PRESS RELEASE

For Immediate Release

TRANSCONTINENTAL GENERATES ORGANIC REVENUE AND PROFIT GROWTH FOR THE 6TH CONSECUTIVE QUARTER

Highlights

(in millions of dollars, except per share data)	Q3-2011	Q3-2010	%
Revenues	$492.6	$481.3	2%
Adjusted operating income	57.2	57.4	-%
Adjusted net income applicable to participating shares	32.8	33.4	(2%)
Per share	0.40	0.41	(2%)
Net income applicable to participating shares	10.6	28.9	(63%)
Per share	0.13	0.36	(64%)

- July 13, 2011, Transcontinental announced an agreement to indirectly acquire all of the shares of Quad Graphics Canada Inc. This transaction is currently being reviewed by the Competition Bureau of Canada
- The Mexican Federal Competition Commission approved the sale of Transcontinental's Mexican operations to Quad/Graphics
- Acquired the publishing assets of Groupe Le Canada Français and the majority of the assets of Avantage Consommateurs de l'Est du Québec inc.
- Announced the consolidation of production activities of two commercial printing plants in Montreal, Transcontinental Litho Acme and Transcontinental Direct Montreal
- Ranked by Corporate Knights as one of the Best 50 Corporate Citizens in 2011 and included in the Maclean's/Jantzi-Sustainalytics ranking of the 50 most socially responsible corporations in Canada

Montreal, September 7, 2011 – Transcontinental's revenues increased 2% in the third quarter of 2011, from $481.3 million to $492.6 million. This increase was primarily due to a number of new contracts, most notably from the expanded relationship with *The Globe and Mail*. Excluding acquisitions, divestitures and closures, the impact of the exchange rates and the paper component variance, organic revenue growth was 2%, driven primarily by the Printing sector.

Adjusted operating income was flat at $57.2 million, while the adjusted operating income margin slightly decreased from 11.9% to 11.6%. The contribution from new contracts coupled with the synergies associated with the use of our most productive assets and continued efficiency improvement initiatives in the Printing sector was compensated by more difficult market conditions in the Media sector, more specifically related to the educational book publishing division, continued strategic investments in the

Interactive sector and the negative impact of the exchange rates. However, we generated 6% of organic growth.

Net income applicable to participating shares decreased 63%, from $28.9 million, or $0.36 per share, to $10.6 million, or $0.13 per share. This decrease is mainly due to a net loss related to the discontinuance of our operations in Mexico. Excluding unusual items and discontinued operations, adjusted net income applicable to participating shares decreased 2%, from $33.4 million, or $0.41 per share, to $32.8 million, or $0.40 per share.

“I am satisfied with our third quarter results, especially with the fact that we have generated organic revenue and profit growth for the sixth consecutive quarter in an industry that faces increasing competition. In the past few months, we pursued our strategy to strengthen our existing assets by making strategic acquisitions, divesting less core businesses and rationalizing certain activities. We also developed our offering of products and services on the digital side by expanding our digital advertising representation relationships as well as mobile partnerships. We will continue with our plan to transform Transcontinental to meet our customers’ evolving needs. In the next few months we will launch new digital products and services and make use of our most productive assets in order to continue to grow and transform Transcontinental,” said François Olivier, President and Chief Executive Officer.

Other Financial Highlights

- Free cash flow from operations increased significantly as cash flow from operations, before changes in non-cash operating items, was stable at $71.4 million and capital expenditures decreased, from $21.4 million to $8.7 million.

- As at July 31, 2011, the ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization was 1.59x, as compared to 1.82x as at October 31, 2010 and 1.85x as at July 31, 2010. The ratio of net indebtedness to adjusted operating income before amortization is slightly above the target of 1.5x set by management. Over the next few quarters, it should reach the target given the expected increase in cash flow generation and reduction in capital expenditures.

- In the quarter, Transcontinental prepaid and cancelled its five-year term loan of $50 million with SGF Rexfor Inc.

For more detailed financial information, please see *Management’s Discussion and Analysis for the Third Quarter Ended July 31, 2011* at www.transcontinental.com, under “Investors.”

Operating Highlights

- Transcontinental announced that it agreed to acquire all the shares of Quad Graphics Canada Inc. This transaction is currently being reviewed by the Competition Bureau of Canada. Transcontinental was informed by the Competition Bureau that it requires additional information in order to complete its review of the proposed transaction. Under the Competition Act, the period during which the parties may not complete the transaction has been extended until 30 days after providing the Competition Bureau with the additional information it has requested. Both parties have been cooperating with the Competition Bureau since the announcement of the transaction, and they expect to be able to comply with the request for additional information in a timely manner. Given the scope and complexity of the parties' businesses, the issuance of a request for additional information is not unusual.

- The Mexican Federal Competition Commission has approved the sale of Transcontinental's Mexican operations to Quad/Graphics, therefore this transaction will close shortly. In connection with the upcoming closing, Transcontinental will also transfer its black and white book printing business, destined for U.S. export, to Quad/Graphics. As a result of this imminent volume reduction, Transcontinental will gradually reduce approximately one third of its workforce in its Louiseville and Sherbrooke plants where this book work is produced.

- These transactions combined are expected to generate at least $40 million in incremental EBITDA for Transcontinental, over 12 to 24 months following the closure of the transactions.

- Transcontinental announced the consolidation of production activities of two commercial printing plants in Montreal, Transcontinental LithoAcme and Transcontinental Direct Montreal by late September 2011. As a result of this reorganization, the workforce will be reduced.

- Transcontinental Media acquired the publishing assets of Groupe Le Canada Français, both print publications and websites. Print publications have a combined weekly circulation of more than 155,000 copies. It also acquired the majority of the assets of Avantage Consommateurs de l'Est du Québec inc., including print publications, which have a combined weekly circulation of 60,000 copies, as well as digital and distribution activities. Furthermore, it significantly grew its digital advertising offering thanks to a new partnership with The New York Times Company for About.com, CalorieCount.com and Netplaces.com as well as with Ziff Davis for PCMag.com, ExtremeTech.com and Geek.com. As of today, Transcontinental Media has a digital network of 11.3 million monthly unique visitors in Canada through more than 1,000 websites, bringing its global reach to almost 1 in 2 Canadian Internet users.

- Transcontinental Interactive won a number of awards. It was ranked top Canadian vendor by the *2011 Email Vendor Features & Functions Guides* from Red Pill Email and was ranked fifth in the United States, the only Canadian company to place in the top five. In addition, it captured a total of 30 top prizes at the prestigious Magnum Opus Awards for 2011. These awards recognize excellence in custom-media editorial, design and strategy and were presented by ContentWise and the Content Marketing Institute. They were judged by leading custom-publishing professionals and professors from the Missouri School of Journalism.

- Transcontinental was ranked by the independent Canadian media corporation Corporate Knights as one of the Best 50 Corporate Citizens in 2011 for the fifth consecutive year. Corporations are selected based on their community involvement, labour relations, environmental practices, occupational health & safety and governance practices. Furthermore, for the third year in a row, Transcontinental was included in the Maclean's/Jantzi-Sustainalytics ranking of the 50 most socially responsible corporations in Canada. Launched jointly in 2007 by *Maclean's* magazine and the research firm Jantzi-Sustainalytics, the top 50 companies are evaluated based on a broad range of environmental, social and governance criteria (ESG).

Highlights for the Nine-month Period

In the first nine months of fiscal 2011, Transcontinental's revenues increased 2%, from $1,471.9 million to $1,506.1 million. Excluding acquisitions, divestitures and closures, the impact of the exchange rates and the paper component variance, organic revenue growth was 2%, with all three sectors contributing. Similarly, adjusted operating income increased 3%, from $161.0 million to $166.4 million, while the adjusted operating income margin increased slightly from 10.9% to 11.0%. Net income applicable to participating shares went from $122.1 million, or $1.51 per share, to $69.8 million, or $0.86 per share. Excluding unusual items and discontinued operations, adjusted net income applicable to participating shares increased 9%, from $93.2 million to $101.5 million. On a per share basis it increased 9%, from $1.15 to $1.25.

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
(unaudited)

(in millions of dollars, except per share amounts)	Three months ended July 31 2011	Three months ended July 31 2010	Nine months ended July 31 2011	Nine months ended July 31 2010
Net income applicable to participating shares	**$ 10.6**	$ 28.9	**$ 69.8**	$ 122.1
Dividends on preferred shares	**1.7**	1.7	**5.1**	5.1
Net loss (income) from discontinued operations (after tax)	**21.3**	3.7	**20.0**	(30.5)
Non-controlling interest	**-**	-	**0.8**	0.3
Income taxes	**12.7**	11.7	**25.3**	26.8
Discount on sale of accounts receivable	**-**	-	**-**	0.9
Financial expenses	**9.9**	10.4	**29.4**	30.9
Expenses related to long-term debt prepayment	**-**	-	**5.8**	-
Impairment of assets and restructuring costs	**1.0**	1.0	**10.2**	5.4
Adjusted operating income	**$ 57.2**	$ 57.4	**$ 166.4**	$ 161.0
Net income applicable to participating shares	**$ 10.6**	$ 28.9	**$ 69.8**	$ 122.1
Net loss (income) from discontinued operations (after tax)	**21.3**	3.7	**20.0**	(30.5)
Unusual adjustments to income taxes	**-**	-	**-**	(2.4)
Expenses related to long-term debt prepayment (after tax)	**-**	-	**4.2**	-
Impairment of assets and restructuring costs (after tax)	**0.9**	0.8	**7.5**	4.0
Adjusted net income applicable to participating shares	**$ 32.8**	$ 33.4	**$ 101.5**	$ 93.2
Average number of participating shares outstanding	**81.0**	80.8	**81.0**	80.8
Adjusted net income applicable to participating shares per share	**$ 0.40**	$ 0.41	**$ 1.25**	$ 1.15
Cash flow related to continuing operations	**$ 74.2**	$ 113.4	**$ 186.0**	$ 112.3
Changes in non-cash operating items	**2.8**	42.5	**(21.3)**	(87.0)
Cash flow from continuing operations before changes in non-cash operating items	**$ 71.4**	$ 70.9	**$ 207.3**	$ 199.3

Dividend

At its September 7, 2011 meeting, the Corporation's Board of Directors declared a quarterly dividend of $0.135 per Class A Subordinate Voting Shares and Class B shares. This dividend is payable on October 21, 2011 to participating shareholders of record at the close of business on October 3, 2011. On an annual basis, this represents a dividend of $0.54 per share. Furthermore, at the same meeting, the Board also declared a quarterly dividend of $0.4253 per share on cumulative 5-year rate reset first preferred shares, series D. This dividend is payable on October 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. 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. It is also one of Canada's top media groups as the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces. Transcontinental is also the leading door-to-door distributor of advertising material in Canada through its celebrated Publisac network in Quebec and Targeo in the rest of Canada. Thanks to a wide digital network of more than 1000 websites, the company reaches over 11.3 million unique visitors per month in Canada. Transcontinental also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental (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 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 September 7, 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 third quarter ended July 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 September 7, 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 16.

