

For Immediate Release

TRANSCONTINENTAL'S THIRD QUARTER:
ALL FINANCIAL INDICATORS UP,
COUPLED WITH ORGANIC GROWTH IN REVENUES AND PROFITS

- For second consecutive quarter, positive organic growth in revenues, up 3.2% over 2009. Slight 0.8% decrease in consolidated revenues, mainly due to asset disposals.
- Increase of 9.2% in adjusted operating income before amortization.
- Significant increase in adjusted operating income margin before amortization, from 16.4% in 2009 to 18.0% in 2010.
- Increase of 10.3% in adjusted net income applicable to participating shares; on a per-participating share basis, it rose from \$0.39 to \$0.43.
- Increase of 14.2% in net income applicable to participating shares; on a per-participating share basis, it rose from \$0.31 to \$0.35.
- In integrated offering of local solutions for communities in Canada, launch of three weekly papers in Quebec, redesign of Publisac.ca shopping portal and creation of Dealstreet.ca.
- In the development and marketing of mobile solutions, agreements signed with the Toronto Transit Commission and the Société de transport de Laval to provide a text messaging service for riders.
- Following upon the July 2009 start-up of the Fremont plant that prints the *San Francisco Chronicle*, implementation of a Canada-wide hybrid platform to print newspapers and retail flyers starting no later than early fiscal 2011.
- For the seventh year, Corporate Knights ranks Transcontinental as one of Canada's Best 50 Corporate Citizens for social and environmental responsibility.
- Continued improvement in the Corporation's financial position, with a ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization of 1.85 as at July 31, 2010, compared to 2.08 as at April 30, 2010 and 2.59 as at October 31, 2009.

Montreal, September 8, 2010 – For the fifth quarter in a row, Transcontinental improved its operating income, excluding unusual items, over the previous fiscal year. All financial indicators were up, with positive growth in revenues and profits. These excellent results stem primarily from the Corporation's diversified customer base of retailers, advertisers and publishers; its leading position in each of its niches; the success of its unique service offering which combines new digital and print platforms; the rationalization measures implemented in 2009; and the important contributions from print contracts signed in recent years.



"I am very satisfied with the return to organic revenue growth for our second quarter in a row and the fact that all financial indicators were up in the third quarter of 2010 over the third quarter of 2009, which was, itself, higher than that of 2008," said François Olivier, President and Chief Executive Officer of Transcontinental. "It is encouraging to see that all three sectors contributed to the organic growth in revenues, even as we continued to develop our offering to accompany our customers in their new marketing needs. I'd like to thank our employees for their commitment to always serving our customers better and for their daily efforts to improve efficiency."

"I am optimistic about the coming quarters, even though the economic context is still unstable," said Mr. Olivier. "Our already enviable financial position should continue to improve given the dual impact of our higher operating income and, with the end of the major investments in print infrastructures, the decrease in our capital expenditures. We will thus be in an excellent position to make targeted strategic acquisitions in new media and digital technology. We will also continue to develop our offering to meet the growing demand from our customers for custom marketing programs tied in with one-to-one advertising and mobile technology. We will also continue to identify possibilities for synergies across the Corporation, notably by integrating our service offering and getting the most out of our top-performing equipment."

The Corporation continued to improve its financial position, with a ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization of 1.85 as at July 31, 2010, compared to 2.08 as at April 30, 2010 and 2.59 as at October 31, 2009.

Financial Highlights

In the third quarter ended July 31, 2010, Transcontinental recorded consolidated revenues of \$500.3 million compared to \$504.4 million in the same quarter of 2009, down 0.8%. Excluding acquisitions, divestitures or closures of plants and publications, the paper effect and the exchange rate effect, revenues grew 3.2%. This is the second quarter in a row in which Transcontinental has generated positive organic growth in revenues.

Adjusted operating income before amortization grew 9.2%, from \$82.6 million in 2009 to \$90.2 million in 2010, and operating income margin rose from 16.4% to 18.0%. This dual increase is mainly due to the impact of the rationalization measures in 2009, to the contribution from new printing contracts, and to the higher advertising spending by major retailers. During the quarter Transcontinental also recorded positive growth in adjusted operating income, which amounted to \$3.2 million, up 6.0%, mainly due to the rationalization measures in 2009 and enhanced operational efficiency across the organization.

Net income applicable to participating shares rose 14.2%, from \$25.3 million in 2009 to \$28.9 million in 2010. The increase stems mainly from the higher operating income, partially offset by increased income taxes, a higher net loss related to discontinued operations, and by dividends on Preferred Shares. On a per-share basis, net income applicable to participating shares rose from \$0.31 to \$0.35.



Adjusted net income applicable to participating shares was up 8.2%, from \$31.8 million in 2009 to \$34.4 million. On a per-share basis it rose from \$0.39 to \$0.43.

In the first nine months of fiscal 2010, consolidated revenues amounted to \$1.522 billion versus \$1.600 billion in 2009, down 4.9%. Excluding acquisitions, divestitures and closures, the paper effect and exchange rates, organic growth in revenues was 1.1%. Adjusted operating income before amortization rose from \$218.8 million in 2009 to \$262.3 million in 2010, up an appreciable 19.9%.

Net income applicable to participating shares went from a net loss of \$125.4 million in 2009 to a gain of \$122.1 million in 2010; on a per-share basis, it went from a net loss of \$1.55 to a gain of \$1.51. Lastly, adjusted net income applicable to participating shares rose 17.9%, from \$81.1 million to \$95.6 million; on a per-share basis it rose from \$1.00 to \$1.18.

For the second year in a row, adjusted net income applicable to participating shares grew steadily quarter over quarter in fiscal 2010, increasing from \$0.34 in the first quarter to \$0.42 in the second and \$0.43 in the third.

For more detailed financial information, please see *Management's Discussion and Analysis for the Third Quarter ended July 31, 2010* at www.transcontinental.com, under "Investors."

Operating Highlights

The operating highlights for the third quarter 2010 reflect the key directions identified by the Corporation in its strategic plan, and its core competencies.

- Offering integrated solutions to local communities in Canada is one of these key directions, and it involves a broad range of print and digital channels: some 170 newspapers and their websites, the door-to-door distribution and portal Publisac.ca/Dealstreet.ca, the Canada-wide local search site weblocal.ca, and a series of websites such as merkado.ca. Achievements in the third quarter include the launch of three weekly papers in Quebec: *Point de vue Sainte-Agathe* and *Point de vue Mont-Tremblant* in the Laurentians, and *Abitibi Express* for the towns of Val-d'Or and d'Amos. On the digital front, we redesigned the shopping site Publisac.ca and introduced Dealstreet.ca, its English-language counterpart. Furthermore, the introduction of mobile applications for *Canadian Living*, *Coup de Pouce*, *Les Affaires*, *Finance et Investissement*, *Investment Executive*, *Metro* and *The Hockey News* has been highly successful. The *thn.mobi* version for *The Hockey News* recently topped one million users, putting it among the top performers in downloaded mobile applications. This is how Transcontinental is meeting the new needs of Canadian consumers, who are increasingly turning to the Web or new communication platforms for their information.
- Another strategic direction: development and marketing of mobile solutions. With its Mobile Solutions Division created after the acquisition of LIPSO, Transcontinental is Canada's leading company in this forward-looking segment, which seeks to facilitate communications and transactions between organizations and mobile users. Highlights of the third quarter include two agreements to provide custom text messaging services: one with the Toronto Transit Commission,



the third largest public transit system in North America, and the other with the Société de transport de Laval in Quebec. Transit riders on the Toronto transit system can now find the arrival times of upcoming streetcars, in real time, anywhere along their routes. Riders on the Laval transit system can do the same for buses. LIPSO already provides the same service to Translink, Metro Vancouver's regional transportation authority, and a number of other commercial applications to large transportation organizations in North America and Europe.

- Printing is one of the Corporation's core competencies and Transcontinental has always stood out for its culture of technological innovation and efficiency. Since 2007, the Corporation has invested some \$700 million in capital expenditures that have included three major projects. First there was the building of the Fremont plant, which has been printing the *San Francisco Chronicle* since July 2009; this was followed by the modernization of the Transcontinental Transmag newspaper printing plant in Montreal, which was completed in 2009; the focus has now turned to the Canada-wide hybrid platform to print newspapers and retail flyers, which will be fully operational by no later than early fiscal 2011. Using state-of-the-art technology, this unique platform will generate new revenues as well as significant gains in synergies and efficiency. For their part, *The Globe and Mail* and Transcontinental's retail customers will enjoy print quality, format options and colour options that have no equivalent in Canada. The Corporation will reap the full benefit of these investments in the years ahead.

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)

	Three months ended July 31		months ended	
(in millions of dollars, except per share amounts)	2010	2009	2010	2009
Net income (loss) applicable to participating shares	\$ 28.9	\$ 25.3	\$ 122.1	\$ (125.4)
Dividends on preferred shares	1.7	-	5.1	-
Net loss (income) related to discontinued operations (after tax)	4.6	1.2	(28.3)	17.4
Non-controlling interest	-	0.1	0.3	0.3
Income taxes	12.0	9.2	27.5	(6.9)
Discount on sale of accounts receivable	-	0.8	0.9	3.9
Financial expenses	10.3	10.6	30.8	26.7
Impairment of goodwill and intangible assets	-	-	-	169.3
Impairment of assets and restructuring costs	1.2	6.4	5.9	46.8
Adjusted operating income	58.7	53.6	164.3	132.1
Amortization	31.5	29.0	98.0	86.7
Adjusted operating income before amortization	\$ 90.2	\$ 82.6	\$ 262.3	\$ 218.8
Net income (loss) applicable to participating shares	\$ 28.9	\$ 25.3	\$ 122.1	\$ (125.4)
Net loss (income) related to discontinued operations (after tax)	4.6	1.2	(28.3)	17.4
Impairment of assets and restructuring costs (after tax)	0.9	5.3	4.2	34.4
Impairment of goodwill and intangible assets (after tax)	-	-	-	154.7
Unusual adjustments to income taxes	-	-	(2.4)	-
Adjusted net income applicable to participating shares	34.4	31.8	95.6	81.1
Average number of participating shares outstanding	80.8	80.8	80.8	80.8
Adjusted net income applicable to participating shares per share	\$ 0.43	\$ 0.39	\$ 1.18	\$ 1.00
Cash flow related to continuing operations	\$ 113.2	\$ 0.4	\$ 112.4	\$ 9.6
Changes in non-cash operating items	37.1	(50.8)	(96.9)	(141.8)
Cash flow from continuing operations before changes in non-cash operating items	\$ 76.1	\$ 51.2	\$ 209.3	\$ 151.4
Long-term debt			\$ 724.4	\$ 768.3
Current portion of long-term debt			4.8	156.6
Cash and cash equivalents			(20.8)	3.1
Net indebtedness			\$ 708.4	\$ 928.0

Sustainable Development

The Corporation's commitment to social responsibility and sustainable development was again recognized in the third quarter. For the seventh year, Corporate Knights ranked Transcontinental among the Best 50 Corporate Citizens in Canada. In addition to environmental practices, this ranking takes into account labour relations, community involvement, occupational health and safety, and the quality of corporate governance. Corporate Knights Inc. is an independent Canadian company that publishes the magazine of the same name dedicated to corporate social responsibility. This magazine is the most widely read magazine in the world in its category.

Note that in the second quarter, Transcontinental published its first complete Sustainability Report and received the "Best of Show" award from the magazine *PrintAction* for "most environmentally responsible corporation" in Canada overall, in 2009. It goes without saying that the Corporation's paper purchasing policy played a key role in these awards.



Lastly, Transcontinental's 2009 annual report, *Working Together, Listening to Consumers*, received a Gold Award for "Most Engaging annual report worldwide" as well as two Platinum Awards from the 2009 *Vision Awards Annual Report Competition* from the League of American Communications Professionals (LACP). Selected from among more than 4,000 entries representing 25 countries worldwide, Transcontinental also won a Platinum Award for Most Engaging annual report in the Americas Region, and a Platinum Award for excellence within its industry on the development of the annual report. Transcontinental is the only Canadian company to rank in the top ten of the Top 100 Annual Reports.

Dividend

At its September 8, 2010 meeting, the Corporation's Board of Directors declared a quarterly dividend of \$0.09 per participating share on Class A Subordinate Voting Shares and Class B Shares. These dividends are payable on October 21, 2010 to participating shareholders of record at the close of business on October 1, 2010. On an annual basis, this represents a dividend of \$0.36 per participating 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. These dividends are payable on October 15, 2010. 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. (DST). 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 Nessa Prendergast, Director, Media Relations, at 514-954-2809.



