

Management's Responsibility for Consolidated Financial Statements



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

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

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

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

François Olivier
President and Chief Executive Officer

Benoît Huard
Vice President and Chief Financial Officer

Auditors' Report to the Shareholders of Transcontinental Inc.



We have audited the consolidated balance sheets of Transcontinental Inc. (the "Corporation") as at October 31, 2010 and 2009 and the consolidated statements of income (loss), comprehensive income (loss), retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Montreal, Canada

December 7, 2010

*CA Auditor permit no 10892

Consolidated Statements of Income (Loss)

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

	Notes	2010	2009
Revenues		\$ 2,091.6	\$ 2,169.8
Operating costs		1,473.7	1,583.2
Selling, general and administrative expenses		235.9	247.7
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		382.0	338.9
Amortization	3	129.5	121.8
Impairment of assets and restructuring costs	4	15.8	56.3
Impairment of goodwill and intangible assets	11 & 12	12.5	172.6
Operating income (loss)		224.2	(11.8)
Financial expenses	5	42.4	40.9
Discount on sale of accounts receivable	8	0.9	4.5
Income (loss) before income taxes and non-controlling interest		180.9	(57.2)
Income taxes	6	34.0	6.6
Non-controlling interest		0.9	0.3
Net income (loss) from continuing operations		146.0	(64.1)
Net income (loss) from discontinued operations	7	27.4	(17.7)
Net income (loss)		173.4	(81.8)
Dividends on preferred shares, net of related income taxes		6.8	0.5
Net income (loss) applicable to participating shares		\$ 166.6	\$ (82.3)
Net income (loss) per participating share - basic and diluted			
Continuing operations	18	\$ 1.72	\$ (0.80)
Discontinued operations		0.34	(0.22)
		\$ 2.06	\$ (1.02)
Weighted average number of participating shares outstanding - basic (in millions)		80.8	80.8
Weighted average number of participating shares outstanding - diluted (in millions)		80.9	80.8

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

[Consolidated Statements of Comprehensive Income (Loss)]



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

	Notes	2010	2009
Net income (loss)		\$ 173.4	\$ (81.8)
Other comprehensive income (loss):			
Net change in fair value of derivatives designated as cash flow hedges, net of income taxes of \$(4.0) million for the year ended October 31, 2010 (\$3.0 million for the year ended October 31, 2009)		(13.7)	9.2
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 \$1.8 million for the year ended October 31, 2010 (\$3.9 million for the year ended October 31, 2009)		8.5	6.7
Net change in fair value of derivatives designated as cash flow hedges		(5.2)	15.9
Net gains (losses) on translation of financial statements of self-sustaining foreign operations		(4.0)	4.7
Other comprehensive income (loss)	21	(9.2)	20.6
Comprehensive income (loss)		\$ 164.2	\$ (61.2)


[Consolidated Statements of Retained Earnings]



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

	2010	2009
Balance, beginning of year	\$ 645.9	\$ 753.5
Net income (loss)	173.4	(81.8)
Dividends on participating shares	819.3	671.7
Dividends on preferred shares	(28.3)	(25.8)
	(7.0)	—
Balance, end of year	\$ 784.0	\$ 645.9

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



Consolidated Balance Sheets

As at October 31
(in millions of dollars)

	Notes	2010	2009
Current assets			
Cash and cash equivalents		\$ 36.3	\$ 34.7
Accounts receivable	8	454.8	306.0
Income taxes receivable		19.7	4.1
Inventories	9	82.9	74.3
Prepaid expenses and other current assets		21.6	20.1
Future income taxes	6	17.7	11.0
Assets from discontinued operations	7	—	32.4
		633.0	482.6
Property, plant and equipment	10	918.3	935.5
Goodwill	11	678.1	673.4
Intangible assets	12	179.1	187.6
Future income taxes	6	146.7	141.5
Other assets	13	39.5	49.6
Assets from discontinued operations	7	—	60.8
		\$ 2,594.7	\$ 2,531.0

Consolidated Balance Sheets (continued)

As at October 31
(in millions of dollars)

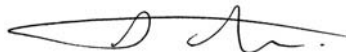
	Notes	2010	2009
Current liabilities			
Accounts payable and accrued liabilities		\$ 358.2	\$ 350.4
Income taxes payable		28.8	27.0
Deferred subscription revenues and deposits		38.6	37.2
Future income taxes	6	2.5	0.5
Current portion of long-term debt	15	17.8	7.0
Liabilities from discontinued operations	7	—	25.4
		445.9	447.5
Long-term debt	15	712.9	818.8
Future income taxes	6	138.1	109.0
Other liabilities	16	50.0	34.7
Liabilities from discontinued operations	7	—	5.7
		1,346.9	1,415.7
Non-controlling interest		0.8	0.1
Commitments, guarantees and contingent liabilities	25		
Shareholders' equity			
Share capital	17	478.6	476.5
Contributed surplus	20	13.7	12.9
Retained earnings		784.0	645.9
Accumulated other comprehensive loss	21	(29.3)	(20.1)
		754.7	625.8
		1,247.0	1,115.2
		\$ 2,594.7	\$ 2,531.0

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

Approved on behalf of the Board of Directors,



Rémi Marcoux, Director



Richard Fortin, Director

[Consolidated Statements of Cash Flows]

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

	Notes	2010	2009
Operating activities			
Net income (loss)		\$ 173.4	\$ (81.8)
Less: Net income (loss) from discontinued operations	7	27.4	(17.7)
Net income (loss) from continuing operations		146.0	(64.1)
Items not affecting cash and cash equivalents			
Amortization	3	154.1	146.1
Impairment of assets	4	1.7	19.0
Impairment of goodwill and intangible assets	11 & 12	12.5	172.6
Gain on disposal of assets		(8.5)	(1.2)
Future income taxes	6	9.9	(22.6)
Net change in accrued pension benefit asset and liability	24	(6.2)	(7.4)
Stock-based compensation	19	5.0	4.3
Other		1.5	0.4
Cash flow from operating activities before changes in non-cash operating items		316.0	247.1
Changes in non-cash operating items	22	(153.8)	(145.6)
Cash flow related to operating activities of continuing operations		162.2	101.5
Cash flow related to operating activities of discontinued operations		2.0	(22.7)
		164.2	78.8

Consolidated Statements of Cash Flows (continued)



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

	Notes	2010	2009
Investing activities			
Business acquisitions	23	(14.0)	(14.4)
Acquisitions of property, plant and equipment		(126.8)	(256.8)
Disposals of property, plant and equipment		10.9	13.3
Increase in intangible assets and other assets		(23.7)	(27.1)
Cash flow related to investing activities of continuing operations		(153.6)	(285.0)
Cash flow related to investing activities of discontinued operations		92.2	(0.5)
		(61.4)	(285.5)
Financing activities			
Increase in long-term debt	15	40.5	281.4
Reimbursement of long-term debt	15	(10.1)	(107.3)
Decrease in revolving term credit facility	15	(95.4)	(89.7)
Dividends on participating shares		(28.3)	(25.8)
Dividends on preferred shares		(7.0)	—
Issuance of participating shares	17	2.1	0.2
Issuance of preferred shares	17	—	96.8
Other		(0.2)	(0.6)
Cash flow related to financing activities of continuing operations		(98.4)	155.0
Cash flow related to financing activities of discontinued operations		(1.3)	(0.7)
		(99.7)	154.3
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(1.5)	(3.6)
Increase (decrease) in cash and cash equivalents		1.6	(56.0)
Cash and cash equivalents at beginning of year		34.7	90.7
Cash and cash equivalents at end of year		\$ 36.3	\$ 34.7

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