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 as well as expenses related to long-debt prepayment (net of related income taxes) and unusual adjustments to income taxes
Net indebtedness	Total of long-term debt plus current portion of long-term debt plus the amount drawn on the securitization program plus bank overdraft, less cash and cash equivalents
Organic growth	Growth in revenues or adjusted operating income excluding the effect of acquisitions, divestitures, closures, the exchange rates 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 North American economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, more particularly the U.S. dollar and the euro; the impact from raw material and energy prices; the seasonal and cyclical nature of certain businesses, 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 and integrate strategic transactions; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; infrastructure risks; the possible impact on our businesses from public health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies or a postal strike, technological changes and new regulations.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to 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 September 7, 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. It is also one of Canada’s top media groups as the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces. Transcontinental is also the leading door-to-door distributor of advertising material in Canada through its celebrated Publisac network in Quebec and Targeo in the rest of Canada. Thanks to a wide digital network of more than 1000 websites, the company reaches over 11.3 million unique visitors per month in Canada. Transcontinental also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental (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.

PREAMBLE

The consolidated financial statements and all financial data in this report have been restated to present net results from discontinued operations. The financial information disclosed herein thus represents the Corporation's continuing operations and, except for net income applicable to participating shares, excludes the results for printing operations in Mexico.

SUMMARY OF ACTIVITIES IN THIRD QUARTER 2011

In addition to generating organic growth in revenues and adjusted operating income for the sixth consecutive quarter, this quarter is marked by initiatives which directly reflect Transcontinental's strategy of leveraging existing operations as well as developing new directions in interactive and digital marketing solutions.

First, the Corporation entered into an agreement with Quad/Graphics, subject to obtaining regulatory clearances, for the indirect acquisition of all the shares of Quad/Graphics Canada. With this transaction, the Printing Sector should be able to leverage the investments made over the past few years to set up its Canada-wide hybrid printing platform, among other things, which totalled more than $700 million. The Corporation expects the transaction to be finalized in the fall of 2011. Also, in a separate transaction, Transcontinental inked an agreement to sell its Mexican printing operations and also transfer its black and white book printing business destined for U.S. export. Having received the approval of Mexican regulators, this latter transaction should close shortly. Essentially, these transactions represent an exchange of assets. Transcontinental believes that these transactions should enable it to generate additional operating income before depreciation and amortization of at least $40 million on an annualized basis in the 12 to 24 months after the closure of these transactions.

The Media Sector was also active in third quarter 2011, considerably expanding its Canadian digital representation service through agreements with Ziff Davis and The New York Times Company. Thanks to strategic investments and the development of its existing digital portfolio, the Media Sector has tripled its digital network audience over the past year. The Local Solutions Group has also continued to counter stiffer competition in the newspaper publishing industry in Quebec by launching new weekly papers on Montreal's South Shore. For the Educational Book Publishing Group, the termination of Quebec's educational reform and cutbacks in the purchase of educational materials by various provincial governments had a significant negative impact. However, it remains profitable and has a strategy to develop new products in coming quarters in order to partially offset that adverse impact.

The Interactive Sector further integrated interactive marketing solutions during the quarter with the support of recent acquisitions in the field of mobile solutions and with strategic investments aimed at steadily enhancing the solutions it offers to help its customers reach consumers more effectively. However, although the sector is still the Canadian leader in its niches, it was not able to generate a positive return from amounts invested in recent quarters.

Excess cash flows and lower capital expenditures, among other things, helped further reduce the Corporation's net indebtedness during the quarter. In July 2011, the Corporation continued to optimize its debt portfolio by repaying, three years early, its entire $50.0 million term loan from SGF Rexfor by using its term revolving credit facility, which currently has a much lower interest rate.

HIGHLIGHTS OF THIRD QUARTER 2011

- Revenues for third quarter 2011 were up 2.3% year over year, from $481.3 million to $492.6 million. The increase stems mainly from new Printing Sector contracts, including the contract to print *The Globe and Mail* daily paper. It was, however, partially offset by the adverse impact of the rise in the Canadian dollar, lower revenues from the Educational Book Publishing Group resulting from termination of the educational reform in Quebec, and plant closures.
- Adjusted operating income went from $57.4 million in the third quarter of fiscal 2010 to $57.2 million in 2011. This slight decrease is due mainly to the appreciation of the Canadian dollar versus the U.S. dollar, which had a negative impact of $3.3 million, more than outweighing the contribution from new printing contracts. However, positive organic growth of $3.4 million, or 5.9%, was generated through ongoing improvement in production equipment efficiency, partially offset by the Educational Book Publishing Group. Given the above items, operating income margin decreased from 11.9% to 11.6%.
- Adjusted net income applicable to participating shares was down $0.6 million, or 1.8%, from $33.4 million in 2010 to $32.8 million in 2011. The slight decrease stems mainly from a decrease in adjusted operating income in the Media and Interactive sectors, partially offset by the contribution from new printing contracts and more intensive use of more efficient equipment. On a per-share basis, it went from $0.41 to $0.40.
- Net income applicable to participating shares went from $28.9 million in third quarter 2010 to $10.6 million in 2011, mainly due to an increase in net loss from discontinued operations in third quarter 2011. On a per-share basis, net income decreased from $0.36 to $0.13.
- Transcontinental's ratio of net indebtedness, which is obtained by dividing the net indebtedness by the last 12 months adjusted operating income before amortization, was 1.59x at July 31, 2011, compared to 1.82x at October 31, 2010. The improvement stems mainly from the return on recent investments, the contribution from new contracts and the considerable reduction in capital spending, which brought net indebtedness down from $698.8 million as at October 31, 2010 to $596.7 million as at July 31, 2011.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

In third quarter 2011, Transcontinental distinguished itself in the environmental arena and in the community. First, for the third year in a row, Transcontinental was included in the Maclean’s/Jantzi Sustainalytics ranking of the 50 most responsible companies in Canada. This ranking is established by measuring a broad range of environmental, social and governance (ESG) indicators. Also, once again, the Corporation was ranked by Corporate Knights as one of Canada's best 50 corporate citizens. Corporate Knights is an independent Canadian-based media company which annually evaluates corporations based on their community engagement, occupational health and safety and governance practices.

No other major changes occurred in third quarter 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.*

SELECTED FINANCIAL DATA

For third quarters and nine-month periods ended July 31
(unaudited)

(in millions of dollars, except per share data)	Three months ended July 31			Nine months ended July 31		
	2011	2010	Variation in %	2011	2010	Variation in %
Operations						
Revenues	$ 492.6	$ 481.3	2%	$ 1,506.1	$ 1,471.9	2%
Adjusted operating income before amortization (1)	86.6	87.3	-1%	256.3	254.4	1%
Operating income	56.2	56.4	0%	156.2	155.6	0%
Adjusted operating income (1)	57.2	57.4	0%	166.4	161.0	3%
Net income applicable to participating shares	10.6	28.9	-63%	69.8	122.1	-43%
Adjusted net income applicable to participating shares (1)	32.8	33.4	-2%	101.5	93.2	9%
Cash flow from operating activities before changes in non-cash operating items (1)	71.4	70.9	1%	207.3	199.3	4%
Cash flow related to operating activities of continuing operations	74.2	113.4	-35%	186.0	112.3	66%
Investments						
Acquisitions of property, plant and equipment	8.7	21.4	-59%	37.2	109.0	-66%
Business acquisitions (2)	-	4.1	n/a	5.4	6.9	-22%
Per share data (basic)						
Net income applicable to participating shares	0.13	0.36	-64%	0.86	1.51	-43%
Adjusted net income applicable to participating shares (1)	0.40	0.41	-2%	1.25	1.15	9%
Cash flow from operating activities before changes in non-cash operating items (1)	0.88	0.88	0%	2.56	2.47	4%
Cash flow related to operating activities of continuing operations	0.92	1.40	-34%	2.30	1.39	65%
Dividends on participating shares	0.14	0.09	56%	0.36	0.26	38%
Average number of participating shares outstanding (in millions)	81.0	80.8		81.0	80.8	

	As at July 31 2011	As at October 31 2010	As at July 31 2010
Financial condition			
Total assets	$ 2,450.7	$ 2,594.7	$ 2,476.6
Net indebtedness (1)	596.7	698.8	708.4 (3)
Shareholders' equity	1,303.4	1,247.0	1,209.0
Net indebtedness (including utilization of securitization program) / adjusted operating income before amortization (last 12 months) (1)	1.59x	1.82x (3)	1.85x (3)
Shareholders' equity per participating share	$ 14.85	$ 14.16	$ 13.73
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 16 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 originally reported.

DETAILED ANALYSIS OF THIRD QUARTER 2011 OPERATING RESULTS

Analysis of Main Variances - Consolidated Results
For the third quarter ended July 31, 2011
(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income applicable to participating shares	%
Results - Third Quarter 2010	$ 481.3		$ 57.4		$ 28.9	
Acquisitions/Divestitures/Closures	0.1	0.0 %	0.2	0.3 %	0.3	1.0 %
Discontinued operations	-	- %	-	- %	(17.6)	(60.9) %
Existing operations						
Paper effect	3.6	0.7 %	(0.5)	(0.9) %	(0.4)	(1.4) %
Exchange rates	(4.0)	(0.8) %	(3.3)	(5.7) %	(2.8)	(9.7) %
Organic growth	11.6	2.4 %	3.4	5.9 %	2.3	8.0 %
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	- %	-	- %	(0.1)	(0.3) %
Results - Third Quarter 2011	$ 492.6	2.3 %	$ 57.2	(0.3) %	$ 10.6	(81.5) %

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

- The net effect of acquisitions, divestitures and closures increased revenues by $0.1 million, mainly due to the recent acquisitions in the Interactive and Media sectors, which was partially offset by the loss of a few customers following the closure of the Boucherville plant in the Printing Sector. For adjusted operating income, the $0.2 million net positive effect stems mainly from plant closures in the Printing Sector, partially offset by development costs in the Interactive and Media sectors. Net of financial expenses and income taxes, they had a positive impact of $0.3 million on net income applicable to participating shares.

- The paper effect had a $3.6 million positive impact on revenues. This figure includes variations in the price of paper, paper supplied and changes in the type of paper used by customers of its printing operations. Note that for its printing operations, these elements affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had a $0.5 million negative impact on adjusted operating income and a $0.4 million negative impact on net income.

- The variations in the exchange rate between the Canadian and U.S. dollars resulted in a $4.0 million decrease in revenues and a $3.3 million decrease in adjusted operating income. The negative variation in average spot exchange rates in third quarter 2011 versus third quarter 2010 was 6.5% for the CAD/USD. With respect to revenues, conversion of sales by U.S. units had a negative impact of about $1.7 million. The negative impact of export sales, net of currency hedging, was $2.3 million. The conversion of results for U.S. units had a negative impact of $0.1 million on adjusted operating income. The negative impact of export sales, net of currency hedging and purchases in U.S. dollars, was $3.3 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 $0.1 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net negative effect was $2.8 million.

- Organic growth in revenues amounted to $11.6 million, or 2.4%, in third quarter 2011. The increase stems largely from the contribution of new contracts in the Printing Sector and, to a lesser extent, to higher revenues from the digital representation house in the New Media and Digital Solutions Group and the launch of new community papers by the Local Solutions Group in recent quarters in the Media Sector. However, this increase was partially offset by the termination of the educational reform in Quebec and cutbacks in the purchase of educational materials by various provincial governments, which had a significant negative impact on the Educational Book Publishing Group. Organic growth in adjusted operating income, which amounted to $3.4 million, or 5.9%, in third quarter 2011, is mainly due to equipment optimization and the contribution of new printing contracts. These items were, however, partially offset by a decrease in adjusted operating income for the Educational Book Publishing Group due to the above items and the ramping up of strategic investments in the Media and Interactive sectors to leverage the development of new directions in interactive and digital marketing solutions.

