

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.

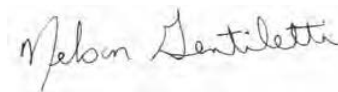
In fulfilling their responsibilities, Management of Transcontinental Inc. and its subsidiaries develop and aim to improve accounting and management systems designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for 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 independent auditors every quarter to discuss the results of the audit, internal controls and financial reporting matters. The independent 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



Nelson Gentiletti
Chief Financial and Development Officer

AUDITORS' REPORT TO THE SHAREHOLDERS OF TRANSCONTINENTAL INC.

We have audited the accompanying consolidated financial statements of Transcontinental Inc. (the "Corporation"), which comprise the consolidated balance sheets as at October 31, 2011 and 2010, the consolidated statements of income, comprehensive income, retained earnings and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at October 31, 2011 and 2010, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP" with a horizontal line underneath.

Chartered Accountants
Montreal, Canada
December 8, 2011

*CA Auditor permit no 10892

CONSOLIDATED STATEMENTS OF INCOME

For the years ended October 31

(in millions of dollars, except per share data)

	Notes	2011	2010
Revenues		\$ 2,043.6	\$ 2,028.3
Operating costs		1,441.7	1,420.6
Selling, general and administrative expenses		228.9	234.5
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets		373.0	373.2
Amortization	4	120.3	123.3
Impairment of assets and restructuring costs	5	18.4	14.9
Impairment of goodwill and intangible assets	12 & 13	52.2	12.5
Operating income		182.1	222.5
Financial expenses	6	39.3	42.6
Expenses related to long-term debt prepayments	15	5.8	-
Discount on sale of accounts receivable		-	0.9
Income before income taxes and non-controlling interest		137.0	179.0
Income taxes	7	30.3	34.1
Non-controlling interest		0.9	0.9
Net income from continuing operations		105.8	144.0
Net income (loss) from discontinued operations	8	(21.2)	29.4
Net income		84.6	173.4
Dividends on preferred shares, net of related income taxes		6.8	6.8
Net income applicable to participating shares		\$ 77.8	\$ 166.6
Net income (loss) per participating share - basic and diluted			
Continuing operations	18	\$ 1.22	\$ 1.70
Discontinued operations		(0.26)	0.36
		\$ 0.96	\$ 2.06
Weighted average number of participating shares outstanding - basic (in millions)	18	81.0	80.8
Weighted average number of participating shares outstanding - diluted (in millions)	18	81.1	80.9

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Notes	2011	2010
Net income		\$ 84.6	\$ 173.4
Other comprehensive income (loss):			
Net change in fair value of derivatives designated as cash flow hedges, net of income taxes of \$1.5 million for the year ended October 31, 2011 (\$4.0 million for the year ended October 31, 2010)		3.8	(13.7)
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 \$(2.0) million for the year ended October 31, 2011 (\$1.8 million for the year ended October 31, 2010)		(5.6)	8.5
Net change in fair value of derivatives designated as cash flow hedges		(1.8)	(5.2)
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	8	50.5	-
Net losses on translation of financial statements of self-sustaining foreign operations		(5.7)	(4.0)
Other comprehensive income (loss)	21	43.0	(9.2)
Comprehensive income		\$ 127.6	\$ 164.2

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

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

	2011	2010
Balance, beginning of year	\$ 784.0	\$ 645.9
Net income	84.6	173.4
	868.6	819.3
Dividends on participating shares	(39.7)	(28.3)
Dividends on preferred shares	(6.8)	(7.0)
Balance, end of year	\$ 822.1	\$ 784.0

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

CONSOLIDATED BALANCE SHEETS

As at October 31
(in millions of dollars)

	Notes	2011	2010
Current assets			
Cash and cash equivalents		\$ 75.0	\$ 31.9
Accounts receivable	8 & 9	436.3	440.6
Income taxes receivable		14.7	19.5
Inventories	10	80.2	77.6
Prepaid expenses and other current assets		21.6	19.3
Future income taxes	7	16.8	16.6
Assets from discontinued operations	8	-	27.5
		644.6	633.0
Property, plant and equipment	11	787.1	871.6
Goodwill	12	682.5	678.1
Intangible assets	13	150.8	179.1
Future income taxes	7	144.9	145.3
Other assets	14	43.7	39.2
Assets from discontinued operations	8	-	48.4
		\$ 2,453.6	\$ 2,594.7
Current liabilities			
Accounts payable and accrued liabilities		\$ 303.7	\$ 345.4
Income taxes payable		33.5	29.0
Deferred subscription revenues and deposits		32.5	38.4
Future income taxes	7	2.0	2.5
Current portion of long-term debt	15	271.9	17.8
Liabilities from discontinued operations	8	-	12.8
		643.6	445.9
Long-term debt	15	292.5	712.9
Future income taxes	7	140.5	137.4
Other liabilities	16	47.2	50.0
Liabilities from discontinued operations	8	-	0.7
		1,123.8	1,346.9
Non-controlling interest		0.8	0.8
Commitments, guarantees and contingent liabilities	25		
Shareholders' equity			
Share capital	17	478.8	478.6
Contributed surplus	20	14.4	13.7
Retained earnings		822.1	784.0
Accumulated other comprehensive income (loss)	21	13.7	(29.3)
		835.8	754.7
		1,329.0	1,247.0
		\$ 2,453.6	\$ 2,594.7

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Notes	2011	2010
Operating activities			
Net income		\$ 84.6	\$ 173.4
Less: Net income (loss) from discontinued operations	8	(21.2)	29.4
Net income from continuing operations		105.8	144.0
Items not affecting cash and cash equivalents			
Amortization	4	147.5	147.9
Impairment of assets	5	3.9	1.7
Impairment of goodwill and intangible assets	12 & 13	52.2	12.5
Net gains on disposal of assets		(3.8)	(8.2)
Future income taxes	7	(1.1)	10.4
Stock option compensation	19	0.7	0.8
Other		5.8	2.0
Cash flow from operating activities before changes in non-cash operating items		311.0	311.1
Changes in non-cash operating items	22	(6.3)	(155.1)
Cash flow related to operating activities of continuing operations		304.7	156.0
Cash flow related to operating activities of discontinued operations		3.4	8.2
		308.1	164.2
Investing activities			
Business acquisitions	23	(35.8)	(14.0)
Acquisitions of property, plant and equipment		(47.4)	(125.0)
Disposals of property, plant and equipment		2.6	10.9
Increase in intangible assets and other assets		(21.1)	(24.1)
Cash flow related to investing activities of continuing operations		(101.7)	(152.2)
Cash flow related to investing activities of discontinued operations		49.0	90.8
		(52.7)	(61.4)
Financing activities			
Increase in long-term debt	15	-	40.5
Reimbursement of long-term debt	15	(168.0)	(10.1)
Increase (decrease) in revolving term credit facility	15	4.5	(95.4)
Dividends on participating shares		(39.7)	(28.3)
Dividends on preferred shares		(6.8)	(7.0)
Issuance of participating shares	17	0.2	2.1
Bond forward contract		(6.0)	-
Other		(1.2)	(0.2)
Cash flow related to financing activities of continuing operations		(217.0)	(98.4)
Cash flow related to financing activities of discontinued operations		-	(1.3)
		(217.0)	(99.7)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		0.3	(1.5)
Increase in cash and cash equivalents		38.7	1.6
Cash and cash equivalents at beginning of year		36.3	34.7
Cash and cash equivalents at end of year		\$ 75.0	\$ 36.3

Cash and cash equivalents include an amount from discontinued operations of \$4.4 million as at October 31, 2010.

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