Profile

Transcontinental creates marketing products and services that allow businesses to attract, reach and keep their target customers. The Corporation is the largest printer in Canada and Mexico, and fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, the largest community newspaper publisher in Quebec and the Atlantic provinces, and with its digital platforms that deliver unique content through more than 120 websites, it is also one of Canada's leading media groups. In addition, Transcontinental offers marketing products and services that use new communications platforms supported by database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental (TSX: TCL.A, TCL.B, TCL.PR.D) has about 11,000 employees in Canada, the United States and Mexico, and reported revenues of C\$2.4 billion in 2009. For more information about the Corporation, please visit www.transcontinental.com.

Note: This press release contains certain forward-looking statements concerning the future performance of the Corporation. Such statements, based on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors, many of which are beyond the Corporation's control, including, but not limited to, the economic situation, structural changes in its industries, exchange rate, availability of capital, energy costs, increased competition, as well as the Corporation's capacity to implement its strategic plan and rationalization plan, engage in strategic transactions and integrate acquisitions into its activities. The risks, uncertainties and other factors that could influence actual results are described in the *Management's Discussion and Analysis* and *Annual Information Form*.

The forward-looking information in this release is based on current expectations and information available as of September 8, 2010. 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, 2010

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 the 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 8, 2010.

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. This Management's Discussion and Analysis also uses 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 MD&A

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:

<u>Terms Used</u>	<u>Definitions</u>
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
Adjusted net income applicable to participating shares	Net income (loss) from continuing operations applicable to participating shares before impairment of assets and restructuring costs, impairment of goodwill and intangible assets, less related income taxes and unusual adjustments to income taxes
Net indebtedness	Total of long-term debt plus current portion of long-term debt plus bank overdraft, less cash and cash equivalents

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, objectives under our *Evolution 2010* business project and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words “may,” “could,” “should,” “would,” “outlook,” “believe,” “plan,” “anticipate,” “estimate,” “expect,” “intend,” “objective,” the use of the conditional tense, and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: credit risks, data security and utilization, market dynamics, liquidity, financing and operational risks; the strength of the Canadian, Mexican and United States' economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, more particularly the U.S. dollar, the euro and the Mexican peso; the impact from raw material and energy prices; the seasonal and cyclical nature of certain businesses, notably the book publishing activities, the effects of changes in interest rates; the effects of competition in the markets in which we operate; the effects of new media and the corresponding shift of advertising revenue to new platforms; judicial judgments and legal proceedings; our ability to develop new opportunities through our strategy; our ability to hire and retain qualified personnel and maintain a good reputation; our ability to complete strategic transactions; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; infrastructure risks; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies, technological changes and new regulations.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See “Risks and Uncertainties” for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as of September 8, 2010.

TRANSCONTINENTAL PROFILE

Transcontinental provides printing, publishing and marketing services that deliver exceptional value to its clients and provide a unique, integrated platform for them to reach and retain their target audiences. Transcontinental is the largest printer in Canada and in Mexico, and fourth-largest in North America. It is also the country's leading publisher of consumer magazines and French-language educational resources, the largest community newspaper publisher in Quebec and the Atlantic provinces, and its digital platform delivers unique content through more than 120 Web sites. Its Marketing Communications Sector provides marketing products and services using new communications platforms supported by database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions. Transcontinental is a growth-oriented company with a culture of continuous improvement and financial discipline, whose values, including respect, innovation and integrity, are central to its operation.

Transcontinental (TSX: TCL.A, TCL.B, TCL.PR.D) has approximately 11,000 employees in Canada, the United States and Mexico, and reported revenue of C\$2.4 billion in 2009.

PREAMBLE

The consolidated financial statements and all financial data presented in this report have been restated to present our results from continuing operations. Accordingly, the financial information presented, except for net income available to participating shares, exclude the results from our direct mail activities in the United States.

SUMMARY OF ACTIVITIES IN THIRD QUARTER 2010

In the third quarter 2010, we continued our momentum by generating, for the fifth quarter in a row, a higher adjusted operating income than the same quarter a year earlier, i.e., \$58.7 million compared to \$53.6 million in the third quarter 2009, an increase of \$5.1 million or 9.5%. This increase stems mainly from the contribution of new printing contracts, implementation of the rationalization plan announced in 2009, which includes the closure or sale of publications and plants, and the positive impact of paper prices in our Media Sector.

Furthermore, in the same period, we generated positive organic growth in revenues and adjusted operating income. Our revenues increased \$16.0 million, or 3.2%, excluding the acquisitions, divestitures and closures, the paper and exchange rates effects, mainly due to the contribution of new printing contracts, a slight upturn in national advertising expenditures and the contribution of our Marketing Communications Sector. Adjusted operating income was up \$3.2 million, or 6.0%, excluding the acquisitions, divestitures and closures, the paper and exchange rates effects. This increase stems mainly from the operating income generated by the above items, in conjunction with the rationalization measures implemented in recent quarters, partially offset by strategic investments in our Media Sector.

In addition, our financial position continued to improve during the quarter due to an increase in adjusted operating income before amortization, and a significant reduction in our capital expenditures. As at July 31, 2010, our ratio of net indebtedness (including use of the securitization program) to adjusted operating income before amortization was 1.85 compared to 2.08 as at April 30, 2010 and to 2.59 as at October 31, 2009.

HIGHLIGHTS OF THIRD QUARTER 2010

- Revenues for the third quarter 2010 were down 0.8% from the third quarter 2009, from \$504.4 million to \$500.3 million. Excluding the acquisitions, the divestiture or closure of publications and plants, the paper and the exchange rates effects, revenues grew by \$16.0 million, or 3.2%.
- Adjusted operating income before amortization rose 9.2%, from \$82.6 million in the third quarter fiscal 2009 to \$90.2 million in 2010. As a result, adjusted operating income margin before amortization increased from 16.4% in 2009 to 18.0% in 2010, mainly due to the impact of the rationalization measures deployed in fiscal 2009, to new printing contracts, including the contract to print the *San Francisco Chronicle*, and a slight upturn in the advertising spending of “national” advertisers.
- Net income applicable to participating shares was up \$3.6 million, from \$25.3 million in 2009 to \$28.9 million in 2010. The increase is mainly due to higher operating income, offset by an increase in income taxes, a higher net loss from discontinued operations and dividends on preferred shares in the third quarter 2010. On a per-share basis, it increased from \$0.31 to \$0.35.
- Adjusted net income applicable to participating shares increased \$2.6 million, or 8.2%, from \$31.8 million in 2009 to \$34.4 million in 2010. On a per-share basis, it rose from \$0.39 to \$0.43.
- Our financial position continued to improve during the quarter, due to an increase in adjusted operating income before amortization and a reduction in our capital expenditures. As at July 31, 2010, the ratio of net indebtedness (including use of the securitization program) to adjusted operating income before amortization was 1.85, compared to 2.08 as at April 30, 2010 and 2.59 as at October 31, 2009.
- The Corporation launched three new weekly papers in Quebec, the *Point de vue Sainte-Agathe* and the *Point de vue Mont-Tremblant* in the Laurentians, and the *Abitibi Express* in the Val-d'Or and Amos areas in Abitibi. These publications were introduced to provide more local content to Quebec communities and businesses.
- For the seventh year, we have been ranked by Corporate Knights, an independent Canadian organization, as one of the Best 50 Corporate Citizens in Canada.

STRATEGY

No major change in the third quarter 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

We recognize the critical nature of environmental issues, and take extensive precautions to protect our natural world. Transcontinental is not a major contributor to Greenhouse Gases (GHG). But that does not mean that we are not concerned about the impact of our activities on air quality. Striving everyday to improve our environmental performance, our company-wide environmental policies and procedures are founded on three main guiding principles: (1) protect the environment for present and future generations, (2) reduce risks and improve efficiencies, and (3) introduce advanced technology and processes.

In the third quarter 2010, Corporate Knights, an independent Canadian media company, ranked Transcontinental as one of the 50 Best Corporate Citizens in Canada, for the seventh time. This ranking is based on community commitment, labour relations, environmental practices and governance practices.

Furthermore, in the second quarter of 2010, the Environmental Printing Awards recognized the Corporation's commitment to sustainable development. Transcontinental won Best of Show, which honours the most environmentally progressive printer of the past year, all categories combined.

Also, in February 2010, the Corporation tabled its *Sustainability Report 2009 – Committing ourselves to performance*, based on the *Global Reporting Initiative* (GRI) standard. This report articulates Transcontinental's commitment to the path of sustainable development around four themes:

- ***Engagement and ownership***: Mobilize employees at all levels of the organization, and our suppliers, customers and partners.
- ***Innovation is the key driver, internally and externally***: Supporting and rewarding initiative as a key component of the strategy.
- ***Connecting words to actions***: Setting targets and key performance indicators to measure progress.
- ***Shared journey***: Communicating challenges and progress at each step of the way.

The following are some of Transcontinental's achievements mentioned in the report:

- ***Greenhouse gas emissions***: reduction of 11% in 2009 and implementation of a global energy management program to reduce emissions by 15% by 2012 compared to the level in 2008.
- ***Paper Purchasing Policy***: increase in the use of Gold and Gold Plus papers, the highest ranked papers in the environmental classification developed by Transcontinental, which represent 48% of the paper purchased in 2009, compared to 22% in 2008.
- ***Chain-of-Custody***: triple forest product chain-of-custody certification (FSC/SFI/PEFC) in 42 Transcontinental printing plants.
- ***Recycling programs***: recovery of 700 tonnes of paper in the Montreal subway system and contribution of \$480,000 to provincial and municipal recycling programs.
- ***Health, Safety and Wellness***: decrease in the accident frequency rate, from 1.30 in 2008 to 1.08 in 2009.
- ***Corporate philanthropy***: investment of about \$5.7 million in social and humanitarian causes in 2009, in the form of donations and sponsorships.
- ***LEED certification***: LEED Silver certification for Transcontinental Northern California, the plant built in Fremont, California to print the *San Francisco Chronicle*.

For details, see the *Sustainability Report 2009 – Committing ourselves to performance* posted on our website at www.transcontinental.com. The reader may also refer to the Environment section of *Management's Discussion and Analysis for the fiscal year ended October 31, 2009*.

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		
	2010	2009	Variation in %	2010	2009	Variation in %
Operations						
Revenues	\$ 500.3	\$ 504.4	-1%	\$ 1,521.9	\$ 1,600.3	-5%
Adjusted operating income before amortization ⁽¹⁾	90.2	82.6	9%	262.3	218.8	20%
Operating income (loss)	57.5	47.2	22%	158.4	(84.0)	n/a
Adjusted operating income ⁽¹⁾	58.7	53.6	10%	164.3	132.1	24%
Net income (loss) applicable to participating shares	28.9	25.3	14%	122.1	(125.4)	n/a
Adjusted net income applicable to participating shares ⁽¹⁾	34.4	31.8	8%	95.6	81.1	18%
Cash flow from operating activities before changes in non-cash operating items ⁽¹⁾	76.1	51.2	49%	209.3	151.4	38%
Cash flow related to operating activities of continuing operations	113.2	0.4	n/a	112.4	9.6	n/a
Investments						
Acquisitions of property, plant and equipment	21.6	61.2	-65%	110.6	221.0	-50%
Business acquisitions ⁽²⁾	4.1	0.7	n/a	6.9	13.7	-50%
Per share data (basic)						
Net income (loss) applicable to participating shares	0.35	0.31	13%	1.51	(1.55)	n/a
Adjusted net income applicable to participating shares ⁽¹⁾	0.43	0.39	10%	1.18	1.00	18%
Cash flow from operating activities before changes in non-cash operating items ⁽¹⁾	0.94	0.63	49%	2.59	1.87	39%
Cash flow related to operating activities of continuing operations	1.40	-	n/a	1.39	0.12	n/a
Dividends on participating shares	0.09	0.08	13%	0.26	0.24	8%
Average number of participating shares outstanding (in millions)	80.8	80.8		80.8	80.8	
				As at July 31 2010	As at October 31 2009	As at July 31 2009
Financial condition						
Total assets				\$ 2,476.6	\$ 2,549.7	\$ 2,479.3
Net indebtedness ⁽¹⁾				708.4	791.1	928.0
Shareholders' equity				1,209.0	1,115.2	983.0
Net indebtedness (including utilization of securitization program) / adjusted operating income before amortization (Last 12 months)				1.85	2.59	3.18 ⁽³⁾
Shareholders' equity per share				\$ 14.96	\$ 13.80	\$ 12.17
Number of participating shares at end of period (in millions)				80.8	80.8	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 2010 OPERATING RESULTS