Impairment of Assets and Restructuring Costs

In third quarter 2011, an amount of $1.0 million before tax ($0.9 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $0.4 million is due to asset impairment, $0.1 million to workforce reductions and $0.5 million to other costs.

In third quarter 2010, an amount of $1.0 million before tax ($0.8 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $0.9 million is due to workforce reductions and $0.1 million to other costs.

Financial Expenses and Discount on Sale of Accounts Receivable

Combined, financial expenses and discount on the sale of accounts receivable were down $0.5 million, from $10.4 million in 2010 to $9.9 million in 2011. The decrease is mainly due to a significant reduction in the Corporation's net indebtedness and its weighted average interest rate compared to last year, partially offset by a net loss of $1.0 million stemming from the discontinuance of cash flow hedge accounting for some financial instruments due to early repayment of the hedged instruments.

Income Taxes

Income taxes increased by $1.0 million, from $11.7 million in third quarter 2010 to $12.7 million in third quarter 2011. Excluding income taxes related to impairment of assets and restructuring costs, income taxes would have amounted to $12.8 million, or a tax rate of 27.1%, compared to $11.9 million, or 25.3%, in third quarter 2010. This increase is due to, among other factors, the change in the geographic distribution of pre-tax earnings.

Discontinued Operations

In the third quarter 2011, the Corporation signed an agreement to sell its Mexican printing operations to Quad/Graphics. Having received the approval of Mexican regulators, this transaction should close shortly. Net loss from these discontinued operations, net of related income taxes, amounted to $21.3 million (gain of $0.9 million in 2010) of which a gain of $0.3 million is related to operations of discontinued operations and a loss of $21.6 million is related to a realized foreign exchange loss, in connection with the reduction of the net investment in self-sustaining foreign operations.

In third quarter 2010, a net loss related to the operations of discontinued operations of $4.6 million, net of related income taxes, was recorded from the sale of almost all direct mail operations in the United States in April 2010.

Net Income Applicable to Participating Shares

Net income applicable to participating shares went from $28.9 million in third quarter 2010 to $10.6 million in third quarter 2011 which is mainly due to the net loss from its Mexican discontinued operations in 2011. On a per-share basis, net income applicable to participating shares went from $0.36 to $0.13.

Adjusted net income applicable to participating shares decreased $0.6 million, or 1.8%, from $33.4 million in third quarter 2010 to $32.8 million in third quarter 2011. On a per-share basis, it went from $0.41 to $0.40.

REVIEW OF OPERATING SECTORS FOR THIRD QUARTER 2011

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

(in millions of dollars)	Printing Sector	Media Sector	Interactive Sector	Inter-segment Eliminations and Other acitivities	Consolidated Results
Revenues - Third Quarter 2010	$ 313.4	$ 155.1	$ 31.3	$ (18.5)	$ 481.3
Acquisitions/Divestitures/Closures	(0.5)	0.2	0.4	-	0.1
Existing operations					
Paper effect	3.6	-	-	-	3.6
Exchange rates effect	(3.3)	-	(0.7)	-	(4.0)
Organic growth (negative)	15.8	(4.5)	0.6	(0.3)	11.6
Revenues - Third Quarter 2011	$ 329.0	$ 150.8	$ 31.6	$ (18.8)	$ 492.6
Adjusted operating income (loss) - Third Quarter 2010	$ 36.3	$ 28.6	$ (0.6)	$ (6.9)	$ 57.4
Acquisitions/Divestitures/Closures	0.6	-	(0.4)	-	0.2
Existing operations					
Paper effect	-	(0.5)	-	-	(0.5)
Exchange rates effect	(3.3)	-	-	-	(3.3)
Organic growth (negative)	10.3	(8.9)	(2.2)	4.2	3.4
Adjusted operating income (loss) - Third Quarter 2011	$ 43.9	$ 19.2	$ (3.2)	$ (2.7)	$ 57.2

This review of operating sectors should be read in conjunction with the information presented in the above table and the information disclosed in the Segmented Information note (note 17) to the Consolidated Financial Statements for the quarter ended July 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 $15.6 million, or 5.0%, from $313.4 million in third quarter 2010 to $329.0 million in third quarter 2011. Excluding divestitures, closures and variations in the paper and exchange rates, revenues grew $15.8 million, or 5.0%. Positive growth stems mainly from new printing contracts in some business groups, especially the contract to print *The Globe and Mail*.

Adjusted operating income was up 20.9%, from $36.3 million in third quarter 2010 to $43.9 million in 2011. As a result, the adjusted operating income margin rose from 11.6% in third quarter 2010 to 13.3% in third quarter 2011. Excluding divestitures, closures and exchange rate impact, adjusted operating income rose by $10.3 million, or 28.4%. This positive organic growth stems mainly from increased revenues, as well as greater operational efficiency due to, among other things, the consolidation of operations in certain plants and use of the most efficient equipment, namely the sector's new hybrid printing platform, which prints both newspapers and flyers.

In third quarter 2011, an agreement was signed with Quad/Graphics to indirectly acquire all shares of Quad/Graphics Canada, including six printing plants and a premedia service centre. This transaction is being reviewed by Canadian regulators and the Corporation believes that it will be finalized in the fall of 2011. In a separate transaction, Transcontinental sold the Printing Sector's assets in Mexico. This second transaction has been approved by Mexican regulators and should close shortly. In connection with the upcoming closing, Transcontinental will also transfer its black and white book printing business destined for U.S. export.

It is expected that in coming quarters new revenues will be generated by new printing contracts, like the one signed with Canadian Tire in second quarter 2011, which should generate additional revenues of $30 to $40 million annually starting in January 2012 and should benefit the other two sectors as well. In addition, given the significant investments in its printing network in recent years and the enhanced operational efficiency of equipment, the Corporation believes that the transactions with Quad/Graphics as described above could result in additional income before depreciation of at least $40 million on an annualized basis in the 12 to 24 months after the closure of agreements. Finally, going forward, the Printing Sector will continue to optimize use of its most productive equipment.

Media Sector

Media Sector revenues were down $4.3 million, from $155.1 million in third quarter 2010 to $150.8 million in third quarter 2011. Excluding acquisitions, divestitures and closures, revenues decreased by $4.5 million, or 2.9%. The decrease is mainly due to termination of the educational reform in Quebec, which, for the past five years, had required the purchase of new textbooks in all high schools in Quebec, and to provincial government cutbacks in the purchase of educational materials, which had buoyed revenues in the Educational Book Publishing Group in third quarter 2010. In addition, the Business and Consumer Solutions Group was affected by a slowdown in national advertising. The launch of new community papers in Quebec over the past several quarters and recent strategic investments in the New Media and Digital Solutions Group did, however, partially offset the decrease in revenues.

Adjusted operating income was down $9.4 million, from $28.6 million in third quarter 2010 to $19.2 million in third quarter 2011. Excluding acquisitions, divestitures, closures and the paper effect, the decrease was $8.9 million. The decrease stems mainly from lower revenues as described above, primarily in the Educational Book Publishing Group, stiffer competition in newspaper publishing, the launch of new community papers in Quebec to extend the geographic coverage of such papers, and digital platforms to enhance its new media solutions offering. Furthermore, a change in accounting policy led to a $1.2 million decrease in the Educational Book Publishing Group's operating costs in third quarter 2011 versus the same quarter a year earlier. Consequently, the Media Sector's adjusted operating income margin decreased, to 12.7% in third quarter 2011 compared to 18.4% in third quarter 2010.

In third quarter 2011, the Media Sector continued its strategic investments in its Local Solutions Group, launching new weekly papers in Quebec. The New Media and Digital Solutions Group saw its initiatives and investments of recent quarters pay off with the signing of online advertising representation agreements for the websites *About.com*, *CalorieCount.com* and *Netplaces.com* of The New York Times Company as well as for *PCMag.com*, *ExtremeTech.com* and *Geek.com* of Ziff Davis. With these agreements and the strategic investments made in past quarters, the Media Sector has tripled its digital network audience in less than a year.

Initiatives of past quarters will continue with further strategic investments in digital and print platforms. To that end, on August 1, 2011, the Media Sector acquired Groupe Le Canada Français's publishing assets on Montreal's South Shore, consisting of several print titles as well as a series of online regional information portals. These investments, as well as the launch of new community papers and more competition in its niches will put pressure on the Local Solutions Group's operating margins in coming quarters. Strengthened by the recent successes of the New Media and Digital Solutions Group, the sector will ramp up its efforts to monetize its digital offer and develop its new digital representation house in order to take advantage of the emergence of new markets. This should have a positive impact on its revenues and profitability in future quarters. Finally, the Educational Book Publishing Group will continue to develop educational content in order to penetrate new niches in coming quarters.

Interactive Sector

Revenues in the Interactive Sector increased $0.3 million, or 1.0%, from $31.3 million in third quarter 2010 to $31.6 million in third quarter 2011. The increase was offset by the rise in the Canadian dollar versus the U.S. dollar, which is why revenues were down $0.7 million compared to 2010. The positive organic growth of $0.6 million is mainly due to the Custom Communications Division, which was able to capitalize on a major new contract.

The adjusted operating loss rose from $0.6 million in third quarter 2010 to $3.2 million in third quarter 2011, up $2.6 million. Consequently, the adjusted operating income margin went from a negative margin of 1.9% for third quarter 2010 to 10.1% in 2011. The adjusted operating loss, excluding acquisitions and the exchange rate effect, increased by $2.2 million, mainly due to expenses related to the integration of its interactive marketing services and investments which have not yet generated the expected return.

During the quarter, Red Pill Email named the Interactive Sector the leading supplier of email and messaging solutions in Canada and fifth in the United States. This is the result of the sector's ongoing and targeted investments to further integrate its line of interactive marketing solutions and remain Canada's leader in this niche.

In future quarters, the sector will focus on its strategy to maintain its position as a Canadian leader in interactive marketing solutions, and on the monetization of those solutions, which has not yet achieved the expected level. In addition, corrective measures are now being considered in order to accelerate the integration of the sector's interactive marketing solutions and the profitability of such services, which the Corporation considers promising.

Inter-segment Eliminations and Other Activities

Eliminations of inter-segment revenues and other activities went from a negative total of $18.5 million in third quarter 2010 to a negative total of $18.8 million in 2011. The change is mainly due to an increase in inter-segment transactions. Adjusted operating income went from a negative total of $6.9 million in third quarter 2010 to a negative total of $2.7 million in 2011, stemming mainly from a favourable variance in connection to the defined benefit pension plan provision compared to last year and to a decrease in Head Office costs in 2011.

DETAILED ANALYSIS OF OPERATING RESULTS FOR THE NINE MONTHS ENDED JULY 31, 2011

Analysis of Main Variances - Consolidated Results
For the nine-month period ended July 31, 2011
(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income applicable to participating shares	%
Results - Nine months ended July 31, 2010	$ 1,471.9		$ 161.0		$ 122.1	
Acquisitions/Divestitures/Closures	(0.9)	(0.1) %	(2.1)	(1.3) %	(1.6)	(1.3) %
Discontinued operations	-	- %	-	- %	(50.5)	(41.4) %
Existing operations						
Paper effect	17.5	1.2 %	(1.5)	(0.9) %	(1.2)	(1.0) %
Exchange rates effect	(9.2)	(0.6) %	(4.7)	(2.9) %	(3.8)	(3.1) %
Organic growth	26.8	1.8 %	13.7	8.5 %	14.9	12.2 %
Impairment of assets, restructuring costs and unusual adjustments to income taxes	-	- %	-	- %	(5.9)	(4.8) %
Expenses related to debt prepayment	-	- %	-	- %	(4.2)	(3.4) %
Results - Nine months ended July 31, 2011	$ 1,506.1	2.3 %	$ 166.4	3.4 %	$ 69.8	(56.6) %

As shown in the above table, a number of factors contributed to the variance in results for the first nine months of fiscal 2011 and the first nine months of fiscal 2010.

