tc • TRANSCONTINENTAL

Press Release

For Immediate Release

Transcontinental Inc. announces its financial results for the third quarter of fiscal 2018

Highlights

- Revenues increased by $280.2 million, or 58.7%, from $477.7 million to $757.9 million, mainly as a result of the transformational acquisition of Coveris Americas completed on May 1, 2018. This increase was slightly mitigated by the sale of our local and regional newspaper media assets in Québec and the sale of the printing activities of our Fremont, California, plant.
- Operating earnings decreased by $28.6 million, or 41.9%, from $68.2 million to $39.6 million. Adjusted operating earnings, which exclude restructuring and other costs (gains), impairment of assets, amortization of intangible assets and the reversal of the fair value adjustment of inventory sold arising from business combinations, increased by $10.5 million, or 14.2%, from $74.2 million to $84.7 million.
- Net earnings decreased by $29.7 million, or 60.6%, from $49.0 million to $19.3 million. Adjusted net earnings, which exclude restructuring and other costs (gains), impairment of assets, amortization of intangible assets and the reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes, decreased by $0.8 million, or 1.5%, from $52.9 million to $52.1 million.
- Completed the transformational acquisition of Coveris Americas on May 1, 2018, positioning TC Transcontinental as a North American leader in flexible packaging.

Montréal, September 6, 2018 - Transcontinental Inc. (TSX: TCL.A TCL.B) announces its results for the third quarter of fiscal 2018, which ended July 29, 2018.

"The third quarter represents a significant milestone for us, marking the transformational acquisition of Coveris Americas and its first contribution to our results, said François Olivier, President and Chief Executive Officer of TC Transcontinental.

"Coveris Americas generated solid revenues, with more moderate profitability than anticipated. That being said, we are maintaining our previously established targets and we are confident that this acquisition will further contribute to our profitability as of the fourth quarter. We launched the rigorous integration of our activities and we are on track to realize the anticipated synergies. Lastly, we are satisfied with the performance of our packaging activities acquired prior to the Coveris Americas acquisition, both in terms of revenue growth and profitability.

"On the printing side, we posted another good quarter excluding the non-cash effect of the end of certain newspaper printing contracts. In addition, the demand for our service offering to retailers remained relatively stable, which reflects the effectiveness of flyers for driving traffic to the store.

"In summary, we are pursuing our business plan with confidence. We expect to continue generating significant cash flows, which will enable us to reduce our net indebtedness."

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Financial Highlights

(in millions of dollars, except per share amounts)	Q3-2018	Q3-2017	Variation in %	NINE MONTHS 2018	NINE MONTHS 2017	Variation in %
Revenues	$ 757.9	$ 477.7	58.7 %	$ 1,794.3	$ 1,480.0	21.2 %
Adjusted revenues (1)	757.9	477.7	58.7	1,692.2	1,480.0	14.3
Operating earnings before depreciation and amortization	89.7	93.7	(4.3)	383.1	276.9	38.4
Adjusted operating earnings before depreciation and amortization (1)	116.4	95.4	22.0	297.1	273.4	8.7
Operating earnings	39.6	68.2	(41.9)	262.1	198.4	32.1
Adjusted operating earnings (1)	84.7	74.2	14.2	225.2	208.3	8.1
Net earnings	19.3	49.0	(60.6)	146.4	138.1	6.0
Net earnings per share	0.22	0.64	(65.6)	1.81	1.79	1.1
Adjusted net earnings (1)	52.1	52.9	(1.5)	152.4	142.7	6.8
Adjusted net earnings per share (1)	0.59	0.68	(13.2)	1.89	1.85	2.2

(1) Please refer to the section entitled "Reconciliation of Non-IFRS financial measures" in this press release for adjusted data presented above.

2018 Third Quarter Results

Revenues increased by $280.2 million, or 58.7%, from $477.7 million in the third quarter of 2017 to $757.9 million in the corresponding period of 2018. This increase is mainly attributable to the contribution from the acquisition of Coveris Americas completed on May 1, 2018 and, to a lesser extent, to the acquisitions of Multifilm Packaging and Les Industries Flexipak, the organic growth in our Packaging Sector revenues as well as the favourable effect of the price increase for certain types of papers in the Printing Sector. In the Printing Sector, the end of the printing of the *San Francisco Chronicle*, *La Presse* and *The Globe and Mail* in the Maritimes drove a major portion of the decrease in sales in the quarter. In addition, revenues from our service offering to Canadian retailers were slightly lower in the third quarter of 2018 compared to a solid quarter in the prior year. In the other Printing Sector verticals, the decline in revenues followed the same trends as in previous quarters.