Analysis of Main Variances – Consolidated Results For the third quarter ended July 31, 2010 (unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income applicable to participating shares	%
Results - Third Quarter 2009	\$ 504.4		\$ 53.6		\$ 25.3	
Acquisitions/Divestitures/Closures	(9.9)	(2.0) %	1.0	1.9 %	0.6	2.4 %
Discontinued operations	-	- %	-	- %	(3.4)	(13.4) %
Existing operations						
Paper effect	(4.7)	(0.9) %	1.0	1.9 %	0.5	2.0 %
Exchange rate effect	(5.5)	(1.1) %	(0.1)	(0.2) %	0.5	2.0 %
Organic growth	16.0	3.2 %	3.2	6.0 %	2.7	10.7 %
Impairment of assets and restructuring costs, impairment of goodwill and intangible assets and unusual adjustments to income taxes	-	- %	-	- %	4.4	17.4 %
Dividends on preferred shares	-	- %	-	- %	(1.7)	(6.7) %
Results - Third Quarter 2010	\$ 500.3	(0.8) %	\$ 58.7	9.5 %	\$ 28.9	14.2 %

As shown in the above table, a number of factors contributed to the variation between results in third quarter 2010 and third quarter 2009 :

- The net effect of acquisitions, divestitures and closures decreased revenues by \$9.9 million and increased adjusted operating income by \$1.0 million. The decrease in revenues comes mainly from divestitures and closures in the Printing Sector, including the sale of our Retail Group printing plant in Ohio and, to a lesser extent, from the Media Sector, with the closure of several publications and newspapers. The net positive impact on net income, after deduction of financing expenses and income taxes, was \$0.6 million.
- The paper effect had a \$4.7 million negative impact on revenues. The paper effect includes the variation in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for printing operations, these elements affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had positive impacts of \$1.0 million on adjusted operating income and \$0.5 million on net income.
- In third quarter 2010, the Canadian dollar rose 10.4% versus the U.S. dollar and 5.8% versus the Mexican peso, compared to average spot exchange rates in 2009. The rise in the Canadian dollar led to a \$5.5 million decrease in revenues and a \$0.1 million decrease in adjusted operating income. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of about \$2.5 million on revenues. For export sales by plants in Canada, the negative impact, net of the currency hedging program, was \$3.0 million. The conversion of results for U.S. and Mexican units had almost no impact on adjusted operating income. Export sales, net of the currency hedging program and purchases in U.S. dollars, had a positive impact of \$1.2 million on adjusted operating income. Finally, the negative impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was \$1.3 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net positive effect was \$0.5 million.
- Revenues in our base business grew \$16.0 million, or 3.2%, in third quarter 2010. The increase stems from the contribution of the new printing contracts, including the *San Francisco Chronicle* and Rogers, and from

our Media Sector, more particularly the Consumer Solutions Group, which benefited from a slight upturn in national advertising spending, mainly in the automobile and financial sectors.

- The positive organic growth in adjusted operating income of \$3.2 million in third quarter 2010, a 6.0% improvement, stems first from organic revenue growth, but also, in part from the rationalization plan implemented in fiscal 2009 and the sustained improvement in our operational efficiency, which partially offset the decrease in adjusted operating income in the Media Sector, which is pursuing its strategic investments in its various digital and paper platforms.

Impairment of Assets and Restructuring Costs

In third quarter 2010, an amount of \$1.2 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, \$1.1 million is due to labour force reductions and \$0.1 million to other costs.

In third quarter 2009, an amount of \$6.4 million before tax (\$5.3 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, \$6.2 million was from labour force reductions and \$0.2 million from asset impairment and other costs.

Financial Expenses and Discount on Sale of Accounts Receivable

When combined, financial expenses and discount on sale of accounts receivable decreased by \$1.1 million, or 9.6%, from \$11.4 million in third quarter 2009 to \$10.3 million in third quarter 2010. This decrease is mainly due to a lower level of debt in 2010, due to the sale of almost all of our direct mail operations in the United States, the issuing of preferred shares, the increase in our operating income before amortization and the positive impact of the rise in the Canadian dollar against its U.S. and European counterparts.

Income Taxes

Income taxes increased by \$2.8 million, from \$9.2 million in third quarter 2009 to \$12.0 million in third quarter 2010. Excluding income taxes on impairment of goodwill and intangible assets, income taxes would have been \$12.3 million, with an income tax rate of 25.4%, compared to \$10.3 million, or 24.4%, in third quarter 2009. This increase in the tax rate is mainly due to the geographic distribution of pre-tax earnings.

Discontinued Operations

In the third quarter 2010, the Corporation reported a net loss from discontinued operations of \$4.6 million from the sale of almost all its direct mail assets in the United States in April 2010. In updating the provisions related to certain commitments, the Corporation recognized a loss from the operation of discontinued operations of \$5.5 million, net of related income taxes. In addition, a gain of \$0.9 million from the discontinuance of operations, net of related income taxes, was recorded during the quarter.

Dividends on Preferred Shares

During the third quarter 2010, dividends of \$1.7 million on preferred shares were considered with respect to the preferred shares, series D.

Net Income Applicable to Participating Shares

Net income applicable to participating shares increased by \$3.6 million, from \$25.3 million in third quarter 2009 to \$28.9 million in third quarter 2010. This increase is due to an increase in operating income in 2010, partially offset by

a loss related to discontinued operations, an increase in income taxes and dividends on preferred shares. On a per-share basis, net income applicable to participating shares increased, from \$0.31 to \$0.35.

Adjusted net income applicable to participating shares increased \$2.6 million, or 8.2%, from \$31.8 million in third quarter 2009 to \$34.4 million in third quarter 2010. On a per-share basis, it increased \$0.04, from \$0.39 to \$0.43.

REVIEW OF OPERATING SECTORS FOR THIRD QUARTER 2010

Analysis of Main Variances – Sector Results For the third quarter ended July 31, 2010 (unaudited)

(in millions of dollars)	Printing Sector	Marketing Communications Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
Revenues - Third Quarter 2009	\$ 342.2	\$ 29.2	\$ 151.9	\$ (18.9)	\$ 504.4
Acquisitions/Divestitures/Closures	(7.7)	0.6	(2.8)	-	(9.9)
Existing operations					
Paper effect	(4.7)	-	-	-	(4.7)
Exchange rate effect	(4.4)	(1.1)	-	-	(5.5)
Organic growth	7.0	2.6	6.0	0.4	16.0
Revenues - Third Quarter 2010	\$ 332.4	\$ 31.3	\$ 155.1	\$ (18.5)	\$ 500.3
Adjusted operating income - Third Quarter 2009	\$ 31.8	\$ (1.5)	\$ 29.4	\$ (6.1)	\$ 53.6
Acquisitions/Divestitures/Closures	0.5	(0.1)	0.6	-	1.0
Existing operations					
Paper effect	-	-	1.0	-	1.0
Exchange rate effect	(0.5)	0.4	-	-	(0.1)
Organic growth (negative)	5.3	0.6	(2.3)	(0.4)	3.2
Adjusted operating income (loss) - Third Quarter 2010	\$ 37.1	\$ (0.6)	\$ 28.7	\$ (6.5)	\$ 58.7

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 19) to the Consolidated Financial Statements for the quarter ended July 31, 2010.

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 were down \$9.8 million, or 2.9%, from \$342.2 million in third quarter 2009 to \$332.4 million in third quarter 2010. Excluding divestitures, closures and the negative impact of fluctuations in the exchange rate and paper, revenues were up \$7.0 million, or 2.0%.

Our diversified clientele, our leading position in most of our segments and the contribution from the new printing contracts offset the market conditions which are still affecting our magazine, book and catalogue printing. The lower revenues in this sector are largely due to the sale, in May 2009, of the Retail Group plant in Ohio. Also, our Magazine, Book and Catalogue Group was still affected by the rise in the Canadian dollar versus the U.S. dollar.

Adjusted operating income increased from \$31.8 million in third quarter 2009 to \$37.1 million in third quarter 2010, up

16.7%. The increase of \$5.3 million raised the adjusted operating income margin from 9.3% in third quarter 2009 to 11.2% in third quarter 2010. Furthermore, the efficacy of our rationalization plan implemented in 2009 contributed to organic growth in adjusted operating income, particularly in the Marketing Products Group.

The project to print *The Globe & Mail* until 2028 is well underway. This project, which started in 2009, aims to set up a new and innovative Canada-wide platform to print newspapers and flyers. This will make it possible to generate new sales of close to \$25 million and will result in certain synergies. Overall efficiency will improve because equipment will be more productive and production capacity better utilized. This investment will also help reduce capital expenditures in the Retail Group going forward. The network will make it possible to add colour to each page of *The Globe and Mail*, and will also enable us to meet the needs of our retailers. The project is advancing on schedule and production should start no later than early fiscal 2011.

Also, in coming quarters, the Printing Sector will introduce new initiatives to further improve operational efficiency to ensure that its cost structure is adjusted to the market in our various printing segments, while further consolidating its leading position in Canada.

Marketing Communications Sector

For the second consecutive quarter, revenues in the Marketing Communications Sector grew compared to the same quarter a year earlier, from \$29.2 million in the third quarter 2009 to \$31.3 million in 2010. Excluding the effect of the acquisition of LIPSO Systems, a Canadian leader in integrated mobile solutions, as well as the exchange rate effect, revenues grew by \$2.6 million, or 8.9%. This positive organic growth is largely due to our Custom Communications and Premedia divisions.

The adjusted operating loss was down \$0.9 million, from \$1.5 million in third quarter 2009 to \$0.6 million in 2010. As a result, the adjusted operating income margin improved, from -5.1% in third quarter 2009 to -1.9% in 2010. Excluding the acquisition and the exchange rate effect, the adjusted operating loss decreased by \$0.6 million, primarily due to an increase in revenues in the Custom Communications and Premedia divisions, partially offset by an increase in the amortization charge.

In the final quarter of fiscal 2010, although its operations are to a certain degree dependent on market conditions, the Marketing Communications Sector's revenues should increase given its efforts to develop and optimize its digital marketing solutions, as well as the increasing demand for such solutions from customers. Similarly, the recent acquisition of LIPSO Systems combined with our existing digital applications will enable us to present a more complete integrated offering.

Media Sector

Media Sector revenues were up \$3.2 million, or 2.1%, from \$151.9 million in third quarter 2009 to \$155.1 million in third quarter 2010. Excluding publications that were discontinued or sold, revenues rose \$6.0 million, or 4.0%.

The growth in base business in third quarter 2010 stems from higher revenues across all business groups. Our Business and Consumer Solutions Group had the highest increase in revenues due to the recovery in national advertising in the automobile and financial sectors. By developing new avenues of growth to diversify its product offering, our Educational Book Publishing Group saw its market share improve in certain targeted markets in the third quarter 2010, increasing its revenues over the same quarter a year earlier. In addition, our efforts to develop our digital offering, combined with the economic recovery, benefited our New Media and Digital Solutions Group. Lastly, our Local Solutions Group benefited from the higher contribution from our distribution operations.

Adjusted operating income decreased by \$0.7 million, or 2.4%, from \$29.4 million in third quarter 2009 to \$28.7 million in third quarter 2010. Excluding divestitures, closures and the paper effect, adjusted operating income

declined \$2.3 million, or 7.8%. The decrease is primarily due to our Local Solutions Group and to our New Media and Digital Solutions Group, which are continuing their strategic investments in various digital and paper platforms. The decrease was, however, partly offset by the positive effects of the additional revenues mentioned above.

Adjusted operating income margin was 18.5% in third quarter 2010, down from 19.4% in third quarter 2009. The decrease stems mainly from the recent strategic investments mentioned above.

In the third quarter 2010, the Media Sector launched new products to improve its digital and its more traditional publication offerings. Thus, the Local Solutions Group launched three new weeklies: the *Point de vue Mont Tremblant*, the *Point de vue Sainte-Agathe* and the *Abitibi Express*, all with their own diverse and interactive websites. These publications were introduced to provide enhanced local content to Quebec communities and businesses.