- The net impact of acquisitions, divestitures and closures reduced revenues by $0.9 million and adjusted operating income by $2.1 million. Net of financial expenses and income taxes, the negative impact on net income was $1.6 million. The reduction is mainly due to the cost of developing and integrating acquisitions in the Interactive Sector, partially offset by the positive impact of plant closures in the Printing Sector in fiscal 2011.

- The paper effect had a positive $17.5 million 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 its printing operations. Note that for its 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 $1.5 million on adjusted operating income and $1.2 million on net income.

- The rise in the Canadian dollar versus the U.S. dollar led to a $9.2 million decrease in revenues and a $4.7 million decrease in adjusted operating income in the first nine months of fiscal 2011. The negative variation in average spot exchange rates in the first nine months of 2011 versus the same period in 2010 was 5.7% for the CAD/USD. For revenues, the conversion of sales by U.S. units had a negative impact of about $4.6 million. The negative impact of export sales, net of the currency hedging program, was $4.6 million. The conversion of results for the U.S. units had a negative impact of $0.5 million on adjusted operating income. Export sales, net of the currency hedging program and purchases in U.S. dollars had a negative impact of $3.7 million on adjusted operating income. Finally, the negative impact on adjusted operating income of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was $0.5 million. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net negative effect was $3.8 million.

- Organic growth in revenues amounted to $26.8 million, or 1.8%, in the first nine months of fiscal 2011. The increase stems largely from the contribution of new contracts in the Printing Sector, particularly the contract to print *The Globe and Mail,* to higher revenues in the Media Sector's New Media and Digital Solutions Group and for its distribution and newspaper publishing activities. The Interactive Sector also contributed to growth in revenues during this period, mainly through its Custom Communications and Premedia divisions. However, this increase was partially offset by a decline in the volume of magazine, book and catalogue printing, the termination of the educational reform in Quebec and a decrease in national advertising spending which affected the Business and Consumer Solutions Group. Organic growth in adjusted operating income, which amounted to $13.7 million, or 8.5%, in the first nine months of fiscal 2011, stems mainly from greater operational efficiency and the contribution of new printing contracts. These items were, however, partially offset by the adverse impact of the termination of the educational reform in Quebec and by the acceleration of strategic investments in the Media and Interactive sectors aimed at further developing their offering of digital solutions and interactive marketing services.

Impairment of Assets and Restructuring Costs

For the first nine months of fiscal 2011, an amount of $10.2 million before tax ($7.5 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $4.4 million is due to workforce reductions, $3.9 million to asset impairment and $1.9 million to other costs, all mainly related to the closure of plants in the Printing Sector during the fiscal year.

For the first nine months of 2010, an amount of $5.4 million before tax ($4.0 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $4.5 million was due to workforce reductions in the Printing and Media sectors, and $0.9 million to asset impairment and other costs in these two sectors.

Financial Expenses, Expenses Related to Debt Prepayment and Discount on Sale of Accounts Receivable

Combined, financial expenses, expenses related to debt prepayment and discount on sale of accounts receivable rose $3.4 million, or 10.7%, from $31.8 million for the first nine months of fiscal 2010 to $35.2 million for the first nine months of fiscal 2011. The increase is mainly due to unusual expenses related to early repayment in February 2011 of the term credit facility with the Caisse de dépôt et placement du Québec as well as the term loan with SGF Rexfor in July 2011.

However, excluding these non-recurring expenses of $5.8 million ($4.2 million after tax) of which $1.4 million have no impact on cash flows, financial expenses amounted to $29.4 million in the first nine months of fiscal 2011, down 7.5% compared to 2010. The decrease is mainly due to a significant reduction in the Corporation's net indebtedness for the period as compared to the same period last year.

Income Taxes

Income taxes decreased by $1.5 million, from $26.8 million in the first nine months of fiscal 2010 to $25.3 million in the first nine months of fiscal 2011. Excluding income taxes on impairment of assets and restructuring costs and on expenses for debt prepayment as well as unusual adjustments to income taxes, income taxes would have amounted to $29.6 million, for a tax rate of 21.6%, compared to $30.6 million, or 23.7%, in the first nine months of 2010. This decrease is due to, among other factors, the change in the geographic distribution of pre-tax earnings.

Discontinued Operations

In the third quarter 2011, the Corporation signed an agreement to sell its Mexican printing operations to Quad/Graphics. Having received the approval of Mexican regulators, this transaction should close shortly. Net loss from these discontinued operations, net of related income taxes, amounted to $20.0 million (gain of $2.2 million in 2010) of which a gain of $1.6 million is related to operations of discontinued operations and a loss of $21.6 million is related to a realized foreign exchange loss, in connection with the reduction of net investment in self-sustaining foreign operations.

In the first nine months of fiscal 2010, net income from discontinued operations of $28.3 million, net of related income taxes, was recorded following the sale of almost all direct mail operations in the United States in April 2010 for net proceeds of $105.7 million. Net income from discontinued operations includes a gain from discontinuance of operations of $39.2 million, net of related income taxes, and a net loss of $10.9 million related to the operation of discontinued operations, net of related income taxes.

Net Income Applicable to Participating Shares

Net income applicable to participating shares went from $122.1 million in the first nine months of fiscal 2010 to $69.8 million in the first nine months of fiscal 2011. This decrease is mainly due to a gain related to the discontinuance of direct mail operations in the United States in 2010 as well as to the net loss from its Mexican discontinued operations in 2011. On a per-share basis, net income applicable to participating shares was down, from $1.51 to $0.86.

Adjusted net income applicable to participating shares rose $8.3 million, or 8.9%, from $93.2 million in the first nine months of fiscal 2010 to $101.5 million in the first nine months of fiscal 2011. On a per-share basis, it rose $0.10, from $1.15 to $1.25.

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.

(unaudited)

	Three months ended July 31		Nine months ended July 31	
(in millions of dollars, except per share amounts)	2011	2010	2011	2010
Net income applicable to participating shares	$ 10.6	$ 28.9	$ 69.8	$ 122.1
Dividends on preferred shares	1.7	1.7	5.1	5.1
Net loss (income) from discontinued operations (after tax)	21.3	3.7	20.0	(30.5)
Non-controlling interest	-	-	0.8	0.3
Income taxes	12.7	11.7	25.3	26.8
Discount on sale of accounts receivable	-	-	-	0.9
Financial expenses	9.9	10.4	29.4	30.9
Expenses related to long-term debt prepayment	-	-	5.8	-
Impairment of assets and restructuring costs	1.0	1.0	10.2	5.4
Adjusted operating income	$ 57.2	$ 57.4	$ 166.4	$ 161.0
Amortization	29.4	29.9	89.9	93.4
Adjusted operating income before amortization	$ 86.6	$ 87.3	$ 256.3	$ 254.4
Net income applicable to participating shares	$ 10.6	$ 28.9	$ 69.8	$ 122.1
Net loss (income) from discontinued operations (after tax)	21.3	3.7	20.0	(30.5)
Unusual adjustments to income taxes	-	-	-	(2.4)
Expenses related to long-term debt prepayment (after tax)	-	-	4.2	-
Impairment of assets and restructuring costs (after tax)	0.9	0.8	7.5	4.0
Adjusted net income applicable to participating shares	$ 32.8	$ 33.4	$ 101.5	$ 93.2
Average number of participating shares outstanding	81.0	80.8	81.0	80.8
Adjusted net income applicable to participating shares per share	$ 0.40	$ 0.41	$ 1.25	$ 1.15
Cash flow related to continuing operations	$ 74.2	$ 113.4	$ 186.0	$ 112.3
Changes in non-cash operating items	2.8	42.5	(21.3)	(87.0)
Cash flow from continuing operations before changes in non-cash operating items	$ 71.4	$ 70.9	$ 207.3	$ 199.3
Long-term debt			$ 642.2	$ 724.4 [1]
Current portion of long-term debt			15.3	4.8 [1]
Cash and cash equivalents			(60.8)	(20.8) [1]
Net indebtedness			$ 596.7	$ 708.4 [1]
Adjusted operating income before amortization (last 12 months)			$ 375.1	$ 382.4 [1]
Net indebtedness ratio			1.59x	1.85x [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)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	$ 493	$ 499	$ 515	$ 556	$ 481	$ 495	$ 495	$ 552
Adjusted operating income before amortization	87	90	80	119	87	89	78	118
Adjusted operating income margin before amortization	17.6 %	18.0 %	15.5 %	21.4 %	18.1 %	18.0 %	15.8 %	21.4
Operating income	$ 56	$ 56	$ 44	$ 67	$ 56	$ 55	$ 45	$ 73
Adjusted operating income	57	66	49	89	57	57	46	85
Adjusted operating income margin	11.6 %	13.2 %	9.5 %	16.0 %	11.9 %	11.5 %	9.3 %	15.4
Net income applicable to participating shares	$ 11	$ 33	$ 26	$ 45	$ 29	$ 67	$ 26	$ 43
Per share	0.13	0.41	0.32	0.56	0.36	0.83	0.32	0.54
Adjusted net income applicable to participating shares	33	39	29	63	33	34	26	52
Per share	0.40	0.48	0.36	0.78	0.41	0.42	0.32	0.65
% of fiscal year	- %	- %	%	40 %	21 %	22 %	17 %	40

The above table shows changes in Transcontinental's quarterly results. New printing contracts, the Interactive Sector's acquisitions in the field of mobile solutions and the launch of new community papers in the Media Sector raised the Corporation's revenues in the first three quarters of fiscal 2011, year over year. However, this increase was reduced by, among other factors, lower revenues in the Magazine, Book and Catalogue Group, the negative impact of the exchange rate, and divestitures and closures. Also, fourth-quarter results are higher than the other quarters since advertising spending is usually higher in the fall.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

(in millions of dollars)	2011	2010
Operating activities		
Cash flow from continuing operations before changes in non-cash operating items	$ 71.4	$ 70.9
Changes in non-cash operating items	2.8	42.5
Cash flow related to operating activities of continuing operations	74.2	113.4
Investing activities		
Business acquisitions, net of disposals	-	(4.1)
Acquisitions of property, plant and equipment, net of disposals	(8.5)	(19.1)
Other	(7.9)	(2.3)
Cash flow related to investing activities of continuing operations	(16.4)	(25.5)
Financing activities		
Increase in long-term debt	-	2.7
Reimbursement of long-term debt	(59.2)	(0.7)
Increase (decrease) in revolving term credit facility	78.5	(68.7)
Issuance of participating shares	-	0.3
Dividends on participating shares	(10.9)	(7.3)
Dividends on preferred shares	(1.7)	(1.7)
Other	-	(1.5)
Cash flow related to financing activities of continuing operations	6.7	(76.9)
Other relevant information		
Net indebtedness	596.7	708.4 (1)
Shareholders' equity	1,303.4	1,209.0
Net indebtedness (including usage of the securitization program) / adjusted operating income before amortization (last 12 months)	1.59x	1.85x (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 rose in the third quarter, from $70.9 million in 2010 to $71.4 million in 2011. Changes in non-cash operating items led to a cash inflow of $2.8 million in 2011, compared to $42.5 million in 2010. The difference is mainly due to lower receivables and higher income taxes paid in 2010. Consequently, cash flow from operations decreased, leading to a cash inflow of $74.2 million in 2011, compared to $113.4 million in 2010.