Operating earnings decreased by $28.6 million, or 41.9%, from $68.2 million in the third quarter of 2017 to $39.6 million in the third quarter of 2018. This decrease in mostly due to the unfavourable impact of items related to the acquisition of Coveris Americas, namely the amortization of intangible assets, acquisition and integration costs and the reversal of the fair value adjustment of inventory sold arising from business combinations. Adjusted operating earnings increased by $10.5 million, or 14.2%, from $74.2 million in the third quarter of 2017 to $84.7 million in the third quarter of 2018. Excluding the $11.3 million unfavourable impact of the end of the printing of the *San Francisco Chronicle*, *La Presse* and *The Globe and Mail* in the Maritimes, which had no impact on cash, adjusted operating earnings increased by $21.8 million, or 29.4%. This increase is mostly attributable to the contribution from our acquisitions in the Packaging Sector, the favourable effect of Corporation-wide cost reduction initiatives as well as the impact of the price increase for certain types of paper in the third quarter of 2018, partially offset by the above-mentioned decreases in volume in certain Printing Sector verticals. With respect to the acquisition of Coveris Americas, profit margins were lower than expected at the time of the acquisition, namely as a result of the impact of a delay in the pass-through of increases in the cost of paper, resin and freight provided for in several customer contracts, which had an unfavourable impact on the quarter's adjusted operating earnings.

Net earnings decreased by $29.7 million, or 60.6%, from $49.0 million in the third quarter of 2017 to $19.3 million in the third quarter of 2018. This decrease is mostly due to lower operating earnings and higher financial expenses, partially offset by lower income taxes. On

a per share basis, net earnings went from $0.64 to $0.22. Excluding restructuring and other costs (gains), impairment of assets, amortization of intangible assets and the reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes, adjusted net earnings decreased by $0.8 million, or 1.5%, from $52.9 million in the third quarter of 2017 to $52.1 million in the third quarter of 2018. This decrease is mostly due to the lower adjusted operated earnings explained above. On a per share basis, adjusted net earnings went from $0.68 to $0.59 due to higher financial expenses, as explained above, but also due to the issuance of 10.8 million Class A Subordinate Voting Shares of the Corporation.

2018 First Nine Months Results

Revenues increased by $314.3 million, or 21.2%, from $1,480.0 million in the first nine months of 2017 to $1,794.3 million in the corresponding period in 2018. Excluding the $102.1 million favourable effect of the accelerated recognition of deferred revenues related to the agreement signed with Hearst in December 2017, adjusted revenues went from $1,480.0 million in the first nine months of 2017 to $1,692.2 million in the same period in 2018, an increase of 14.3%. This increase is mainly attributable to the contribution from the acquisition of Coveris Americas and, to a lesser extent, of Multifilm Packaging and Les Industries Flexipak, as well as the organic growth in Packaging Sector revenues as a result of higher volume in our existing operations. However, this increase was partially offset by the effect of the disposals and closures of local newspapers, the unfavourable exchange rate effect and, to a lesser extent, the organic decline in revenues in certain Printing Sector verticals in the first nine months of 2018.

Operating earnings increased by $63.7 million, or 32.1%, from $198.4 million in the first nine months of 2017 to $262.1 million in the corresponding period in 2018. This increase is mostly attributable to the favourable effect of the accelerated recognition of deferred revenues, higher gains on the sale of certain activities in the Media Sector and net gains on the sale of buildings, partially offset by the unfavourable impact of items related to the acquisition of Coveris Americas, namely the amortization of intangible assets, acquisition and integration costs and the reversal of the fair value adjustment of inventory sold arising from business combinations. Adjusted operating earnings increased by $16.9 million, or 8.1%, from $208.3 million to $225.2 million. Excluding the stock-based compensation expense, which decreased by $5.8 million as a result of the change in the share price in the first nine months of 2018 compared to the corresponding period in 2017, and the unfavourable impact of the end of the printing of the *San Francisco Chronicle*, *La Presse* and *The Globe and Mail* in the Maritimes of $16.9 million, adjusted operating earnings increased by $28.0 million, or 13.4%. This increase is mostly attributable to the contribution from our acquisitions and the organic growth in adjusted operating earnings as a result of the favourable effect of Corporation-wide cost reduction initiatives, mostly offset by the above-mentioned decreases in volume in certain Printing Sector verticals.