In the final quarter 2010, the Media Sector will focus its efforts on its numerous digital platforms, and more specifically on our recent sites, such as the pre-shopping sites *dealstreet.ca* and *publisac.ca*, and on the online business reputation management tool offered by *weblocal.ca*. We are continuing to find ways to monetize our digital products by expanding our sales network. Lastly, we will continue to make strategic investments in digital and paper products in upcoming quarters to enhance the scope of our integrated offering to local communities.

Inter-Segment and Other Activities

Revenues of inter-segment and other activities went from a negative total of \$18.9 million in the third quarter of 2009 to a negative total of \$18.5 million in 2010. The variation is mainly due to the decrease in inter-segment transactions. In addition, adjusted operating income went from a negative total of \$6.1 million in third quarter 2009 to a negative total of \$6.5 million in 2010, mainly due to an increase in the provision related to outstanding share units resulting from the rise in the share price as at July 31, 2010 compared to the same date a year earlier.

DETAILED ANALYSIS OF OPERATING RESULTS FOR NINE-MONTHS ENDED JULY 31, 2010

Analysis of Main Variances – Consolidated Results For the nine-month period ended July 31, 2010 (unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares	%
Results - Nine months ended July 31, 2009	\$ 1,600.3		\$ 132.1		\$ (125.4)	
Acquisitions/Divestitures/Closures	(50.5)	(3.2) %	3.0	2.3 %	2.3	n/a
Discontinued operations	-	- %	-	- %	45.7	n/a
Existing operations						
Paper effect	(25.8)	(1.6) %	4.7	3.6 %	3.6	n/a
Exchange rate	(20.3)	(1.3) %	(1.7)	(1.3) %	0.8	n/a
Organic growth	18.2	1.1 %	26.2	19.8 %	12.9	n/a
Impairment of assets and restructuring costs, impairment of goodwill and intangible assets and unusual adjustments to income taxes	-	- %	-	- %	187.3	n/a
Dividends on preferred shares	-	- %	-	- %	(5.1)	n/a
Results - Nine months ended July 31, 2010	\$ 1,521.9	(4.9) %	\$ 164.3	24.4 %	\$ 122.1	n/a

As shown in the above table, a number of factors contributed to the variation in results for the first nine months of fiscal 2010 and the first nine months of fiscal 2009.

- The net impact of acquisitions, divestitures and closures reduced revenues by \$50.5 million and increased adjusted operating income by \$3.0 million. The revenue reduction stems mainly from the sale of our Retail Group plant in Ohio and the discontinuation of certain publications and newspapers in the Media Sector, partially offset by the contribution from the acquisitions of Totem (formerly Redwood Custom Communications), Conversys and LIPSO Systems. Net of financing and income taxes, their positive impact on net income was \$2.3 million.
- The paper effect had a \$25.8 million negative impact on revenues. This effect includes the variation in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for printing operations, these items affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had a positive impact of \$4.7 million on adjusted operating income and \$3.6 million on net income.
- In the first nine months of 2010, the Canadian dollar rose 13.8% against the U.S. dollar and 8.1% against the Mexican peso, compared to the average exchange rates for the same period in 2009. The rise in the Canadian dollar led to a decrease of \$20.3 million in revenues and \$1.7 million in adjusted operating income. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of \$10.8 million. For export sales from Canadian plants, net of the currency hedging program, the negative impact was \$9.5 million. The positive impact of the conversion of results for the U.S. and Mexican units was \$0.1 million on adjusted operating income. The negative impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was \$2.7 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 \$0.9 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net positive effect was \$0.8 million.
- Revenues from base business grew \$18.2 million, or 1.1%, in the first nine months of fiscal 2010. The increase is due to the new printing contracts, including *San Francisco Chronicle* and Rogers, partially offset by lower volumes in our magazine, book and catalogue printing, and our marketing products printing. Our

Media Sector also contributed to organic growth, more particularly in the third quarter 2010, in which its Consumer Solutions Group benefited from a slight upturn in national advertising spending.

- The growth in adjusted operating income of \$26.2 million, or 19.8% in the first nine months of fiscal 2010 stems first from organic revenue growth, but also, from the full impact of the rationalization plan implemented in fiscal 2009 and improved operational efficiency in all groups in the Printing Sector, as well as the contribution from new contracts.

Impairment of Assets and Restructuring costs

An amount of \$5.9 million before tax (\$4.2 million after tax) was accounted for separately in the consolidated statement of income for the first nine months of 2010 as impairment of assets and restructuring costs. Details are as follows:

- Impairment of assets and other costs of \$0.9 million before tax (\$0.7 million after tax) related to machinery and equipment that was no longer required considering the lower level of activity of certain businesses.
- Restructuring costs of \$5.0 million before tax (\$3.5 million after tax) related to labour force reductions.

An amount of \$46.8 million before tax (\$34.4 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs for the first nine months of fiscal 2009. Of this amount, \$27.5 million relates to asset impairment and other costs and \$19.3 million to labour force reductions related to the rationalization announced in early fiscal 2009.

Impairment of Goodwill and Intangible Assets

For the first nine months of fiscal 2009, a pre-tax amount of \$169.3 million (\$154.7 million after taxes) was recorded separately on the consolidated statement of income as impairment of goodwill and intangible assets. Of that amount, \$166.5 million was for a goodwill write-down in the Printing and Marketing Communications sectors, mainly in our commercial products printing operations. The remaining \$2.8 million was for the write-off of trade names in the Consumer Solutions Group in our Media Sector.

Financial Expenses and Discount on Sale of Accounts Receivable

Combined, financial expenses and discount on sale of accounts receivable increased by \$1.1 million, or 3.6%, to \$31.7 million in the third quarter 2010, compared to \$30.6 million in the third quarter 2009. The increase is mainly due to a higher level of debt in the first nine months of 2010 related to the acquisition of property, plant and equipment early in the year, partially offset by the positive exchange rate effect caused by the rise in the Canadian dollar versus its U.S. and European counterparts.

Income Taxes

Income taxes increased by \$34.4 million, from a recovery of \$6.9 million in the first nine months of fiscal 2009 to an expense of \$27.5 million in the first nine months of fiscal 2010. Excluding income taxes on impairment of goodwill and intangible assets, impairment of assets and restructuring costs, and unusual adjustments to income taxes, income taxes would have amounted to \$31.6 million, with an income tax rate of 23.8%, versus \$20.1 million, or 19.8%, in the first nine months of fiscal 2009. The increase in the tax rate is mainly due to the geographic distribution of pre-tax earnings.

Discontinued 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 of the direct mail operations in the United States, on April 1, 2010, for net proceeds of \$105.7 million. Net income from discontinued operations includes a gain related to the discontinuance of operations of \$39.2 million, net of related income taxes, as well as a net loss of \$10.9 million (\$17.4 million in 2009) related to the operation of discontinued operations, net of related income taxes.

Net Income Applicable to Participating Shares

Net income applicable to participating shares increased from a net loss of \$125.4 million in the first nine months of fiscal 2009 to a net income of \$122.1 million in the first nine months of fiscal 2010. The increase is primarily due to significant impairments of goodwill, intangible assets and other assets, and to restructuring costs recorded in 2009, combined with a gain related to the discontinuance of operations in 2010, an increase in operating income and unusual adjustments to income taxes. However, these items were partially offset by an increase in income taxes and by dividends on preferred shares. On a per-share basis, net income applicable to participating shares increased from a loss of \$1.55 to a gain of \$1.51.

Adjusted net income applicable to participating shares increased \$14.5 million, or 17.9%, from \$81.1 million in the first nine months of 2009 to \$95.6 million in the first nine months of 2010. On a per-share basis, it increased \$0.18, from \$1.00 to \$1.18.

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)

(in millions of dollars, except per share amounts)	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Net income (loss) applicable to participating shares	\$ 28.9	\$ 25.3	\$ 122.1	\$ (125.4)
Dividends on preferred shares	1.7	-	5.1	-
Net loss (income) related to discontinued operations (after tax)	4.6	1.2	(28.3)	17.4
Non-controlling interest	-	0.1	0.3	0.3
Income taxes	12.0	9.2	27.5	(6.9)
Discount on sale of accounts receivable	-	0.8	0.9	3.9
Financial expenses	10.3	10.6	30.8	26.7
Impairment of goodwill and intangible assets	-	-	-	169.3
Impairment of assets and restructuring costs	1.2	6.4	5.9	46.8
Adjusted operating income	58.7	53.6	164.3	132.1
Amortization	31.5	29.0	98.0	86.7
Adjusted operating income before amortization	\$ 90.2	\$ 82.6	\$ 262.3	\$ 218.8
Net income (loss) applicable to participating shares	\$ 28.9	\$ 25.3	\$ 122.1	\$ (125.4)
Net loss (income) related to discontinued operations (after tax)	4.6	1.2	(28.3)	17.4
Impairment of assets and restructuring costs (after tax)	0.9	5.3	4.2	34.4
Impairment of goodwill and intangible assets (after tax)	-	-	-	154.7
Unusual adjustments to income taxes	-	-	(2.4)	-
Adjusted net income applicable to participating shares	34.4	31.8	95.6	81.1
Average number of participating shares outstanding	80.8	80.8	80.8	80.8
Adjusted net income applicable to participating shares per share	\$ 0.43	\$ 0.39	\$ 1.18	\$ 1.00
Cash flow related to continuing operations	\$ 113.2	\$ 0.4	\$ 112.4	\$ 9.6
Changes in non-cash operating items	37.1	(50.8)	(96.9)	(141.8)
Cash flow from continuing operations before changes in non-cash operating items	\$ 76.1	\$ 51.2	\$ 209.3	\$ 151.4
Long-term debt			\$ 724.4	\$ 768.3
Current portion of long-term debt			4.8	156.6
Cash and cash equivalents			(20.8)	3.1
Net indebtedness			\$ 708.4	\$ 928.0

SUMMARY OF QUARTERLY RESULTS

(unaudited)

	2010			2009			2008		
(in millions of dollars, except per share amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	\$ 500	\$ 510	\$ 512	\$ 570	\$ 504	\$ 531	\$ 565	\$ 615	\$ 536
Adjusted operating income before amortization	90	91	81	120	83	77	59	108	75
Adjusted operating income margin before amortization	18.0 %	17.8 %	15.8 %	21.1 %	16.4 %	14.5 %	10.4 %	17.6 %	14.0 %
Operating income (loss)	\$ 58	\$ 56	\$ 45	\$ 72	\$ 47	\$ (146)	\$ 14	\$ 80	\$ 48
Adjusted operating income	59	58	47	85	53	48	31	81	48
Adjusted operating income margin	11.8 %	11.4 %	9.2 %	14.9 %	10.5 %	9.0 %	5.5 %	13.2 %	9.0 %
Net income (loss) applicable to participating shares	\$ 29	\$ 67	\$ 26	\$ 43	\$ 25	\$ (144)	\$ (6)	\$ (94)	\$ 30
Per share	0.35	0.83	0.32	0.54	0.31	(1.79)	(0.08)	(1.16)	0.37
Adjusted net income applicable to participating shares	34	34	27	53	31	30	19	51	30
Per share	0.43	0.42	0.34	0.65	0.39	0.37	0.24	0.63	0.37
% of fiscal year	- %	- %	- %	39 %	24 %	22 %	15 %	37 %	21 %

The table above shows the evolution of the Corporation's quarterly results. With respect to revenues, note the stabilization in the decrease in revenues in 2010 further to the impact of the North American recession in 2009. However, note also that the rationalization measures effectively limited the impact of the recession on earnings starting in the third quarter of fiscal 2009. The fourth quarter is higher than the others since advertising spending is generally higher in the fall; also, it is the peak period for the Printing Sector.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

(in millions of dollars)	2010	2009
Operating activities		
Cash flow from continuing operations before changes in non-cash operating items	\$ 76.1	\$ 51.2
Changes in non-cash operating items	37.1	(50.8)
Cash flow related to operating activities of continuing operations	113.2	0.4
Investing activities		
Business acquisitions, net of disposals	(4.1)	(0.7)
Acquisitions of property, plant and equipment, net of disposals	(19.3)	(60.0)
Other	(3.2)	(8.7)
Cash flow related to investing activities of continuing operations	(26.6)	(69.4)
Financing activities		
Increase in long-term debt	2.7	50.2
Reimbursement of long-term debt	(0.7)	(102.4)
Increase (decrease) in revolving term credit facility	(68.7)	112.5
Dividends on participating shares	(7.3)	(6.4)
Dividends on preferred shares	(1.7)	-
Other	(1.2)	-
Cash flow related to financing activities of continuing operations	(76.9)	53.9
Other relevant information		
Net indebtedness	708.4	928.0
Shareholders' equity	1,209.0	983.0
Net indebtedness (including usage of the securitization program) / adjusted operating income before amortization (last 12 months)	1.85	3.18 ⁽¹⁾
Credit rating		
DBRS	BBB high	BBB high
	Stable	Stable
Standard and Poor's	BBB-	BBB-
	Stable	Stable

⁽¹⁾ As originally reported.