Cash Flow Related to Investing Activities of Continuing Operations

In third quarter 2011, the Corporation considerably reduced its investments in property, plant and equipment to $8.5 million net of disposals, compared to $19.1 million in 2010, 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 $10.9 million in dividends on participating shares in third quarter 2011, compared to $7.3 million in 2010. The 49.3% increase is due to two dividend increases which raised the quarterly dividend from 9 cents to 13.5 cents per share in recent quarters. Also, in third quarter 2011, the Corporation paid $1.7 million in dividends on preferred shares, the same amount as in third quarter 2010.

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

Shares Issued and Outstanding	As at July 31, 2011	As at August 31, 2011
Class A (Subordinate Voting Shares)	65,868,987	65 869 687
Class B (Multiple Voting Shares)	15,152,940	15 152 240
Series D Preferred (with cumulative rate reset)	4,000,000	4,000,000

Debt Instruments

As at July 31, 2011, the net indebtedness to adjusted operating income before amortization ratio stood at 1.59x (1.82x as at October 31, 2010). The decrease stems primarily from the increase in adjusted operating income before amortization and the significant reduction in net indebtedness stemming from, among other things, reduced spending on property, plant and equipment. Management plans to reduce this ratio even further and to maintain it at about 1.50x.

The Corporation's $400 million term revolving credit, of which $285.2 million was used as at July 31, 2011, matures in September 2012. The applicable interest rate on the term revolving credit 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 $66\frac{2}{3}$% of the term revolving credit.

As of July 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 its 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. As at July 31, 2011, the capital amount remaining to be paid is €39.3 million ($54.0 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 rates plus 2.55%.

On February 1, 2011, the Corporation entered into an agreement setting the interest rate on a $50 million debenture with the Solidarity Fund QFL at 5.58% 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% for the remaining term of the debenture.

On February 17, 2011, the Corporation used its revolving term credit to repay, more than three years before the end of its term and in accordance with agreed-upon terms and conditions, its five-year $100.0 million term credit facility with Caisse de dépôt et placement du Québec which bore interest at the bankers' acceptance rate + 6.36%. Although this debt prepayment currently optimizes the Corporation's debt portfolio by reducing its average interest rate cost, it led to a non-recurring charge of $4.5 million, of which $1.1 million will have no effect on cash flows.

On July 4, 2011, the Corporation pre-paid its $50 million term loan from SGF Rexfor, which would have matured in July 2014. This term loan, with an annual interest rate of 8.25% based on the Corporation's Standard & Poor's credit rating, was repaid early using the term revolving credit facility. Although this early repayment optimized the Corporation's debt portfolio, it generated a non-recurring expense of $1.3 million, of which $0.3 million had no impact on cash flows. Under Canadian GAAP, these expenses were accounted for in the income statement for second quarter 2011, since the Corporation planned to repay the term loan before the end of the second quarter.

Off-Balance Sheet Arrangements (Securitization)

On February 16, 2011, the Corporation set up a new securitization program with a trust whose agent of financial services is a Canadian bank, to sell, from time to time, certain accounts receivable of its subsidiaries. The maximum net consideration permitted under the program is $200.0 million over two years, with up to 20% of U.S.-dollar accounts receivable. The terms of the new program take the current market conditions into account and are favourable compared to other sources of financing. As at July 31, 2011, no accounts receivable were sold on this securitization program. As at July 31, 2010, accounts receivable sold under the previous securitization program amounted to $217.2 million, all of which was kept by the Corporation as retained interest, for a nil net consideration. The retained interest is recorded in the Corporation's accounts receivable at the lower of cost and fair market value. Under the program, no discount was recorded on the sale of accounts receivable for third quarters 2010 and 2011.

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*.

In accordance with Canadian GAAP, in second quarter 2011 the Corporation performed impairments tests. At the conclusion of the first step, the Corporation identified certain reporting units in the Interactive sector for which their book value exceed their fair value. A goodwill of approximately $25.0 million is allocated to these reporting units. At the moment of the publication of this management's discussion and analysis, the Corporation has not yet completed the second step of the test, due to important changes in the business plan recently implemented in the Interactive sector. These changes generate uncertainty on future cash flows of the reporting units identified in the first step.

Therefore, it is impossible to estimate the amount of the potential impairment. The Corporation expects to complete the second step by the end of fiscal 2011. As a result, no impairment of goodwill was recorded in third quarter 2011.

CHANGES IN ACCOUNTING POLICIES

Section 3064 of the CICA Handbook, Goodwill and intangible assets, allows for the capitalization of employee salaries, wages and benefits directly attributable to an internally generated intangible asset. The Corporation had not been capitalizing its educational book prepublication costs, as its information systems could not allocate this information per book. On November 1, 2010, the Company modified its information systems so that it could compile employee salaries, wages and benefits on a per-book basis and decided to change its accounting policy. Consequently, for the three-month period ended July 31, 2011, this change in accounting policy resulted in a $1.2 million decrease in operating costs and a $0.3 million increase in income tax expense. For the nine-month period ended July 31, 2011, the change in accounting policy resulted in a $4.8 million increase in intangible assets and a $1.4 million increase in long-term future income tax liability, as well as a decrease in operating costs of $4.8 million and an increase in income tax expense of $1.4 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 commenced 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. • IAS 19 was however amended in June 2011 and now allows only one option, which is the immediate recognition of actuarial gains and losses in other comprehensive income and the presenting of service costs and financial expenses in the income statement. This amendment to IAS 19 will take effect for fiscal years starting from January 1, 2013; the Corporation is currently evaluating the impact of this change.
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 the same 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 depending on 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 two-step test is conducted: first, the carrying amount of the asset is compared to undiscounted future cash flows; then, if an impairment is required, the amount of the impairment is determined by comparing the carrying amount of the asset to its fair value. • Asset impairments other than goodwill impairments can be reversed under certain circumstances. Canadian GAAP did not permit 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. • A new standard, IFRS 11 Joint Arrangements was issued in May 2011 and now allows only one consolidation method, that of equity accounting. The new standard takes effect for fiscal years starting from January 1, 2013 and the Corporation is currently assessing the impact of this change.

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 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 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, Management continually reviews 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 third quarter of fiscal 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Competition

In the first nine months of 2011, some of our more traditional niches faced an upsurge in 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 third 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 third 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 third 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 0.9672 CAD/USD in third quarter 2011, compared to an average of 1.0346 CAD/USD in third 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 July 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$73 million (US$115 million as at July 31, 2010), of which $20 million and $53 million will be sold in fiscal 2011 and 2012, respectively. The terms of these forward contracts range from one month to 14 months, with rates varying from 0.9650 to 1.1554. Hedging relationships were effective and in accordance with risk management objectives and strategies throughout third quarter 2011.

Dependence on Information Systems

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

Impairment Tests

In accordance with Canadian GAAP, in second quarter 2011 the Corporation performed impairments tests. At the conclusion of the first step, the Corporation identified certain reporting units in the Interactive Sector whose book value exceeded their fair value. Goodwill of approximately $25.0 million is allocated to these reporting units. At the moment of the publication of this Management's Discussion and Analysis, the Corporation has not yet completed the second step of the test, due to important changes in the business plan recently implemented in the Interactive Sector. These changes generate uncertainty about the future cash flows of the reporting units identified in the first step. It is therefore impossible to estimate the amount of the potential impairment. The Corporation expects to complete the second step by the end of fiscal 2011. This potential impairment could give rise to a non-cash charge that would reduce the net income applicable to participating shares. However, it would have no significant impact on the Corporation's compliance with the debt ratio it must maintain under the terms of its current credit facilities and would not, therefore, limit its borrowing power. 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 third quarter 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 third quarter 2011. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2010*.

Integration of Acquisitions

In the third quarter 2011, Transcontinental signed an agreement with Quad/Graphics for the indirect acquisition of all shares of Quad/Graphics Canada. This transaction is, however, subject to regulatory approval; Management expects the agreement to be finalized in the fall of 2011. However, integration of these operations could lead to the loss of contracts and/or customers, to temporary disturbances in production or to the inability to retain key employees. In addition, the expected synergies may not be fully realized or may take longer than anticipated to materialize. However, to limit this risk, the Corporation is relying on experienced due diligence teams and rigorous integration methods and believes that it will be able to generate synergies from the integration of these operations due to the significant investments made in recent years in its Printing Sector. No other major change occurred in third quarter

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 third 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 third 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 $285.2 million was used as at July 31, 2011. The facility was used in the third quarter to prepay the term loan of $50.0 million arranged with SGF Rexfor in July 2009. However, the financial risk related to this early repayment is offset by the new two-year $200.0 million receivables securitization program set up in second quarter 2011, from which no amount was drawn at July 31, 2011. In addition, the Corporation is in a very sound financial situation with a ratio of net indebtedness to adjusted operating income before depreciation and amortization of 1.59x. The cash flow available to the Corporation should be higher in the coming quarters, given the significant reduction in our capital spending and the contribution from new contracts.

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 third quarter 2011, considering the derivative financial instruments used, the fixed rate portion of the Corporation's long-term debt represented 61% of the total, while the floating rate portion represented 39% (70% and 30%, respectively, as at October 31, 2010). In order to mitigate its exposure to the risk of interest rate fluctuations, the Corporation tries to keep an adequate balance of fixed versus floating rate debt.

Credit

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

Environmental Risks

Bill 88 amending the Environment Quality Act and the Regulation on the compensation plan was adopted on June 10, 2011 and took effect on June 13, 2011. The percentage of recycling costs incurred by Quebec municipalities, which is currently paid by businesses, will rise from 80% in 2011 to 100% in 2013. This legislative amendment could have an adverse effect on the Media Sector, and more specifically, on the Local Solutions Group and the Business and Consumer Solutions Group. No other major change occurred in the third quarter 2011. For more information, please see the "Environment" section of *Management's Discussion and Analysis for the Year Ended October 31, 2010 – Connecting Words to Actions.*

Raw Material and Postal Risk

Raw Materials and Energy Prices

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

Postal Services

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

SUBSEQUENT EVENTS

Approval of Mexican regulators regarding the sale of the Mexican printing operations

As at September 7, 2011, Transcontinental announced it had received the approval from Mexican regulators in to sell its Mexican printing operations to Quad/Graphics, therefore this transaction should close shortly. These operations have some 900 employees in three facilities, and forecast revenues of $67 million by the end of fiscal 2011. In connection with the upcoming closing, Transcontinental will also transfer its black and white printing business destined for U.S. export. These operations generate revenue of about $25 million annually.

Acquisition of all shares of Quad/Graphics Canada – update

The Canadian Competition Bureau notified Transcontinental that it requires additional information to complete its review of the indirect acquisition of all shares of Quad/Graphics Canada. Given the scope and complexity of the transaction, such a request is not unusual. The Corporation expects the transaction to close in the fall of 2011.