Net earnings increased by $8.3 million, or 6.0%, from $138.1 million in the first nine months of 2017 to $146.4 million in the corresponding period in 2018. This increase is mostly attributable to the growth in operating earnings, partially offset by higher income taxes and financial expenses. On a per share basis, net earnings went from $1.79 to $1.81. Excluding the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains), impairment of assets, amortization of intangible assets and the reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes, as well as the impact of the U.S. tax reform on deferred taxes, adjusted net earnings increased by $9.7 million, or 6.8%, from $142.7 million in the first nine months of 2017 to $152.4 million in the corresponding period in 2018. On a per share basis, adjusted net earnings went from $1.85 to $1.89 due to the above-mentioned items, partially offset by the effect of the issuance of 10.8 million Class A Subordinate Voting Shares of the Corporation during the third quarter of 2018.

For more detailed financial information, please see the *Management's Discussion and Analysis for the third quarter ended July 29, 2018* as well as the financial statements in the "Investors" section of our website at www.tc.tc

Outlook

In our Packaging Sector, the acquisition of Coveris Americas will significantly contribute to revenues and adjusted operating earnings for the next three quarters compared to the corresponding quarters of the prior year. We expect revenues to be similar to those anticipated at the time of the acquisition and our profit margins to gradually improve over the coming quarters as a result of an increased focus on manufacturing efficiency as well as the effect of the announced synergies, which should gradually begin at the end of the fourth quarter of 2018 to reach the target of US$10 million on an annualized basis at the end of the second quarter of 2019. In our packaging operations other than those of Coveris Americas, we should continue generating sustained organic growth in revenues with the help of our well-established sales force, which should also contribute to profitability. Raw materials and transportation costs could once again have an unfavourable effect on profit margins should they experience a sustained increase.

In the Printing Sector, we expect revenues from our service offering to Canadian retailers to remain relatively stable over the next 12 months. The newspaper publishing vertical will continue to be affected by the end of the recognition of deferred revenues related to certain newspaper printing contracts (see Table #4), including the contract to print the *San Francisco Chronicle*, which will have an unfavourable effect on adjusted operating earnings of approximately $12 million in the next quarter, $10 million in the first quarter of 2019 and $4 million in the second quarter of 2019, with a limited impact on cash. In addition, revenues from the transition with Hearst, which began in January 2018, will cease at the end of the fourth quarter of 2018. In all the other printing verticals, we expect our revenues will continue to be affected by the same trends observed in recent quarters. Lastly, to limit the impact of these decreases, we will continue with our operational efficiency initiatives and will benefit from the cost reductions associated with the closure of a plant located in Montréal until the end of the first quarter of 2019.

To conclude, we will continue to generate significant cash flows from all our operating activities, which should enable us to reduce our net indebtedness.

Reconciliation of Non-IFRS Financial Measures

The financial information has been prepared in accordance with IFRS. However, financial measures used, namely the adjusted revenues, the adjusted operating earnings, the adjusted operating earnings before depreciation and amortization, the adjusted net earnings, the adjusted net earnings per share, the net indebtedness and the net indebtedness ratio, for which a complete definition is presented in the *Management's Discussion and Analysis for the third quarter ended July 29, 2018*, and for which a reconciliation is presented in the following table, do not have any standardized meaning under IFRS and could be calculated differently by other companies. During the three-month period ended July 29, 2018, the Corporation updated its definition of certain terms presented in the tables hereafter, which now exclude the amortization of intangible assets and the reversal of the fair value adjustment of inventory sold arising from business combinations. We believe that many of our readers analyze the financial performance of the Corporation's activities based on these non-IFRS financial measures as such measures may allow for easier comparisons between periods. These measures should be considered as a complement to financial performance measures in accordance with IFRS. They do not substitute and are not superior to them.