Cash Flow Related to Operating Activities of Continuing Operations

Cash flow from operating activities before changes in non-cash operating items rose to \$76.1 million in 2010, compared to \$51.2 million in 2009. The change is primarily due to the increase in adjusted operating income before amortization. Changes in non-cash operating items resulted in an inflow of \$37.1 million in 2010, compared to an outflow of \$50.8 million in 2009. This difference is mainly due to lower receivables in 2010 combined with an outflow of funds related to the securitization program in 2009, partially offset by the timing of payments of certain accounts payable. Consequently, cash flow related to operating activities of continuing operations increased, resulting in an inflow of \$113.2 million in 2010, compared to an inflow of \$0.4 million in 2009.

Cash Flow Related to Investing Activities of Continuing Operations

In third quarter of 2010, \$19.3 million was invested in property, plant and equipment, net of disposals, mainly for the *Globe and Mail* project. Fixed asset investments were down \$40.7 million compared to \$60.0 million invested in 2009, mainly because the *San Francisco Chronicle* project has now been completed.

Cash Flow Related to Financing Activities of Continuing Operations

The Corporation paid \$7.3 million in dividends on common shares, or 9 cents per share, in the third quarter of 2010, compared to \$6.4 million or 8 cents per share, in the same quarter in 2009. Also in third quarter 2010, the Corporation paid \$1.7 million in dividends on Series D preferred shares. Dividends paid by Transcontinental to Canadian residents are deemed eligible dividends under provincial and federal income tax laws.

<u>Shares Issued and Outstanding</u>	<u>At July 31, 2010</u>	<u>At August 31, 2010</u>
Class A (Subordinate Voting Shares)	65,594,197	65,594,897
Class B (Multiple Voting Shares)	15,247,540	15,246,840
Series D Preferred (cumulative rate reset)	4,000,000	4,000,000

Debt Instruments

As at July 31, 2010, net indebtedness (including usage of the securitization program) to adjusted operating income before amortization stood at 1.85 (2.59 as at October 31, 2009) mainly due to the proceeds from the sale of almost all the assets of the Direct Mail Group in the United States, reduced capital expenditures, an increase in adjusted operating income before amortization, and the rise in the Canadian dollar versus the U.S. dollar. Furthermore, the Corporation has now exceeded its objective, set in fiscal 2009, of keeping this ratio within a target range of 2.00 to 2.50.

As at July 31, 2010, the Corporation had a committed line of credit in the form of a revolving credit facility ("Tranche A") which matures in September 2012, for \$400.0 million or the equivalent in U.S. dollars, of which \$175.1 million was used.

In the third quarter of fiscal 2009, the Corporation obtained financing of €55.6 million (\$74.8 million) from an European bank with a six-year term bearing interest at EURIBOR + 1.60%, to purchase production equipment over the two subsequent years. This financing will be drawn in tranches, based on equipment delivery dates and will be payable in equal instalments of capital plus interest every six months from January 2011. On December 1, 2009, the Corporation arranged a cross-currency swap, which matures in six years, to fix the exchange rate at 1.5761 and the interest rate on this facility at bankers' acceptance rates plus 2.55%. As at July 31, 2010, the Corporation had drawn €49.2 million (\$66.1 million) on this financing (€23.7 million [\$37.7 million] at October 31, 2009).

The Corporation made commitments to acquire production equipment and to complete the renovation of a leased building. As at July 31, 2010, these commitments amounted to \$16.4 million, or €7.3 million, C\$5.9 million and US\$0.6 million. The minimum payments required in 2010 and 2011 are equivalent to \$5.4 million and \$11.0 million, respectively.

Off-Balance Sheet Arrangements (Securitization)

As at July 31, 2010, the accounts receivable sold under the securitization program amounted to \$217.2 million (\$240.3 million as at October 31, 2009), which was wholly kept by the Corporation as retained interest (\$128.4 million as at October 31, 2009), resulting in a nil net consideration (\$111.9 million as at October 31, 2009, including C\$77.3 million and US\$32.0 million). As at July 31, 2010, the maximum net consideration the Corporation could have obtained under the terms of the program was \$169.9 million (\$202.3 million as at October 31, 2009). 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 on sale of accounts receivable was recognized for the third quarter 2010 (\$0.8 million for the third quarter 2009). As at July 31, 2010, the Corporation was in compliance with all its covenants under the agreements governing this program.

Our securitization program came to an end in August 2010 and no new agreement has been signed to date.

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, 2009. 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, 2009*.

EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Business Combinations

In January 2009, CICA issued Section 1582, Business Combinations, which supersedes the like-named Section 1581. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for the recognition of a business combination.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the like-named Section 1600. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements.

Non-controlling Interests

In January 2009, the CICA issued Section 1602, Non-controlling Interests, which supersedes Section 1600, Consolidated Financial Statements. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements subsequent to a business combination.

The Corporation is currently assessing the impact of the adoption of these new requirements on the consolidated financial statements.

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 is required to qualitatively disclose its changeover impacts in conjunction with its 2010 financial reporting as well as quantitative information if available, with its interim and annual financial reporting for the year ending October 31, 2011. This information will be used by the Corporation to present comparative information in its financial statements for the year ending October 31, 2012.

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.

The Corporation's conversion plan consists of three phases:

Phase 1 – Evaluation

During this phase the Corporation performed a high-level identification of the major differences between IFRS and the Corporation's accounting policies as well as an evaluation of the key areas that may be impacted by the transition to IFRS. A detailed conversion plan was developed. Since changes are expected to IFRS standards during the conversion period and could impact the conversion plan, a monitoring process was established.

Phase 2 – Conversion

In this phase, the Corporation designs and develops solutions to address the differences identified in phase 1. Changes required to the existing accounting policies, financial reporting, information systems, business processes and internal controls will be identified in order to perform conversion to IFRS. Impacts on contractual arrangements are evaluated and modifications made as required. A change management strategy is implemented to respond to the information and training needs of the different stakeholders

Phase 3 – Implementation

The objective of this final phase is to enable continued IFRS reporting and to facilitate knowledge sharing. Changes identified in phase 2 are implemented and tested to ensure that any difference is addressed prior to the changeover date. The change management strategy initiated in phase 2 continues until completion of the conversion.

The Corporation has completed Phase 1 and began Phase 2 in fiscal 2009. Preliminary evaluation of the differences in the Corporation's accounting policies and primary aspects has been completed, as has the prioritization of the standards to be analyzed in Phase 2.

The following table shows the progress of the IFRS changeover as at July 31, 2010.

	<u>Main Activities</u>	<u>Schedule</u>	<u>Status</u>
Financial Information	Identify and analyze the differences between IFRS and the Corporation's accounting policies. Design and develop solutions to resolve the differences. Select from among the IFRS accounting standards and the exemptions permitted in accordance with IFRS 1. Develop a model for IFRS financial statements, including notes.	Completed before October 31, 2010. Follow up and updates during fiscal 2011.	Completed the preliminary identification and evaluation of differences and selections. In progress: detailed analysis of differences and selection of accounting policies.
	Prepare the opening balance sheet and compile the financial information for preparing the comparative IFRS financial statements.	During fiscal 2011.	To come
Information Systems and Processes	Evaluate the impact of the changes on information systems and processes and make changes as required. Formulate and implement a strategy for compiling the information in parallel (based on Canadian GAAP and IFRS) during fiscal 2011.	Modify the information systems and processes finalized in time to compile financial information during fiscal 2011. Follow up and update during fiscal 2011.	Completed: Overall evaluation of potential impact on information systems and processes. Evaluated: Impacts on information systems and processes, with detailed analysis of differences with respect to financial information.
Internal Controls	Evaluate the impact of the changes on internal controls on financial information and controls and procedures for communicating information and implement the changes as required.	Implement the changes required starting in second quarter of fiscal 2011. Follow up and updates during fiscal 2011.	Evaluated: Impact on internal controls, plus detailed analysis of differences with respect to financial information.
Training and Communication	Identify training needs and provide training.	Training sessions in fiscal 2010 and 2011.	Specific training given to primary actors in the changeover process and general training given to finance function employees.
	Communicate the progress of the changeover plan to stakeholders.	Regular communications in fiscal 2010 and 2011.	Developed: Communication plan with regular communication of the plan as it progresses.
Business	Evaluate the impact on the Corporation's contractual undertakings (compliance with restrictive financial clauses, compensation plans, etc.). Make changes required to contractual agreements.	Changes made before October 31, 2011.	Completed: Overall evaluation of potential impacts on agreements. Evaluated: Impact on contractual agreements, plus detailed analysis of differences with respect to financial information.

Differences between 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.

<u>Subject</u>	<u>Items that could have an impact on the Corporation's financial statements</u>
Employee Benefits (IAS 19)	• Under the IFRS, an entity may elect to recognize actuarial gains and losses using a corridor approach (which the Corporation uses) or recognize them immediately in other comprehensive income. The Corporation plans to continue using the corridor approach to recognition of actuarial gains and losses. • An exposure draft has been issued proposing the immediate recognition of actuarial gains and losses in other comprehensive income and the presentation of service costs and financial expenses in the profit or loss statement. The standard will be published in 2011.
Borrowing Costs (IAS 23)	• IFRS requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. Under Canadian GAAP, an entity may elect to capitalize borrowing costs or to expense them. The Corporation's accounting practice is to capitalize borrowing costs. • IFRS is more directive about the nature of capitalizable borrowing costs than Canadian GAAP. IFRS 1 offers an exemption that makes it possible to prospectively meet the requirements of IAS 23 for all qualifying assets whose borrowing costs are applied from a date prior to the transition date or from the transition date. The Corporation has not yet completed its analysis of these items.
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 defined much like 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 more quickly under IFRS. • To determine whether an impairment should be recognized, the carrying amount of the CGU 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, the carrying amount is compared to undiscounted future cash flows and if an impairment is required, the amount of the impairment is determined by comparing the carrying amount of the asset to its fair value. The impacts for the Corporation will be determined during the asset impairment test which will be done during the transition to IFRS. • Asset impairments other than goodwill impairments can be reversed under certain conditions. Canadian GAAP did not permit reversals.

Property, Plant and Equipment (IAS 16)	Each part of property, plant and equipment having a material cost in relation to the total cost of the asset must be amortized separately. Under Canadian GAAP, an entity must amortize a major component separately when it is reasonably possible to do so and the service life of each component can be estimated. The Corporation has not yet completed its analysis of this item.
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.
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 has not completed its analysis of this item. - An exposure draft has been issued proposing to eliminate the proportionate consolidation method. The standard is expected to be published in 2010.

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. This list is not definitive or exhaustive and the quantitative impacts will be disclosed when they are known.

<u>Exemption</u>	<u>Description and Status</u>
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.
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 adopt this exemption.

RISKS AND UNCERTAINTIES

The Corporation attempts to continually reduce its exposure to risks and uncertainties that it may encounter in its operating sectors or treasury situation. As a result, the Director of Risk Management and management continually review together 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 once a year by the Audit Committee.

Managing the Corporation's risks is a major factor behind the decisions taken by management with regard to acquisitions, capital investments, disposal of assets, regrouping 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 strategies it is taking to mitigate them.

Financial Risks

Availability of Capital and Use of Financial Leverage

Although the Corporation succeeded in meeting its financing and refinancing needs during a major economic crisis in 2009, there is no guarantee that additional funds will be available in the future, and if they are, that they will be provided in a timeframe and under conditions acceptable to the Corporation.

The risk is mitigated by the fact that the Corporation is in good financial condition with a ratio of net funded debt to adjusted operating income before amortization of 1.85. Also, the Corporation's available cash flows should be higher in fiscal 2011 given the additional cash flows generated by the project to print *The Globe and Mail*, and the planned reduction in our capital expenditures in the next fiscal year.

Furthermore, our securitization program came to an end in August 2010. As at July 31, this program was unused. No new agreement has been signed to date.

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. As at July 31, 2010, taking derivative financial instruments into account, the fixed rate portion of the Corporation's long-term debt represented 71% of the total, while the floating rate portion represented 29% (64% and 36%, respectively, as at October 2009).