Acquisition of Groupe Le Canada Français

After the third quarter of 2011, the Corporation purchased the publishing assets of Groupe Le Canada Français, which consist of 11 community papers and a series of web portals. The group generated revenues of about $15.0 million in its last fiscal year.

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 July 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

The highlight in the next quarters will be the integration of the Quad/Graphics Canada operations; this transaction is expected to close in fall 2011 once regulatory clearance is received. In addition, new contracts were signed in fiscal 2011, particularly the new long-term agreement arranged with Canadian Tire in the second quarter of 2011, which should generate additional revenues of $30 to $40 million a year for the Corporation starting in January 2012, with a signification portion of that amount benefiting the Printing Sector. Initiatives to maximize the efficiency of the printing network will continue, such as the accelerated integration of flyer printing on the hybrid printing platform.

Media Sector revenues should remain stable in the next few quarters due to acquisitions, such as the Groupe Le Canada Français, and the new community papers launched in Québec; however, we may see a decline in national advertising spending, which would affect the Business and Consumer Solutions Group. Sector revenues should also experience the positive impact of recent investments in its digital platforms. The potential increase in revenue should also have a positive impact on adjusted operating income. However, as indicated, the Business and Consumer Solutions Group could be affected by lower national advertising spending.. Furthermore, additional investments may be deployed in the Local Solutions Group to counter the intensification of competition and to ramp up expansion of the sector's digital network.

The Interactive Sector will continue to expand its integrated interactive marketing solutions in order to maintain its leading position in Canada and take full advantage of the emergence of digital platforms. However, to date, the return on investments has been slow to materialize. We are now looking at measures that could be implemented going forward to accelerate the profitability of this unique service offering which the Corporation believes is promising.

Note that the Corporation realized a non-recurring gain on the sale of buildings in the fourth quarter of fiscal 2010. In the fourth quarter, Corporate Head Office costs should be similar to last year.

Also, the Corporation's financial position should improve given the significant reduction in capital spending, which will be a maximum of $60 million for fiscal 2011, as well as the generation of significant cash flows, enabling the Corporation to further reduce its net indebtedness in coming quarters.

Benoît Huard
Vice President and Chief Financial Officer
September 7, 2011

CONSOLIDATED STATEMENTS OF INCOME
unaudited

(in millions of dollars, except per share data)	Three months ended July 31 2011	Three months ended July 31 2010	Nine months ended July 31 2011	Nine months ended July 31 2010
Revenues	$ 492.6	$ 481.3	$ 1,506.1	$ 1,471.9
Operating costs	348.7	333.4	1,074.8	1,038.0
Selling, general and administrative expenses	57.3	60.6	175.0	179.5
Operating income before amortization, impairment of assets and restructuring costs	86.6	87.3	256.3	254.4
Amortization (Note 3)	29.4	29.9	89.9	93.4
Impairment of assets and restructuring costs (Note 4)	1.0	1.0	10.2	5.4
Operating income	56.2	56.4	156.2	155.6
Financial expenses (Note 6)	9.9	10.4	29.4	30.9
Expenses related to long-term debt prepayment (Note 11)	-	-	5.8	-
Discount on sale of accounts receivable	-	-	-	0.9
Income before income taxes and non-controlling interest	46.3	46.0	121.0	123.8
Income taxes (Note 7)	12.7	11.7	25.3	26.8
Non-controlling interest	-	-	0.8	0.3
Net income from continuing operations	33.6	34.3	94.9	96.7
Net income (loss) from discontinued operations (Note 8)	(21.3)	(3.7)	(20.0)	30.5
Net income	12.3	30.6	74.9	127.2
Dividends on preferred shares, net of related income taxes	1.7	1.7	5.1	5.1
Net income applicable to participating shares	$ 10.6	$ 28.9	$ 69.8	$ 122.1
Net income (loss) per participating share - basic and diluted (Note 12)				
Continuing operations	$ 0.39	$ 0.41	$ 1.11	$ 1.13
Discontinued operations	(0.26)	(0.05)	(0.25)	0.38
	$ 0.13	$ 0.36	$ 0.86	$ 1.51
Weighted average number of participating shares outstanding - basic (in millions)	81.0	80.8	81.0	80.8
Weighted average number of participating shares outstanding - diluted (in millions)	81.1	80.9	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 July 31 2011	Three months ended July 31 2010	Nine months ended July 31 2011	Nine months ended July 31 2010
Net income	$ 12.3	$ 30.6	$ 74.9	$ 127.2
Other comprehensive income (loss):				
Net change in fair value of derivatives designated as cash flow hedges, net of income taxes of $(0.4) million and $1.3 million for the three-month and nine-month periods ended July 31, 2011 ($(2.6) million and $(3.4) million for the same periods in 2010)	(0.5)	(8.0)	3.1	(13.4)
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 a negligible amount and $(0.5) million for the three-month and nine-month periods ended July 31, 2011 ($0.7 million and $1.3 million for the same periods in 2010)	(1.0)	2.0	(2.1)	9.2
Net change in fair value of derivatives designated as cash flow hedges	(1.5)	(6.0)	1.0	(4.2)
Reclassification of a realized foreign exchange loss to net income of discontinued operations, related to the reduction of net investment in self-sustaining foreign operations (Note 8)	21.6	-	21.6	-
Net gains (losses) on translation of financial statements of self-sustaining foreign operations	0.6	(0.6)	(8.0)	(3.5)
Other comprehensive income (loss) (Note 15)	20.7	(6.6)	14.6	(7.7)
Comprehensive income	$ 33.0	$ 24.0	$ 89.5	$ 119.5

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

(in millions of dollars)	Nine months ended July 31 2011	Nine months ended July 31 2010
Balance, beginning of period	$ 784.0	$ 645.9
Net income	74.9	127.2
	858.9	773.1
Dividends on participating shares	(28.7)	(21.1)
Dividends on preferred shares	(5.1)	(5.3)
Balance, end of period	$ 825.1	$ 746.7

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

CONSOLIDATED BALANCE SHEETS

(in millions of dollars)	unaudited As at July 31, 2011	audited As at October 31, 2010
Current assets		
Cash and cash equivalents	$ 60.8	$ 31.9
Accounts receivable (Note 10)	360.2	440.6
Income taxes receivable	19.8	19.5
Inventories	73.6	77.6
Prepaid expenses and other current assets	26.0	19.3
Future income taxes	14.1	16.6
Assets from discontinued operations (Note 8)	30.0	27.5
	584.5	633.0
Property, plant and equipment	791.1	871.6
Property, plant and equipment held for sale (Note 4)	6.1	-
Goodwill (Note 5)	682.4	678.1
Intangible assets	174.3	179.1
Future income taxes	137.7	145.3
Other assets	31.1	39.2
Assets from discontinued operations (Note 8)	43.5	48.4
	$ 2,450.7	$ 2,594.7
Current liabilities		
Accounts payable and accrued liabilities	$ 239.0	$ 345.4
Income taxes payable	27.1	29.0
Deferred subscription revenues and deposits	26.5	38.4
Future income taxes	2.4	2.5
Current portion of long-term debt	15.3	17.8
Liabilities from discontinued operations (Note 8)	14.6	12.8
	324.9	445.9
Long-term debt (Note 11)	642.2	712.9
Future income taxes	143.3	137.4
Other liabilities	35.4	50.0
Liabilities from discontinued operations (Note 8)	0.7	0.7
	1,146.5	1,346.9
Non-controlling interest	0.8	0.8
Shareholders' equity		
Share capital	478.8	478.6
Contributed surplus (Note 14)	14.2	13.7
Retained earnings	825.1	784.0
Accumulated other comprehensive loss (Note 15)	(14.7)	(29.3)
	810.4	754.7
	1,303.4	1,247.0
	$ 2,450.7	$ 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 July 31		Nine months ended July 31	
	2011	2010	2011	2010
Operating activities				
Net income	$ 12.3	$ 30.6	$ 74.9	$ 127.2
Less: Net income (loss) from discontinued operations (Note 8)	(21.3)	(3.7)	(20.0)	30.5
Net income from continuing operations	33.6	34.3	94.9	96.7
Items not affecting cash and cash equivalents				
Amortization (Note 3)	36.0	35.5	110.0	111.3
Impairment of assets (Note 4)	0.4	-	3.9	0.3
Loss (gain) on disposal of assets	0.1	(0.6)	(0.2)	(1.0)
Future income taxes	6.6	4.2	6.6	(5.1)
Net change in accrued pension benefit asset and liability	(4.3)	(3.0)	(8.5)	(3.7)
Stock option compensation (Note 13)	0.2	0.2	0.5	0.6
Other	(1.2)	0.3	0.1	0.2
Cash flow from operating activities before changes in non-cash operating items	71.4	70.9	207.3	199.3
Changes in non-cash operating items	2.8	42.5	(21.3)	(87.0)
Cash flow related to operating activities of continuing operations	74.2	113.4	186.0	112.3
Cash flow related to operating activities of discontinued operations	0.1	(3.3)	0.1	2.8
	74.3	110.1	186.1	115.1
Investing activities				
Business acquisitions (Note 16)	-	(4.1)	(5.4)	(6.9)
Acquisitions of property, plant and equipment	(8.7)	(21.4)	(37.2)	(109.0)
Disposals of property, plant and equipment	0.2	2.3	0.8	3.9
Increase in intangible assets and other assets	(7.9)	(2.3)	(18.6)	(13.5)
Cash flow related to investing activities of continuing operations	(16.4)	(25.5)	(60.4)	(125.5)
Cash flow related to investing activities of discontinued operations	(1.0)	(1.1)	(1.8)	90.3
	(17.4)	(26.6)	(62.2)	(35.2)
Financing activities				
Increase in long-term debt	-	2.7	-	40.4
Reimbursement of long-term debt	(59.2)	(0.7)	(166.6)	(8.5)
Increase (decrease) in revolving term credit facility	78.5	(68.7)	109.7	(98.3)
Dividends on participating shares	(10.9)	(7.3)	(28.7)	(21.1)
Dividends on preferred shares	(1.7)	(1.7)	(5.1)	(5.3)
Issuance of participating shares	-	0.3	0.2	0.5
Bond forward contract	-	-	(6.0)	-
Other	-	(1.5)	-	(0.3)
Cash flow related to financing activities of continuing operations	6.7	(76.9)	(96.5)	(92.6)
Cash flow related to financing activities of discontinued operations	-	(0.4)	-	(1.3)
	6.7	(77.3)	(96.5)	(93.9)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	(0.4)	-	(1.2)	0.1
Increase (decrease) in cash and cash equivalents	63.2	6.2	26.2	(13.9)
Cash and cash equivalents (bank overdraft) of continuing operations at beginning of period	(3.8)	10.1	31.9	28.9
Cash and cash equivalents of discontinued operations at beginning of period	3.1	4.5	4.4	5.8
	(0.7)	14.6	36.3	34.7
Cash and cash equivalents of continuing operations at end of period	60.8	18.0	60.8	18.0
Cash and cash equivalents of discontinued operations at end of period	1.7	2.8	1.7	2.8
	$ 62.5	$ 20.8	$ 62.5	$ 20.8
Additional information				
Interest paid	$ 4.4	$ 7.3	$ 23.9	$ 27.7
Income taxes paid (recovered)	$ (3.7)	$ 0.3	$ 19.4	$ 34.4

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 fourth quarter.

