

On February 17, 2011, the Corporation repaid in advance, according to the terms prescribed in the contract, its $100.0 million term credit facility granted by the Caisse de dépôt et placement du Québec. This repayment was made using the revolving credit facility. This financing had been granted in the spring of 2009, for a five-year term.

16. Comparative figures

Certain prior period figures have been reclassified to conform with the current period presentation.