In order to mitigate this risk the Corporation tries to keep a good balance of fixed versus floating rate debt.

For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Credit

No major change occurred in third quarter fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Pension Plans

On June 1, 2010, the Corporation replaced its hybrid and defined benefit pension plans with defined contribution plans. As a result, the Corporation limited its risk to the risk for past service credited under the hybrid and defined benefit plans, since it does not incur any risk for future service under the defined contribution plans. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Operational Risks

Economic Cycles

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Competition

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Geographic Distribution and Exchange Rate

The Canadian-U.S. dollar exchange rate varied considerably in third quarter 2010, compared to the third quarter 2009. The average exchange rate was 1.1550 CAD/USD in third quarter 2009, compared to an average of 1.0346 CAD/USD during the third quarter of fiscal 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, 2010, using forward contracts to manage the exchange rate risk related to its exports to the United States, the Corporation had contracts to sell US\$115 million (US\$118 million as at October 31, 2009), of which \$21 million, \$49 million and \$45 million will be sold in fiscal 2010, 2011 and 2012, respectively. The terms of these forward contracts range from one month to 26 months, with rates varying from 1.0302 to 1.2800. Hedging relationships were effective and in accordance with the risk management objectives and strategies throughout the third quarter 2010.

New Media

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Difficulty in Hiring Qualified Personnel

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Impairment Tests

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Exchange of Confidential Information

With the sale of almost all our direct mail operations in the United States, we reduced our exposure to the risk involved in the exchange of confidential information. The Corporation is still exposed to this risk in its other operations. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Business Development

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Integration of Acquisitions

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Loss of Reputation

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Participating Shares and Preferred Shares

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Environmental Risks

No major change occurred in third quarter of fiscal 2010. For more information, please refer to the Environment section of *Management's Discussion and Analysis for the Year Ended October 31, 2009* and the *Sustainability Report 2009 – Committing ourselves to performance*.

Raw Material and Postal Risks

Raw Materials and Energy Prices

No major change occurred in third quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

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

The sale of almost all our direct mail operations in the United States considerably reduced our exposure to postal mailing risk. However, the Corporation remains exposed to this risk through its other activities. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

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, 2010 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

First, for our Printing Sector, we are convinced that given the dedicated focus on the project to print *The Globe and Mail*, we will be able to start production no later than early fiscal 2011. This major project involves setting up a single Canada-wide platform to print newspaper and flyers, and will bring the Corporation about \$25 million in new business annually in addition to generating operating-cost synergies. Furthermore, although we are experiencing stabilization and even improvement in many of our niches, some of them will remain sensitive to demand that could be qualified as stable at best, and to production overcapacity. Our magazine, book and catalogue printing operations will likely continue to see lower page and copy counts, and less demand for specialty products and religious works, while being exposed to the higher Canadian versus U.S. dollar for its exports to the United States.

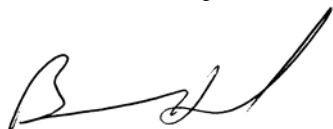
Second, particularly for our Media Sector, there has been a slight upturn in advertising spending by “national” advertisers, but this has not extended to all sectors. Our Business and Consumer Solutions Group will be the first to benefit if this recovery continues or strengthens. We expect that revenues for our Local Solutions Group will remain relatively stable, while the operating margin will be affected slightly due to investments in print and digital technologies to enhance our integrated solutions for local businesses. Our New Media and Digital Solutions Group will continue its development on our digital platforms, and we will continue with strategic investments to further develop this niche, which we consider promising.

Third, the Marketing Communications Sector will intensify its customer-focused business development through, among other things, digital applications, in order to meet steadily increasing demand for the activation of customized marketing programs. Optimization of our integrated marketing solutions should thus generate additional revenue for this sector going forward. In terms of operating income, the operating margin should gradually improve, but at a slower pace than revenues given our ongoing strategic investments in this area.

Lastly, in the first three quarters of fiscal 2010, the Corporation benefited greatly from the rationalization measures implemented as of February 2009 and the contribution from new printing contracts. However, the contribution from these items will taper off in the coming quarters. On the other hand, in the next few quarters we will be adopting new measures to improve operational efficiency, which will include maximizing the use of our most productive equipment. In addition, given our recent investments in the Printing Sector and our position as a Canadian leader, we believe that we will be able to capitalize on certain opportunities and increase our market share in this niche. Similarly, as

mentioned above, the contribution from the new contract to print *The Globe and Mail* daily paper will augment the above items by generating new revenues and making it possible to streamline operating costs.

On behalf of Management,

A handwritten signature in black ink, appearing to be 'B. Huard', written in a cursive style.

Benoît Huard
Vice President and Chief Financial Officer

September 8, 2010



CONSOLIDATED STATEMENTS OF INCOME (LOSS)
unaudited

(in millions of dollars, except per share data)	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Revenues	\$ 500.3	\$ 504.4	\$ 1,521.9	\$ 1,600.3
Operating costs	348.9	366.4	1,077.3	1,194.2
Selling, general and administrative expenses	61.2	55.4	182.3	187.3
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets	90.2	82.6	262.3	218.8
Amortization (Note 3)	31.5	29.0	98.0	86.7
Impairment of assets and restructuring costs (Note 4)	1.2	6.4	5.9	46.8
Impairment of goodwill and intangible assets (Note 5)	-	-	-	169.3
Operating income (loss)	57.5	47.2	158.4	(84.0)
Financial expenses (Note 6)	10.3	10.6	30.8	26.7
Discount on sale of accounts receivable (Note 10)	-	0.8	0.9	3.9
Income (loss) before income taxes and non-controlling interest	47.2	35.8	126.7	(114.6)
Income taxes (recovered) (Note 7)	12.0	9.2	27.5	(6.9)
Non-controlling interest	-	0.1	0.3	0.3
Net income (loss) from continuing operations	35.2	26.5	98.9	(108.0)
Net income (loss) from discontinued operations (Note 8)	(4.6)	(1.2)	28.3	(17.4)
Net income (loss)	30.6	25.3	127.2	(125.4)
Dividends on preferred shares, net of related income taxes	1.7	-	5.1	-
Net income (loss) applicable to participating shares	\$ 28.9	\$ 25.3	\$ 122.1	\$ (125.4)
Net income (loss) per participating share - basic and diluted (Note 13)				
Continuing operations	\$ 0.41	\$ 0.32	\$ 1.16	\$ (1.34)
Discontinued operations	(0.06)	(0.01)	0.35	(0.21)
	\$ 0.35	\$ 0.31	\$ 1.51	\$ (1.55)
Weighted average number of participating shares outstanding (in millions)	80.8	80.8	80.8	80.8

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



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
unaudited

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Net income (loss)	\$ 30.6	\$ 25.3	\$ 127.2	\$ (125.4)
Other comprehensive income (loss):				
Unrealized net change in fair value of derivatives designated as cash flow hedges, net of income taxes of (\$2.6) million and (\$3.4) million for the three-month and nine-month periods ended July 31, 2010 (\$5.9 million and \$5.6 million for the same periods in 2009)	(8.0)	15.3	(13.4)	13.0
Reclassification adjustments for net change in fair value of derivatives designated as cash flow hedges in prior periods, transferred to net income in the current period, net of income taxes of \$0.7 million and \$1.3 million for the three-month and nine-month periods ended July 31, 2010 (a negligible amount and \$2.1 million for the same periods in 2009)	2.0	(0.1)	9.2	5.1
Net change in fair value of derivatives designated as cash flow hedges	(6.0)	15.2	(4.2)	18.1
Unrealized net gains (losses) on translation of financial statements of self-sustaining foreign operations	(0.6)	6.5	(3.5)	4.7
Other comprehensive income (loss) (Note 16)	(6.6)	21.7	(7.7)	22.8
Comprehensive income (loss)	\$ 24.0	\$ 47.0	\$ 119.5	\$ (102.6)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

(in millions of dollars)	Nine months ended July 31	
	2010	2009
Balance, beginning of period	\$ 645.9	\$ 753.5
Net income (loss)	127.2	(125.4)
	773.1	628.1
Dividends on participating shares	(21.1)	(19.3)
Dividends on preferred shares	(5.3)	-
Balance, end of period	\$ 746.7	\$ 608.8

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



CONSOLIDATED BALANCE SHEETS
unaudited

	As at July 31, 2010	As at October 31, 2009
(in millions of dollars)		
Current assets		
Cash and cash equivalents	\$ 20.8	\$ 34.7
Accounts receivable (Note 10)	334.8	306.0
Income taxes receivable	22.0	4.1
Inventories	75.3	74.3
Prepaid expenses and other current assets	24.9	20.1
Future income taxes	13.1	11.0
	490.9	450.2
Property, plant and equipment	925.3	938.8
Goodwill (Note 5)	675.9	673.4
Intangible assets	185.5	184.3
Future income taxes	148.2	141.5
Other assets	50.8	68.3
Assets from discontinued operations (Note 8)	-	93.2
	\$ 2,476.6	\$ 2,549.7
Current liabilities		
Accounts payable and accrued liabilities	\$ 273.0	\$ 360.0
Income taxes payable	40.7	27.0
Deferred subscription revenues and deposits	46.7	37.2
Future income taxes	2.5	0.5
Current portion of long-term debt (Note 12)	4.8	7.0
	367.7	431.7
Long-term debt (Note 12)	724.4	818.8
Future income taxes	115.1	109.0
Other liabilities	60.1	43.8
Liabilities from discontinued operations (Note 8)	-	31.1
	1,267.3	1,434.4
Non-controlling interest	0.3	0.1
Commitments (Note 18)		
Shareholders' equity		
Share capital	476.6	476.5
Contributed surplus (Note 15)	13.5	12.9
Retained earnings	746.7	645.9
Accumulated other comprehensive loss (Note 16)	(27.8)	(20.1)
	718.9	625.8
	1,209.0	1,115.2
	\$ 2,476.6	\$ 2,549.7

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	
	2010	2009	2010	2009
Operating activities				
Net income (loss)	\$ 30.6	\$ 25.3	\$ 127.2	\$ (125.4)
Less : Net income (loss) from discontinued operations (Note 8)	(4.6)	(1.2)	28.3	(17.4)
Net income (loss) from continuing operations	35.2	26.5	98.9	(108.0)
Items not affecting cash and cash equivalents				
Amortization (Note 3)	37.1	33.4	115.9	101.8
Impairment of assets (Note 4)	-	(0.8)	0.3	24.1
Impairment of goodwill and intangible assets (Note 5)	-	-	-	169.3
Gain on disposal of assets	(0.7)	-	(1.3)	(1.3)
Future income taxes	4.4	(2.2)	(4.7)	(31.3)
Net change in accrued pension benefit asset and liability	(3.0)	(1.8)	(3.7)	(5.9)
Stock-based compensation (Note 14)	1.9	0.8	3.5	1.6
Other	1.2	(4.7)	0.4	1.1
Cash flow from operating activities before changes in non-cash operating items	76.1	51.2	209.3	151.4
Changes in non-cash operating items	37.1	(50.8)	(96.9)	(141.8)
Cash flow related to operating activities of continuing operations	113.2	0.4	112.4	9.6
Cash flow related to operating activities of discontinued operations	(3.1)	8.0	2.7	(13.6)
	110.1	8.4	115.1	(4.0)
Investing activities				
Business acquisitions (Note 17)	(4.1)	(0.7)	(6.9)	(13.7)
Acquisitions of property, plant and equipment	(21.6)	(61.2)	(110.6)	(221.0)
Disposals of property, plant and equipment	2.3	1.2	3.9	4.3
Increase in intangible assets and other assets	(3.2)	(8.7)	(13.8)	(20.2)
Cash flow related to investing activities of continuing operations	(26.6)	(69.4)	(127.4)	(250.6)
Cash flow related to investing activities of discontinued operations	-	(0.2)	92.2	(0.4)
	(26.6)	(69.6)	(35.2)	(251.0)
Financing activities				
Increase in long-term debt	2.7	50.2	40.4	150.4
Reimbursement of long-term debt	(0.7)	(102.4)	(8.5)	(105.6)
Increase (decrease) in revolving term credit facility	(68.7)	112.5	(98.3)	140.6
Dividends on participating shares	(7.3)	(6.4)	(21.1)	(19.3)
Dividends on preferred shares	(1.7)	-	(5.3)	-
Other	(1.2)	-	0.2	(1.3)
Cash flow related to financing activities of continuing operations	(76.9)	53.9	(92.6)	164.8
Cash flow related to financing activities of discontinued operations	(0.4)	0.1	(1.3)	(0.2)
	(77.3)	54.0	(93.9)	164.6
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	-	(2.7)	0.1	(3.4)
Increase (decrease) in cash and cash equivalents	6.2	(9.9)	(13.9)	(93.8)
Cash and cash equivalents at beginning of period	14.6	6.8	34.7	90.7
Cash and cash equivalents (bank overdraft) at end of period	\$ 20.8	\$ (3.1)	\$ 20.8	\$ (3.1)
Additional information				
Interest paid	\$ 7.3	\$ 9.8	\$ 27.7	\$ 24.4
Income taxes paid (recovered)	\$ 0.3	\$ (1.0)	\$ 34.4	\$ 17.7

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, 2009. The operating results for the interim periods are not necessarily indicative of full-year results due to the seasonality of certain operations of the Corporation. Results of operations are significantly influenced by the advertising market, which is stronger in the second and fourth quarters. The back-to-school period is also the strongest for book printing and for our educational resources publishing unit.