2. Change in accounting policies

Section 3064 of the CICA Handbook, Goodwill and intangible assets, allows the capitalization of employee salaries and benefits directly attributable to an internally generated intangible asset. The Corporation was not capitalizing the educational books prepublication costs as its information systems could not allocate these costs per book. On November 1st, 2010, the Corporation modified its information systems in order to compile employee salaries and benefits per book, and decided to change its accounting policy. Consequently, for the three-month period ended July 31, 2011, this change in accounting policy resulted in a decrease in operating costs of $1.2 million and an increase in income tax expense of $0.3 million. For the nine-month period ended July 31, 2011, this change in accounting policy resulted in an increase in intangible assets of $4.8 million and in long-term future income tax liability of $1.4 million, as well as a decrease in operating costs of $4.8 million and an increase in income tax expense of $1.4 million. These intangible assets are 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 July 31		Nine months ended July 31	
(in millions of dollars)	2011	2010	2011	2010
Property, plant and equipment	$ 25.3	$ 26.2	$ 77.7	$ 81.8
Intangible assets	4.1	3.7	12.2	11.6
	29.4	29.9	89.9	93.4
Intangible assets and other assets, presented in revenues, operating costs and financial expenses	6.6	5.6	20.1	17.9
	$ 36.0	$ 35.5	$ 110.0	$ 111.3

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 and the United States. 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) The Corporation is currently carrying rationalization measures to deal mainly 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.

The following table provides details of these plans:

	Three months ended July 31					
(in millions of dollars)	2011				2010	
	Liability as at April 30, 2011	Charged to income	Paid	Liability as at July 31, 2011	Charged to income	Paid
a) Rationalization Measures 2009 - 2010						
Printing						
Workforce reduction costs	$ 0.3	$ -	$ 0.1	$ 0.2	$ 0.1	$ 1.8
Other costs	-	-	-	-	0.1	0.1
Interactive						
Workforce reduction costs	-	-	-	-	-	0.2
Media						
Workforce reduction costs	-	-	-	-	0.8	1.1
	0.3	-	0.1	0.2	1.0	3.2
Printing						
Impairment of assets	n/a	-	n/a	n/a	-	n/a
Media						
Impairment of assets	n/a	-	n/a	n/a	-	n/a
	$ 0.3	$ -	$ 0.1	$ 0.2	$ 1.0	$ 3.2
b) Rationalization Measures 2011 - 2012						
Workforce reduction costs	$ 3.8	$ 0.1	$ 0.9	$ 3.0	$ -	$ -
Other costs	-	0.5	0.4	0.1	-	-
	3.8	0.6	1.3	3.1	-	-
Impairment of assets	n/a	0.4	n/a	n/a	-	n/a
	$ 3.8	$ 1.0	$ 1.3	$ 3.1	$ -	$ -
Total						
Workforce reduction costs	$ 4.1	$ 0.1	$ 1.0	$ 3.2	$ 0.9	$ 3.1
Other costs	-	0.5	0.4	0.1	0.1	0.1
Impairment of assets	n/a	0.4	n/a	n/a	-	n/a
	$ 4.1	$ 1.0	$ 1.4	$ 3.3	$ 1.0	$ 3.2

4. Impairment of assets and restructuring costs (continued)

Nine months ended July 31								
(in millions of dollars)	Total		2011				2010	
	Charged to income	Forecasted	Liability as at October 31, 2010	Charged to income	Paid	Liability as at July 31, 2011	Charged to income	Paid
a) Rationalization Measures 2009 - 2010								
Printing								
Workforce reduction costs	$ 27.2	$ 27.2	$ 2.9	$ -	$ 2.7	$ 0.2	$ 3.3	$ 7.2
Other costs	4.3	4.3	-	-	-	-	0.6	0.4
Interactive								
Workforce reduction costs	2.1	2.1	0.6	-	0.6	-	-	0.4
Other costs	0.2	0.2	-	-	-	-	-	-
Media								
Workforce reduction costs	10.4	10.4	0.4	-	0.4	-	1.2	4.2
	44.2	44.2	3.9	-	3.7	0.2	5.1	12.2
Printing								
Impairment of assets	16.5	16.5	n/a	-	n/a	n/a	0.2	n/a
Media								
Impairment of assets	1.6	1.6	n/a	-	n/a	n/a	0.1	n/a
	$ 62.3	$ 62.3	$ 3.9	$ -	$ 3.7	$ 0.2	$ 5.4	$ 12.2
b) Rationalization Measures 2011 - 2012								
Workforce reduction costs	$ 9.9	$ 9.9	$ 5.5	$ 4.4	$ 6.9	$ 3.0	$ -	$ -
Other costs	1.9	2.0	-	1.9	1.8	0.1	-	-
	11.8	11.9	5.5	6.3	8.7	3.1	-	-
Impairment of assets	4.6	4.6	n/a	3.9	n/a	n/a	-	n/a
	$ 16.4	$ 16.5	$ 5.5	$ 10.2	$ 8.7	$ 3.1	$ -	$ -
Total								
Workforce reduction costs	$ 49.6	$ 49.6	$ 9.4	$ 4.4	$ 10.6	$ 3.2	$ 4.5	$ 11.8
Other costs	6.4	6.5	-	1.9	1.8	0.1	0.6	0.4
Impairment of assets	22.7	22.7	n/a	3.9	n/a	n/a	0.3	n/a
	$ 78.7	$ 78.8	$ 9.4	$ 10.2	$ 12.4	$ 3.3	$ 5.4	$ 12.2

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 for the nine-month period ended July 31, 2011, since the estimated fair value less costs to sell is greater than their carrying amount. The future potential gain on disposal resulting from the sale of these real estate assets will be presented against restructuring costs.

5. Goodwill

During the second quarter of fiscal 2011, the Corporation has conducted its annual impairment test of goodwill. This test is carried in two steps. In the first step, the Corporation estimates the fair value of the reporting unit by multiplying normalized earnings before amortization, interest and income taxes by multiples based on market inputs. If at the conclusion of this first step there is an indication of impairment, the Corporation carries the second step to determine the amount of the impairment. In the second step, the Corporation estimates the fair value of the reporting unit using discounted future cash flows, considering expected future operating results, economic conditions and a general outlook for the industry in which the reporting unit operates, and compares it with the fair value of the net identifiable assets in order to evaluate the fair value of the goodwill.

At the conclusion of the first step, the Corporation identified certain reporting units in the Interactive sector for which their book value exceed their fair value. A goodwill of approximately $25.0 million is allocated to these reporting units.

At the moment of the publication of these consolidated financial statements, the Corporation has not completed the second step of the test, due to important changes in the business plan recently implemented in the Interactive sector. These changes generate uncertainty on future cash flows of the reporting units identified in the first step. Therefore, it is impossible to estimate the amount of the potential impairment. The Corporation expects to complete the second step by the end of fiscal 2011. As a result, no impairment of goodwill has been recorded for the three-month and the nine-month periods ended July 31, 2011.

6. Financial expenses

(in millions of dollars)	Three months ended July 31 2011	2010	Nine months ended July 31 2011	2010
Financial expenses on long-term debt	$ 7.7	$ 9.6	$ 25.9	$ 29.5
Other expenses	1.8	0.9	3.9	2.4
Foreign exchange loss (gain)	0.4	(0.1)	(0.4)	(1.0)
	$ 9.9	$ 10.4	$ 29.4	$ 30.9

For the three-month and nine-month periods ended July 31, 2011, negligible amounts of interest were capitalized on property, plant and equipment ($0.9 million and $2.2 million for the same periods in 2010).

7. Income taxes

(in millions of dollars)	Three months ended July 31 2011	2010	Nine months ended July 31 2011	2010
Income taxes at statutory tax rate	$ 13.3	$ 13.8	$ 34.6	$ 37.3
Effect of foreign tax rate differences	(1.0)	(1.4)	(3.4)	(5.1)
Effect of Ontario corporate income tax rate reductions (a)	-	-	-	(2.4)
Changes in valuation allowance on capital losses	1.1	0.5	(2.5)	(3.6)
Other	(0.7)	(1.2)	(3.4)	0.6
Income taxes at effective tax rate	$ 12.7	$ 11.7	$ 25.3	$ 26.8
Income taxes include the following items:				
Income taxes before the following items:	$ 12.8	$ 11.9	$ 29.6	$ 30.6
Income taxes on impairment of assets and restructuring costs (Note 4)	(0.1)	(0.2)	(2.7)	(1.4)
Income taxes on expenses related to long-term debt prepayment (Note 11)	-	-	(1.6)	-
Effect of Ontario corporate income tax rate reductions (a)	-	-	-	(2.4)
Income taxes at effective tax rate	$ 12.7	$ 11.7	$ 25.3	$ 26.8

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.

8. Discontinued operations

On July 12, 2011, the Corporation has entered into a definitive agreement with Quad/Graphics, Inc. to sell its Mexican printing operations. This transaction is valued at $80.0 million. Note 16 explains in more detail the terms of this transaction.

In connection with the anticipated sale of Mexican printing operations, the Corporation has conducted an impairment test on the net assets related to Mexican printing operations, and recorded a loss of $21.6 million during the three-month period ended July 31, 2011. The Corporation was required to consider foreign exchange losses of $48.7 million accumulated under "Foreign currency translation adjustment" in the "Accumulated other comprehensive loss" in the carrying value of the net assets related to Mexican printing 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. 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 July 31 2011	2010	Nine months ended July 31 2011	2010
Revenues	$ 17.5	$ 19.0	$ 48.8	$ 127.5
Expenses	17.1	24.9	46.4	138.8
Income (loss) before income taxes	0.4	(5.9)	2.4	(11.3)
Income taxes (recovered)	0.1	(1.3)	0.8	(2.6)
Income (loss) related to the operation of discontinued operations	0.3	(4.6)	1.6	(8.7)
Gain (loss) related to the discontinuance of operations, net of related income taxes of nil in 2011 and 0.9 and 24.1 for the three-month and nine-month periods ended July 31, 2010	(21.6)	0.9	(21.6)	39.2
Net income (loss) from discontinued operations	$ (21.3)	$ (3.7)	$ (20.0)	$ 30.5

9. 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 July 31 2011	Three months ended July 31 2010	Nine months ended July 31 2011	Nine months ended July 31 2010
Defined benefit pension plans	$ (1.4)	$ 2.0	$ (2.1)	$ 13.3
Defined contribution pension plans	4.5	3.0	13.6	4.1
	$ 3.1	$ 5.0	$ 11.5	$ 17.4

10. Accounts receivable

On February 16, 2011, the Corporation put in place a new two-year securitization program with a trust whose financial services agent is a Canadian bank, to sell, from time to time, certain accounts receivable of its subsidiaries. The maximum net consideration permitted under this program is $200.0 million, of which up to 20% of accounts receivable denominated in U.S. dollars.

As at July 31, 2011, no amount was drawn from this source of financing.

11. Long-term debt

On February 17, 2011, the Corporation prepaid, according to the terms described in the agreement, its $100.0 million term credit facility granted by Caisse de dépôt et placement du Québec during the second quarter of fiscal 2009. This five-year financing bore interest at bankers' acceptance rate + 6.375%. This debt prepayment was made using the revolving credit facility, and resulted in unusual costs of $4.5 million in the second quarter of fiscal 2011, of which $1.1 million had no effect on cash flows.