We also believe that the adjusted revenues, the adjusted operating earnings before depreciation and amortization, the adjusted operating earnings, that takes into account the impact of past investments in property, plant and equipment and intangible assets, and the adjusted net earnings are useful indicators of the performance of our operations. Furthermore, management also uses some of these non-IFRS financial measures to assess the performance of its activities and managers.

Regarding the net indebtedness and net indebtedness ratio, we believe that these indicators are useful to measure the Corporation's financial leverage and ability to meet its financial obligations.

Reconciliation of revenues - Third quarter and cumulative

	Three months ended		Nine months ended	
(in millions of dollars)	**July 29, 2018**	July 30, 2017	**July 29, 2018**	July 30, 2017
Revenues	**$ 757.9**	$ 477.7	**$ 1,794.3**	$ 1,480.0
Accelerated recognition of deferred revenues (1)	**—**	—	**(102.1)**	—
Adjusted revenues	**$ 757.9**	$ 477.7	**$ 1,692.2**	$ 1,480.0

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the third quarter ended July 29, 2018.

Reconciliation of operating earnings - Third quarter and cumulative

	Three months ended		Nine months ended	
(in millions of dollars)	**July 29, 2018**	July 30, 2017	**July 29, 2018**	July 30, 2017
Operating earnings	**$ 39.6**	$ 68.2	**$ 262.1**	$ 198.4
Accelerated recognition of deferred revenues (1)	**—**	—	**(102.1)**	—
Accelerated depreciation (1)	**—**	—	**22.0**	—
Restructuring and other costs (gains)	**14.3**	1.7	**—**	(6.0)
Impairment of assets	**2.9**	—	**6.6**	2.5
Amortization of intangible assets arising from business combinations (2)	**18.4**	4.3	**27.1**	13.4
Reversal of the fair value adjustment of inventory sold arising from business combinations	**9.5**	—	**9.5**	—
Adjusted operating earnings	**$ 84.7**	$ 74.2	**$ 225.2**	$ 208.3
Depreciation and amortization (3)	**50.1**	25.5	**121.0**	78.5
Accelerated depreciation (1)	**—**	—	**(22.0)**	—
Adjusted operating earnings before depreciation and amortization	**$ 116.4**	$ 95.4	**$ 297.1**	$ 273.4

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the third quarter ended July 29, 2018. (2) Intangible assets arising from business combinations include our customer relationships, trademarks and non-compete agreements. (3) Depreciation and amortization excludes amortization of intangible assets arising from business combinations presented above.

Reconciliation of net earnings - Third quarter

	Three months ended			
	July 29, 2018		July 30, 2017	
(in millions of dollars, except per share amounts)	**Total**	**Per share**	Total	Per share
Net earnings	**$ 19.3**	**$ 0.22**	$ 49.0	$ 0.64
Restructuring and other costs (gains), net of related income taxes	**10.0**	**0.11**	1.1	0.01
Impairment of assets, net of related income taxes	**2.1**	**0.02**	—	—
Amortization of intangible assets arising from business combinations, net of related income taxes (1)	**13.5**	**0.16**	2.8	0.04
Reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes	**7.2**	**0.08**	—	—
Adjusted net earnings	**$ 52.1**	**$ 0.59**	$ 52.9	$ 0.68

(1) Intangible assets arising from business combinations include our customer relationships, trademarks and non-compete agreements.

Reconciliation of net earnings - Cumulative

	Nine months ended			
	July 29, 2018		July 30, 2017	
(in millions of dollars, except per share amounts)	**Total**	**Per share**	Total	Per share
Net earnings	**$ 146.4**	**$ 1.81**	$ 138.1	$ 1.79
Accelerated recognition of deferred revenues, net of related income taxes (1)	**(75.4)**	**(0.93)**	—	—
Accelerated depreciation, net of related income taxes (1)	**16.3**	**0.20**	—	—
Restructuring and other costs (gains), net of related income taxes	**(3.6)**	**(0.04)**	(6.0)	(0.08)
Impairment of assets, net of related income taxes	**4.9**	**0.06**	1.8	0.02
Impact of the U.S. tax reform on deferred taxes	**36.6**	**0.45**	—	—
Amortization of intangible assets arising from business combinations, net of related income taxes (2)	**20.0**	**0.25**	8.8	0.11
Reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes	**7.2**	**0.09**	—	—
Adjusted net earnings	**$ 152.4**	**$ 1.89**	$ 142.7	$ 1.85

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the third quarter ended July 29, 2018. (2) Intangible assets arising from business combinations include our customer relationships, trademarks and non-compete agreements.