On December 1st, 2009, the Corporation entered into a cross currency swap agreement to hedge among others i) the currency risk related to future purchases of production equipment, which will be financed by the €55.6 million (\$74.8 million) facility obtained from a European bank and (or) ii) the currency risk related to payments of interest and principal of this facility denominated in euros. The cross currency swap agreement, whereby future purchases of production equipment denominated in euros and all payments of interest and principal on the facility denominated in euros have been set in Canadian dollars, is designated as a cash flow hedge.

Under hedge accounting, the Corporation applies the following policies:

For derivative financial instruments designated as cash flow hedges, the effective portion of the hedge is recorded in other comprehensive income and the ineffective portion is recorded in the consolidated statement of income. The effective portion of the currency risk hedging relationship related to future purchases of production equipment, deferred in accumulated other comprehensive income, is reclassified against the production equipment at initial recognition. The effective portion of the currency risk hedging relationship related to payments of interest and capital is reclassified to income in the period during which the hedged item affects income.

Interest expense on the hedged facility is recorded at the interest and foreign exchange rates of the hedge.

2. Effect of new accounting standards not yet implemented

a) Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which supersedes the like-named Section 1581. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for the recognition of a business combination.

b) Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the like-named Section 1600. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements.

c) Non-controlling Interests

In January 2009, the CICA issued Section 1602, Non-controlling Interests, which supersedes Section 1600, Consolidated Financial Statements. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements.

The Corporation is currently evaluating the impact of the adoption of these new standards on the consolidated financial statements.

3. Amortization

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Property, plant and equipment	\$ 27.8	\$ 26.3	\$ 86.4	\$ 78.7
Intangible assets	3.7	2.7	11.6	8.0
	31.5	29.0	98.0	86.7
Intangible assets and other assets, presented in revenues, operating costs and financial expenses	5.6	4.4	17.9	15.1
	\$ 37.1	\$ 33.4	\$ 115.9	\$ 101.8

4. Impairment of assets and restructuring costs

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

The following table provides details of this plan:

(in millions of dollars)	Three months ended July 31					
	2010		2009			
	Liability as at April 30, 2010	Charged to income	Paid	Liability as at July 31, 2010	Charged to income	Paid
Rationalization Measures						
Printing						
Workforce reduction costs	\$ 6.6	\$ 0.3	\$ 2.0	\$ 4.9	\$ 5.5	\$ 7.0
Other costs	0.3	0.1	0.1	0.3	0.8	0.7
Marketing Communications						
Workforce reduction costs	0.6	-	0.2	0.4	-	-
Other costs	-	-	-	-	0.2	0.2
Media						
Workforce reduction costs	1.0	0.8	1.1	0.7	0.7	0.7
	8.5	1.2	3.4	6.3	7.2	8.6
Printing						
Impairment of assets	n/a	-	n/a	n/a	(0.8)	n/a
Media						
Impairment of assets	n/a	-	n/a	n/a	-	n/a
	\$ 8.5	\$ 1.2	\$ 3.4	\$ 6.3	\$ 6.4	\$ 8.6
Total						
Workforce reduction costs	\$ 8.2	\$ 1.1	\$ 3.3	\$ 6.0	\$ 6.2	\$ 7.7
Other costs	0.3	0.1	0.1	0.3	1.0	0.9
Impairment of assets	n/a	-	n/a	n/a	(0.8)	n/a
	\$ 8.5	\$ 1.2	\$ 3.4	\$ 6.3	\$ 6.4	\$ 8.6

4. Impairment of assets and restructuring costs (continued)

(in millions of dollars)	Nine months ended July 31							
	Total		2010				2009	
	Charged to income	Forecasted	Liability as at October 31, 2009	Charged to income	Paid	Liability as at July 31, 2010	Charged to income	Paid
Rationalization Measures								
Printing								
Workforce reduction costs	\$ 27.5	\$ 28.2	\$ 8.8	\$ 3.8	\$ 7.7	\$ 4.9	\$ 14.6	\$ 9.4
Other costs	3.8	3.9	0.1	0.6	0.4	0.3	3.2	3.0
Marketing Communications								
Workforce reduction costs	1.2	1.2	0.8	-	0.4	0.4	1.1	1.1
Other costs	0.2	0.2	-	-	-	-	0.2	0.2
Media								
Workforce reduction costs	10.2	10.5	3.7	1.2	4.2	0.7	3.6	3.6
	42.9	44.0	13.4	5.6	12.7	6.3	22.7	17.3
Printing								
Impairment of assets	17.7	17.7	n/a	0.2	n/a	n/a	20.3	n/a
Media								
Impairment of assets	1.6	1.6	n/a	0.1	n/a	n/a	3.8	n/a
	\$ 62.2	\$ 63.3	\$ 13.4	\$ 5.9	\$ 12.7	\$ 6.3	\$ 46.8	\$ 17.3
Total								
Workforce reduction costs	\$ 38.9	\$ 39.9	\$ 13.3	\$ 5.0	\$ 12.3	\$ 6.0	\$ 19.3	\$ 14.1
Other costs	4.0	4.1	0.1	0.6	0.4	0.3	3.4	3.2
Impairment of assets	19.3	19.3	n/a	0.3	n/a	n/a	24.1	n/a
	\$ 62.2	\$ 63.3	\$ 13.4	\$ 5.9	\$ 12.7	\$ 6.3	\$ 46.8	\$ 17.3

5. Impairment of goodwill and intangible assets

During the second quarter of 2010, the Corporation has conducted its annual impairment test of goodwill. In assessing whether or not there is an impairment, the Corporation uses a combination of approaches to determine the fair value of a reporting unit, including both the discounted cash flows and the market approaches. Under the market approach, 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 there is an indication of impairment, the Corporation uses a discounted cash flow model in estimating it. The future cash flows are based on the Corporation's estimates and include consideration for expected future operating results, economic conditions and a general outlook for the industry in which the reporting unit operates.

For the three-month and nine-month periods ended July 31, 2010, no impairment charge of goodwill is required. Due to the difficult economic conditions, the Corporation had recorded, during the second quarter of fiscal 2009, an amount of \$166.5 million as impairment of goodwill in the Printing and Marketing Communications sectors, mostly related to commercial printing activities, and \$2.8 million as impairment of tradenames related to the consumers solutions group in the Media sector. No impairment charge of goodwill has been recorded for the three-month period ended July 31, 2009.

6. Financial expenses

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Financial expenses on long-term debt	\$ 9.6	\$ 9.3	\$ 29.5	\$ 24.5
Other expenses	0.8	1.0	2.3	2.1
Foreign exchange loss (gain)	(0.1)	0.3	(1.0)	0.1
	\$ 10.3	\$ 10.6	\$ 30.8	\$ 26.7

For the three-month and nine-month periods ended July 31, 2010, capitalized interest on property, plant and equipment amounted to \$0.9 million and \$2.2 million, respectively (\$0.9 million and \$3.5 million for the same periods in 2009).

7. Income taxes

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Income taxes at statutory tax rate	\$ 14.2	\$ 11.0	\$ 38.1	\$ (35.4)
Effect of foreign tax rate differences	(1.4)	(3.2)	(5.1)	(10.9)
Permanent difference on impairment of goodwill	-	1.8	-	39.6
Effect of Ontario corporate income tax rate reductions (a)	-	-	(2.4)	-
Other	(0.8)	(0.4)	(3.1)	(0.2)
Income taxes at effective tax rate	\$ 12.0	\$ 9.2	\$ 27.5	\$ (6.9)

Income taxes include the following items:

Income taxes before the following items:	\$ 12.3	\$ 10.3	\$ 31.6	\$ 20.1
Income taxes on impairment of assets and restructuring costs (Note 4)	(0.3)	(1.1)	(1.7)	(12.4)
Income taxes on impairment of goodwill and intangible assets (Note 5)	-	-	-	(14.6)
Effect of Ontario corporate income tax rate reductions (a)	-	-	(2.4)	-
Income taxes at effective tax rate	\$ 12.0	\$ 9.2	\$ 27.5	\$ (6.9)

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

The following table presents the results of discontinued operations:

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Revenues	\$ -	\$ 42.6	\$ 77.5	\$ 154.2
Expenses	7.1	44.0	91.7	180.1
Loss before income taxes	(7.1)	(1.4)	(14.2)	(25.9)
Income taxes recovered	(1.6)	(0.2)	(3.3)	(8.5)
Loss related to the operation of discontinued operations	(5.5)	(1.2)	(10.9)	(17.4)
Gain related to the discontinuance of operations, net of related income taxes of 0.9 (three months) and 24.1 (nine months)	0.9	-	39.2	-
Net income (loss) from discontinued operations	\$ (4.6)	\$ (1.2)	\$ 28.3	\$ (17.4)

The following table presents the net assets from discontinued operations:

(in millions of dollars)	As at	
	July 31, 2010	October 31, 2009
Short-term assets	\$ -	\$ 32.4
Long-term assets	-	60.8
	\$ -	\$ 93.2
Short-term liabilities	\$ -	\$ 25.4
Long-term liabilities	-	5.7
	\$ -	\$ 31.1
Net assets from discontinued operations	\$ -	\$ 62.1

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. On February 1st, 2010, the Corporation announced the conversion, for future service, of its defined benefit pension plans into defined contribution pension plans beginning June 1st, 2010. Consequently, a special curtailment expense of \$3.3 million was recorded in the consolidated financial statements of the second quarter of fiscal 2010.

The cost related to these plans is as follows:

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Defined benefit pension plans	\$ 2.0	\$ 3.2	\$ 13.3	\$ 11.9
Defined contribution pension plans	3.0	0.5	4.1	1.5
	\$ 5.0	\$ 3.7	\$ 17.4	\$ 13.4

10. Accounts receivable

The Corporation sells its accounts receivable through a securitization program, which matured in August 2010, whose maximum net consideration is \$300.0 million, including a maximum of US\$100.0 million. Under this program, the Corporation sells, on a continuous basis some of its accounts receivable to a trust who has sold the beneficial rights to investors unrelated to the Corporation.

The following table provides details of accounts receivable sold under this program:

(in millions of dollars)	As at July 31, 2010	As at October 31, 2009
Accounts receivable sold	\$ 217.2	\$ 240.3
Retained interest	217.2	128.4
Net consideration	\$ -	\$ 111.9
Net consideration in Canadian dollars	\$ -	\$ 77.3
Net consideration in U.S. dollars (US\$32.0 million in 2009)	\$ -	\$ 34.6

As at July 31, 2010, the maximum net consideration that the Corporation could have obtained in accordance with the agreement terms and conditions was \$169.9 million (\$202.3 million as at October 31, 2009).

11. Operating line of credit

On July 12, 2010, the Corporation cancelled its operating line of credit, which amounted to \$4.5 million. The operating line of credit was bearing interest at bank prime rate, was payable on demand, was not subject to any restrictive covenant and required no commitment fees.

12. Long-term debt

As at October 31, 2009, the Corporation had a committed line of credit in the form of a term revolving credit facility, totalling \$550.0 million or the US dollar equivalent, divided in two tranches, A and B, of \$400.0 million and \$150.0 million, respectively. On December 4, 2009, the Corporation repaid and cancelled Tranche B of \$150.0 million. The maturity of Tranche B was to be May 14, 2010. The term revolving credit facility of the Corporation now consists solely of Tranche A which matures in September 2012. Moreover, during the second quarter of fiscal 2010, following the sale of its high-volume direct mail assets in the United States, the Corporation repaid the US dollar portion of its term revolving credit facility for US\$103.0 million.