During the second quarter of fiscal 2011, the Corporation reclassified gains and losses related to its two interest rate swaps of $50.0 million each, due to the discontinuance of hedge accounting, as future operations originally anticipated will not happen. These interest rate swaps were used to lock its $100.0 million term credit facility granted by Caisse de dépôt et placement du Québec interest rate for five years at 8.39% per year. On June 24, 2011, the Corporation re-designated one of the two interest rate swaps of $50.0 million as cash flow hedge accounting related to interest payments on a portion of its revolving credit facility. The portion of the fair value of interest rate swaps not eligible for hedge accounting has resulted in increased financial expenses of $1.0 million for the three-month and nine-month periods ended July 31, 2011.

On July 4, 2011, the Corporation prepaid, according to the terms described in the agreement, its term loan of $50.0 million granted by SGF Rexfor Inc. during the third quarter of fiscal 2009. This five-year financing bore interest at 8.25% per year. This debt prepayment was made using the revolving credit facility, and resulted in unusual costs of $1.3 million that were recorded in the second quarter of fiscal 2011, of which $0.3 million had no effect on cash flows.

12. 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 and nine-month periods ended July 31:

	Three months ended July 31 2011	Three months ended July 31 2010	Nine months ended July 31 2011	Nine months ended July 31 2010
Numerator (in millions of dollars)				
Net income from continuing operations	$ 33.6	$ 34.3	$ 94.9	$ 96.7
Dividends on preferred shares, net of related income taxes	1.7	1.7	5.1	5.1
Net income from continuing operations, applicable to participating shares	$ 31.9	$ 32.6	$ 89.8	$ 91.6
Denominator (in millions)				
Weighted average number of participating shares - basic	81.0	80.8	81.0	80.8
Weighted average number of dilutive options	0.1	0.1	0.1	0.1
Weighted average number of participating shares - diluted	81.1	80.9	81.1	80.9

In the calculation of the diluted net income per share, 1,095,332 stock options were considered anti-dilutive as at July 31, 2011 (1,021,460 as at July 31, 2010), since their exercise price was greater than the average stock price of the Class A Subordinate Voting Shares during the period. Therefore, these stock options were excluded from the calculation.

13. 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 Voting 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 July 31, 2011 and 2010. For the nine-month periods ended July 31, 2011 and 2010, the costs were $0.5 million and $0.6 million, respectively.

The following table summarizes the changes in outstanding stock options:

	Three months ended July 31			
	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	1,614,522	$ 16.70	1,785,320	$ 16.14
Exercised	-	-	(26,680)	9.91
Cancelled	(20,300)	20.77	(44,050)	20.10
Balance, end of period	1,594,222	$ 16.64	1,714,590	$ 16.14

	Nine months ended July 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	(18,590)	10.26	(47,000)	9.73
Cancelled	(94,350)	19.02	(418,085)	20.83
Balance, end of period	1,594,222	$ 16.64	1,714,590	$ 16.14
Options exercisable as at July 31	1,121,375	$ 18.08	1,204,240	$ 17.75

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 period ended July 31, 2011, no stock option was exercised. For the nine-month period ended July 31, 2011, the amount received was $0.2 million. For the three-month and nine-month periods ended July 31, 2010, the amounts received were $0.3 million and $0.5 million, respectively. No amount was transferred from contributed surplus to share capital for these periods.

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 nine-month periods ended July 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

13. 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 July 31			
Number of units	2011	2010	2011	2010
	DSU		RSU	
Balance, beginning of period	203,359	120,395	739,754	715,192
Units cancelled	-	-	(19,146)	(11,001)
Units paid	-	(491)	-	-
Dividends paid in units	1,498	612	-	-
Balance, end of period	204,857	120,516	720,608	704,191

	Nine months ended July 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)	(93,704)	(115,546)
Units paid	(2,230)	(4,290)	(53,824)	(6,084)
Units converted	41,874	-	(41,874)	-
Dividends paid in units	3,980	1,837	-	-
Balance, end of period	204,857	120,516	720,608	704,191

The expenses recorded in the consolidated statements of income for the three-month periods ended July 31, 2011 and 2010 were $1.5 million and $1.3 million, respectively. For the nine-month periods ended July 31, 2011 and 2010, the expenses recorded in the consolidated statements of income were $2.7 million and $2.8 million, respectively. No amount was paid under the plan for the three-month period ended July 31, 2011, and a negligible amount was paid for the three-month period ended July 31, 2010. Amounts of $0.9 million and $0.1 million were paid under the plan for the nine-month periods ended July 31, 2011 and 2010, respectively.

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 July 31		Nine months ended July 31	
Number of units	2011	2010	2011	2010
Balance, beginning of period	177,087	144,164	159,803	167,783
Directors compensation	7,170	5,471	22,154	21,085
Units paid	-	-	-	(40,923)
Dividends paid in units	1,481	928	3,781	2,618
Balance, end of period	185,738	150,563	185,738	150,563

The expenses recorded in the consolidated statements of income for the three-month periods ended July 31, 2011 and 2010 were $0.4 million. For the nine-month periods ended July 31, 2011 and 2010, the expenses recorded in the consolidated statements of income were $0.7 million. No amount has been paid for the three-month and nine-month periods ended July 31, 2011, and for the three-month period ended July 31, 2010 ($0.5 million for the nine-month period ended July 31, 2010).

14. Contributed surplus

(in millions of dollars)	Nine months ended July 31 2011	2010
Balance, beginning of period	$ 13.7	$ 12.9
Compensation costs relating to stock option plan (Note 13)	0.5	0.6
Balance, end of period	$ 14.2	$ 13.5

15. 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	(3.5)	(4.2)	(7.7)
Balance as at July 31, 2010	$ (24.3)	$ (3.5)	$ (27.8)
Balance as at November 1, 2010	$ (24.8)	$ (4.5)	$ (29.3)
Reclassification of a realized foreign exchange loss to net income of discontinued operations, related to the reduction of net investment in self-sustaining foreign operations (Note 8)	21.6	-	21.6
Net change in gains (losses), net of income taxes	(8.0)	1.0	(7.0)
Balance as at July 31, 2011	$ (11.2)	$ (3.5)	$ (14.7)

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

(in millions of dollars)	2011	2012	2013	2014	2015 and thereafter	Total
Gains (losses) on derivatives designated as cash flow hedges	$ (0.1)	$ 1.2	$ (1.7)	$ (1.1)	$ (3.1)	$ (4.8)
Income taxes	-	(0.3)	0.4	0.3	0.9	1.3
	$ (0.1)	$ 0.9	$ (1.3)	$ (0.8)	$ (2.2)	$ (3.5)

16. Business acquisitions

On July 12, 2011, the Corporation and Quad/Graphics, Inc. have entered into a definitive agreement under which the Corporation will indirectly acquire all the shares of Quad/Graphics Canada, Inc. In a separate transaction, the Corporation also entered into an agreement to sell to Quad/Graphics, Inc. its Mexican printing operations and to transfer its black and white book printing business for U.S. export, subject to regulatory approval, including the approval under the Canadian Competition Act. Essentially, these transactions represent an exchange of assets of a net value of approximately $85.0 million, including $80.0 million for the Mexican printing operations and $5.0 million for the black and white book printing business for U.S. export. The Canadian transaction is expected to close in the coming months. The Mexican transaction was approved under the Federal Law on Mexican Economic Competition, and will be completed in the fourth quarter of fiscal 2011.

During the nine-month period ended July 31, 2011, the Corporation has made the following acquisitions:

Operating sector	Acquisitions	Date of acquisition
Interactive	100% of the shares of Vortxt Interactive Inc. , a company operating in mobile solutions.	November 1st, 2010
Media	Assets of *Journal Nouvelles Hebdo* , a weekly newspaper in the Dolbeau-Mistassini area.	April 28, 2011

For the nine-month period ended July 31, 2011, the Corporation paid an amount of $5.4 million, relating to business acquisitions completed in the current and prior periods. No amount was paid for the three-month period ended July 31, 2011. Of the amount of $5.4 million, $0.5 million was included in the short-term liabilities as at October 31, 2010, and $4.4 million was attributed to goodwill for the nine-month period ended July 31, 2011 (no amount was attributed to goodwill for the three-month period ended July 31, 2011).

17. 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 July 31 2011	Three months ended July 31 2010	Nine months ended July 31 2011	Nine months ended July 31 2010
Revenues				
Printing sector	$ 329.0	$ 313.4	$ 1,037.2	$ 999.2
Interactive sector	31.6	31.3	92.4	89.9
Media sector	150.8	155.1	439.0	439.1
Other activities and unallocated amounts	2.1	1.9	6.2	5.9
Inter-segment sales				
Printing sector	(19.2)	(19.9)	(64.1)	(54.9)
Interactive sector	(0.2)	(0.3)	(1.0)	(1.9)
Media sector	(1.5)	(0.2)	(3.6)	(5.4)
Total inter-segment sales	(20.9)	(20.4)	(68.7)	(62.2)
	$ 492.6	$ 481.3	$ 1,506.1	$ 1,471.9
Operating income (loss) before amortization, impairment of assets and restructuring costs				
Printing sector	$ 65.2	$ 57.9	$ 206.0	$ 190.5
Interactive sector	(1.0)	1.8	(1.8)	5.6
Media sector	23.9	33.1	59.9	75.4
Other activities and unallocated amounts	(1.5)	(5.5)	(7.8)	(17.1)
	$ 86.6	$ 87.3	$ 256.3	$ 254.4
Operating income (loss)				
Printing sector	$ 43.0	$ 36.2	$ 125.0	$ 118.6
Interactive sector	(3.2)	(0.6)	(10.5)	(2.5)
Media sector	19.0	27.8	41.3	61.1
Other activities and unallocated amounts	(2.6)	(7.0)	0.4	(21.6)
	$ 56.2	$ 56.4	$ 156.2	$ 155.6
Acquisitions of property, plant and equipment (1)				
Printing sector	$ 3.6	$ 17.4	$ 12.4	$ 70.2
Interactive sector	0.5	1.3	3.0	5.9
Media sector	2.8	2.0	5.4	6.5
Other activities and unallocated amounts	0.3	0.7	0.9	7.9
	$ 7.2	$ 21.4	$ 21.7	$ 90.5
Amortization of property, plant and equipment and intangible assets				
Printing sector	$ 21.3	$ 21.7	$ 65.7	$ 68.3
Interactive sector	2.2	2.4	6.4	8.0
Media sector	4.7	4.4	14.0	13.0
Other activities and unallocated amounts	1.2	1.4	3.8	4.1
	$ 29.4	$ 29.9	$ 89.9	$ 93.4

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

17. Segmented information (continued)

(in millions of dollars)	As at July 31, 2011	As at October 31, 2010
Assets		
Printing sector	$ 1,294.7	$ 1,397.9
Interactive sector	117.4	130.0
Media sector	756.8	783.7
Assets from discontinued operations (Note 8)	73.5	75.9
Other activities and unallocated amounts	208.3	207.2
	$ 2,450.7	$ 2,594.7
Goodwill		
Printing sector	$ 129.7	$ 129.7
Interactive sector	42.3	38.6
Media sector	509.5	508.9
Other activities and unallocated amounts	0.9	0.9
	$ 682.4	$ 678.1

18. Subsequent event

Acquisition of assets of Groupe Le Canada Français

On August 1st, 2011, the Corporation acquired the publishing assets of Groupe Le Canada Français, both print publications and websites. This acquisition includes 11 weekly and monthly titles, and a series of web portals, serving Saint-Jean-sur-Richelieu and Granby areas. Groupe Le Canada Français generated revenues of approximately $15.0 million during its last fiscal year.

19. Comparative figures

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