Reconciliation of net indebtedness

(in millions of dollars, except ratios)	**As at July 29, 2018**	As at October 29, 2017
Long-term debt	**$ 1,256.0**	$ 348.3
Current portion of long-term debt	**250.0**	—
Cash	**(27.7)**	(247.1)
Net indebtedness	**$ 1,478.3**	$ 101.2
Adjusted operating earnings before depreciation and amortization (last 12 months)	**$ 420.4**	$ 396.7
Net indebtedness ratio	**3.5 x**	0.3 x

Dividend

The Corporation's Board of Directors declared a quarterly dividend of $0.21 per share on Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on October 16, 2018 to shareholders of record at the close of business on September 28, 2018.

Conference Call

Upon releasing its third quarter 2018 results, the Corporation will hold a conference call for the financial community today at 4:15 p.m. The dial-in numbers are 1 647 788-4922 or 1 877 223-4471. Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on the Corporation’s website, which will then be archived for 30 days. For media requests or interviews, please contact Nathalie St-Jean, Senior Advisor, Corporate Communications of TC Transcontinental, at 514 954-3581.

Profile

TC Transcontinental is a leader in flexible packaging in North America, and Canada's largest printer. The Corporation is also a Canadian leader in its specialty media segments. For over 40 years, TC Transcontinental's mission has been to create products and services that allow businesses to attract, reach and retain their target customers.

Respect, teamwork, performance and innovation are strong values held by the Corporation and its employees. TC Transcontinental's commitment to its stakeholders is to pursue its business activities in a responsible manner.

Transcontinental Inc. (TSX: TCL.A TCL.B), known as TC Transcontinental, has over 9,000 employees, the majority of which are based in Canada, the United States and Latin America. TC Transcontinental had revenues of approximately C$2.0 billion for the fiscal year ended October 29, 2017. The Corporation has completed, on May 1, 2018, the transformational acquisition of Coveris Americas which generated approximately C$1.26 billion in revenues (US$966 million) for its fiscal year ended December 31, 2017. For more information, visit TC Transcontinental's website at www.tc.tc.

Forward-looking Statements

Our public communications often contain oral or written forward-looking statements which are based on the expectations of management and inherently subject to a certain number of risks and uncertainties, known and unknown. By their very nature, forward-looking statements are derived from both general and specific assumptions. The Corporation cautions against undue reliance on such statements since actual results or events may differ materially from the expectations expressed or implied in them. Forward-looking statements may include observations concerning the Corporation's objectives, strategy, anticipated financial results and business outlook. The Corporation's future performance may also be affected by a number of factors, many of which are beyond the Corporation's will or control. These factors include, but are not limited to, the economic situation in the world, structural changes in the industries in which the Corporation operates, the exchange rate, availability of capital, energy costs, competition, the Corporation's capacity to engage in strategic transactions and effectively integrate acquisitions into its activities without affecting its growth and its profitability, while achieving the expected synergies, the political, social, regulatory and legislative environment, in particular with regard to the environment and sustainable development, the safety of its packaging products used in the food industry, innovation of its offering, the protection of its intellectual property rights, concentration of its sales in certain segments, cybersecurity and data protection, recruiting and retaining qualified personnel in certain geographic areas and industry sectors, taxation, interest rate and net indebtedness level. The main risks, uncertainties and factors that could influence actual results are described in the *Management's Discussion and Analysis (MD&A) for the fiscal year ended October 29, 2017* and in the latest *Annual Information Form*, and have been updated in the *MD&A for the second quarter ended April 29, 2018*.

Unless otherwise indicated by the Corporation, forward-looking statements do not take into account the potential impact of nonrecurring or other unusual items, nor of divestitures, business combinations, mergers or acquisitions which may be announced after the date of September 6, 2018.

The forward-looking statements in this press release are made pursuant to the “safe harbour” provisions of applicable Canadian securities legislation.