During the third quarter of fiscal 2009, the Corporation concluded a six-year financing of €55.6 million (\$74.8 million) with a European bank, bearing interest at EURIBOR + 1.60%, to acquire various production equipment over the two following years. This financing will be drawn in tranches, based on equipment delivery dates, and will be repayable in equal instalments including principal plus interest, every six months beginning January 2011. On December 1st, 2009, the Corporation entered into a six-year cross currency swap agreement, to lock the exchange rate at 1.5761 and to convert the interest rate to banker's acceptance rate plus 2.55%. As at July 31, 2010 an amount of €49.2 million (\$66.1 million) was drawn from this facility (€23.7 million (\$37.7 million) as at October 31, 2009).



13. Net income (loss) per participating share

The following table is a reconciliation of the components used in the calculation of basic and diluted net income (loss) from continuing operations per participating share for the three-month and nine-month periods ended July 31:

	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Numerator (in millions of dollars)				
Net income (loss) from continuing operations	\$ 35.2	\$ 26.5	\$ 98.9	\$ (108.0)
Dividends on preferred shares, net of related income taxes	1.7	-	5.1	-
Net income (loss) from continuing operations, applicable to participating shares	\$ 33.5	\$ 26.5	\$ 93.8	\$ (108.0)
Denominator (in millions)				
Weighted average number of participating shares - basic	80.8	80.8	80.8	80.8
Weighted average number of dilutive options	0.1	-	0.1	-
Weighted average number of participating shares - diluted	80.9	80.8	80.9	80.8

In the calculation of the diluted net income (loss) per share, 1,021,460 stock options were considered anti-dilutive as at July 31, 2010 (2,049,546 as at July 31, 2009), since their exercise price was greater than the average stock price during the period. Therefore, these stock options were excluded from the calculation.

14. 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 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 and \$0.4 million were charged to income and as an increase to contributed surplus of shareholders' equity for the three-month periods ended July 31, 2010 and 2009, respectively. For the nine-month periods ended July 31, 2010 and 2009, the expense was \$0.6 million and \$1.3 million, respectively.

The following table summarizes the changes in outstanding stock options:

	Three months ended July 31			
	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	1,785,320	\$ 16.14	2,053,716	\$ 17.21
Exercised	(26,680)	9.91	-	-
Cancelled	(44,050)	20.10	(4,170)	19.98
Balance, end of period	1,714,590	\$ 16.14	2,049,546	\$ 17.21

	Nine months ended July 31			
	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	2,006,575	\$ 17.23	1,820,621	\$ 18.61
Granted	173,100	13.09	317,700	9.64
Exercised	(47,000)	9.73	-	-
Cancelled	(418,085)	20.83	(88,775)	18.99
Balance, end of period	1,714,590	\$ 16.14	2,049,546	\$ 17.21
Options exercisable as at July 31	1,204,240	\$ 17.75	1,444,426	\$ 18.56

Exercise of stock options

When senior executives 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 and nine-month periods ended July 31, 2010, the amounts received were \$0.3 million and \$0.5 million, respectively. For the three-month and nine-month periods ended July 31, 2009, there was no exercise of stock options. No amount was transferred from contributed surplus to share capital for these periods.



14. Stock-based compensation plans (continued)

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:

	2010	2009
Fair value of stock options	\$ 4.31	\$ 3.90
Assumptions:		
Dividend rate	1.5 %	1.4 %
Expected volatility	38.6 %	32.2 %
Risk-free interest rate	2.74 %	2.09 %
Expected life	5 years	5 years

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:

Number of units	Three months ended July 31			
	2010	2009	2010	2009
	DSU		RSU	
Balance, beginning of period	120,395	133,816	715,192	573,235
Units cancelled	-	(4,881)	(11,001)	(16,580)
Units paid	(491)	-	-	-
Dividends paid in units	612	774	-	-
Balance, end of period	120,516	129,709	704,191	556,655

Number of units	Nine months ended July 31			
	2010	2009	2010	2009
	DSU		RSU	
Balance, beginning of period	127,870	103,282	548,808	221,357
Units granted	53,240	44,081	277,013	384,865
Units cancelled	(58,141)	(18,569)	(115,546)	(49,567)
Units paid	(4,290)	-	(6,084)	-
Dividends paid in units	1,837	915	-	-
Balance, end of period	120,516	129,709	704,191	556,655

The expense recorded in the consolidated statements of income (loss) for the three-month periods ended July 31, 2010 and 2009 was \$1.3 million and \$0.3 million, respectively. For the nine-month periods ended July 31, 2010 and 2009, the expense recorded in the consolidated statements of income (loss) was \$2.8 million and \$0.5 million, respectively. An amount of \$0.1 million has been paid under the plan for the nine-month period ended July 31, 2010 (a negligible amount was paid for the three-month period ended July 31, 2010, and no amount was paid for the three-month and nine-month periods ended July 31, 2009).

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:

Number of units	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Balance, beginning of period	144,164	141,060	167,783	108,621
Directors compensation	5,471	12,438	21,085	42,533
Units paid	-	-	(40,923)	-
Dividends paid in units	928	1,380	2,618	3,724
Balance, end of period	150,563	154,878	150,563	154,878

The expense recorded in the consolidated statements of income (loss) for the three-month periods ended July 31, 2010 and 2009 was \$0.4 million and \$0.1 million, respectively. For the nine-month periods ended July 31, 2010 and 2009, the expense (reversal) recorded in the consolidated statements of income (loss) was \$0.7 million and (\$0.2) million, respectively. An amount of \$0.5 million has been paid under the plan for the nine-month period ended July 31, 2010 (no amount was paid for the three-month period ended July 31, 2010, or for the three-month and nine-month periods ended July 31, 2009).



15. Contributed surplus

(in millions of dollars)	Nine months ended July 31	
	2010	2009
Balance, beginning of period	\$ 12.9	\$ 11.3
Compensation costs relating to stock option plan (Note 14)	0.6	1.3
Balance, end of period	\$ 13.5	\$ 12.6

16. Accumulated other comprehensive loss

(in millions of dollars)	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Com- prehensive Loss
Balance as at November 1, 2008	\$ (25.5)	\$ (15.2)	\$ (40.7)
Net change in unrealized gains, net of income taxes	4.7	18.1	22.8
Balance as at July 31, 2009	\$ (20.8)	\$ 2.9	\$ (17.9)
Balance as at November 1, 2009	\$ (20.8)	\$ 0.7	\$ (20.1)
Net change in unrealized losses, net of income taxes	(3.5)	(4.2)	(7.7)
Balance as at July 31, 2010	\$ (24.3)	\$ (3.5)	\$ (27.8)

As at July 31, 2010, the amounts expected to be reclassified to net income are as follows:

(in millions of dollars)	2010	2011	2012	2013	2014	2015	Total
Losses on derivatives designated as cash flow hedges	\$ (0.2)	\$ (3.0)	\$ (1.3)	\$ (0.5)	\$ -	\$ (0.3)	\$ (5.3)
Income taxes recovered	0.1	0.9	0.5	0.2	-	0.1	1.8
	\$ (0.1)	\$ (2.1)	\$ (0.8)	\$ (0.3)	\$ -	\$ (0.2)	\$ (3.5)

17. Business acquisitions

During the nine-month period ended July, 31, 2010, the Corporation has made the following acquisition:

Operating sector	Acquisition	Date of acquisition
Marketing Communications	100 % of the shares of LIPSO Systems Inc., a Canadian leader in integrated mobile solutions.	April 30, 2010

Conversys

During the first quarter of fiscal 2010, adjustments were made to the purchase price allocation of Conversys, acquired January 21, 2009, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition.

Totem (formerly Redwood Custom Communications)

During the first quarter of fiscal 2010, adjustments were made to the purchase price allocation of Totem, acquired November 18, 2008, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition.

The fair value of assets acquired as well as adjustments to prior period acquisitions are summarized as follows:

(in millions of dollars)	Total
Assets acquired	
Working capital	\$ 0.6
Property, plant and equipment	0.1
Goodwill (no tax value)	2.2
Amortizable intangible assets	4.2
Future income taxes	0.2
	\$ 7.3
Liabilities assumed	
Future income taxes	\$ 1.3
	\$ 6.0
Consideration	
Cash paid	\$ 4.7
Bank overdraft of the acquiree	0.2
	4.9
Short-term liabilities	1.1
	\$ 6.0

Other

For the three-month and nine-month periods ended July 31, 2010, the Corporation paid an amount of \$0.2 million and \$2.0 million, respectively, relating to business acquisitions completed in prior periods. Of these amounts, \$0.2 million and \$1.2 million were included in short-term liabilities.

18. Commitments

Building and machinery and equipment

The Corporation is committed to acquire machinery and equipment and to complete leasehold improvements in a building. As at July 31, 2010, these commitments represented \$16.4 million, including US\$0.6 million, €7.3 million and C\$5.9 million. Minimum payments required in 2010 and 2011 are equivalent to \$5.4 million and \$11.0 million, respectively.

19. Segmented information

In November 2009, the Corporation changed its operating structure to strengthen the position of the Corporation in the printing, marketing communications and media markets. Consequently, management has decided to transfer all of its Canadian commercial printing activities from the Marketing Communications sector to the Printing sector. The comparative figures have been reclassified in order to present the information in accordance with the new operating structure.

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

(in millions of dollars)	Three months ended July 31		Nine months ended July 31	
	2010	2009	2010	2009
Revenues				
Printing sector	\$ 332.4	\$ 342.2	\$ 1,049.2	\$ 1,128.2
Marketing Communications sector	31.3	29.2	89.9	94.7
Media sector	155.1	151.9	439.1	443.0
Other activities and unallocated amounts	1.9	1.8	5.9	6.1
Inter-segment sales				
Printing sector	(19.9)	(12.2)	(54.9)	(55.9)
Marketing Communications sector	(0.3)	(0.8)	(1.9)	(1.0)
Media sector	(0.2)	(7.7)	(5.4)	(14.8)
Total inter-segment sales	(20.4)	(20.7)	(62.2)	(71.7)
	\$ 500.3	\$ 504.4	\$ 1,521.9	\$ 1,600.3
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets				
Printing sector	\$ 60.4	\$ 53.4	\$ 197.2	\$ 156.0
Marketing Communications sector	1.8	0.4	5.6	6.2
Media sector	33.1	33.4	75.4	70.7
Other activities and unallocated amounts	(5.1)	(4.6)	(15.9)	(14.1)
	\$ 90.2	\$ 82.6	\$ 262.3	\$ 218.8
Operating income (loss)				
Printing sector	\$ 36.9	\$ 27.2	\$ 120.2	\$ (80.9)
Marketing Communications sector	(0.6)	(2.1)	(2.5)	(32.8)
Media sector	27.8	28.3	61.1	48.1
Other activities and unallocated amounts	(6.6)	(6.2)	(20.4)	(18.4)
	\$ 57.5	\$ 47.2	\$ 158.4	\$ (84.0)
Acquisitions of property, plant and equipment ⁽¹⁾				
Printing sector	\$ 17.7	\$ 55.6	\$ 72.2	\$ 174.3
Marketing Communications sector	1.3	5.0	5.9	6.5
Media sector	2.0	2.3	6.5	6.4
Other activities and unallocated amounts	0.7	2.2	7.9	5.6
	\$ 21.7	\$ 65.1	\$ 92.5	\$ 192.8
Amortization of property, plant and equipment and intangible assets				
Printing sector	\$ 23.3	\$ 21.6	\$ 72.9	\$ 64.5
Marketing Communications sector	2.4	1.9	8.0	5.8
Media sector	4.4	4.0	13.0	12.3
Other activities and unallocated amounts	1.4	1.5	4.1	4.1
	\$ 31.5	\$ 29.0	\$ 98.0	\$ 86.7

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



19. Segmented information (continued)

	As at July 31, 2010	As at October 31, 2009
(in millions of dollars)		
Assets		
Printing sector	\$ 1,428.5	\$ 1,468.2
Marketing Communications sector	119.4	113.7
Media sector	773.1	793.4
Other activities and unallocated amounts	155.6	81.2
Assets from discontinued operations (Note 8)	-	93.2
	\$ 2,476.6	\$ 2,549.7
Goodwill		
Printing sector	\$ 131.5	\$ 131.6
Marketing Communications sector	36.1	33.2
Media sector	507.4	507.7
Other activities and unallocated amounts	0.9	0.9
	\$ 675.9	\$ 673.4

20. Comparative figures

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