The forward-looking statements in this release are based on current expectations and information available as at September 6, 2018. Such forward-looking information may also be found in other documents filed with Canadian securities regulators or in other communications. The Corporation's management disclaims any intention or obligation to update or revise these statements unless otherwise required by the securities authorities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the third quarter ended July 29, 2018

The purpose of this Management's Discussion and Analysis is to help the reader better understand the business, development strategy and future outlook of Transcontinental Inc., how we manage risk, as well as to analyze the Corporation's results and financial position for the third quarter ended July 29, 2018. It should be read in conjunction with the information in the unaudited condensed interim consolidated financial statements and the accompanying notes. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, may also be obtained on SEDAR at www.sedar.com.

In this document, unless otherwise indicated, all financial data are prepared in accordance with International Financial Reporting Standards (IFRS) and the term "dollar", as well as the symbol "$" designate Canadian dollars.

In addition, in this Management's Discussion and Analysis we also use non-IFRS financial measures for which a complete definition is presented below and for which a reconciliation to financial information in accordance with IFRS is presented in Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" and in Note #3 "Segmented Information" to the unaudited condensed interim consolidated financial statements for the third quarter ended July 29, 2018. During the three-month period ended July 29, 2018, the Corporation updated its definition of certain terms presented in the table below, which now exclude the amortization of intangible assets and the reversal of the fair value adjustment of inventory sold arising from business combinations. These measures should be considered as a complement to financial performance measures in accordance with IFRS. They do not substitute and are not superior to them.

Terms Used	Definitions
Adjusted revenues	Revenues before the accelerated recognition of deferred revenues (1)
Adjusted operating earnings before depreciation and amortization	Operating earnings before depreciation and amortization as well as the accelerated recognition of deferred revenues (1), restructuring and other costs (gains), impairment of assets and reversal of the fair value adjustment of inventory sold arising from business combinations
Adjusted operating earnings	Operating earnings before the accelerated recognition of deferred revenues (1), accelerated depreciation (1), restructuring and other costs (gains), impairment of assets, as well as amortization of intangible assets and reversal of the fair value adjustment of inventory sold arising from business combinations
Adjusted operating earnings margin	Adjusted operating earnings divided by adjusted revenues
Adjusted income taxes	Income taxes before income taxes on the accelerated recognition of deferred revenues (1), accelerated depreciation (1), restructuring and other costs (gains), impairment of assets, amortization of intangible assets and reversal of the fair value adjustment of inventory sold arising from business combinations as well as the effect of the U.S. tax reform on deferred taxes
Adjusted net earnings	Net earnings before the accelerated recognition of deferred revenues (1), accelerated depreciation (1), restructuring and other costs (gains), impairment of assets, amortization of intangible assets and reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes, as well as the effect of the U.S. tax reform on deferred taxes
Net indebtedness	Total of long-term debt plus current portion of long-term debt less cash
Net indebtedness ratio	Net indebtedness divided by the last 12 months' adjusted operating earnings before depreciation and amortization

(1) Related to the agreement signed with The Hearst Corporation on December 21, 2017 . Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the third quarter ended July 29, 2018.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Our public communications often contain oral or written forward-looking statements which are based on the expectations of Management and inherently subject to a certain number of risks and uncertainties, known and unknown. By their very nature, forward-looking statements are derived from both general and specific assumptions. The Corporation cautions against undue reliance on such statements since actual results or events may differ materially from the expectations expressed or implied in them. These forward-looking statements include, among others, statements with respect to our medium-term objectives, our outlook, our strategies to achieve these objectives, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. The words "may", "could", "should", "would", "assumptions", "strategy", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "objective", the use of the future and conditional tenses, and words and expressions of similar nature are intended to identify forward-looking statements. Such forward-looking statements may also include observations

concerning the Corporation's anticipated financial results and business outlooks and the economies in which it operates. The Corporation's future performance may also be affected by a number of factors, many of which are beyond the Corporation's will or control. The main risks, uncertainties and factors that could influence actual results are described in the *Management's Discussion and Analysis for the fiscal year ended October 29, 2017*, in the latest *Annual Information Form* as well as in the *Management's Discussion and Analysis for the second quarter ended April 29, 2018*.

Unless otherwise indicated by the Corporation, forward-looking statements do not take into account the potential impact of non-recurring or other unusual items, nor of disposals, business combinations, mergers or acquisitions which may be announced or concluded after the date of September 6, 2018.

These forward-looking statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities legislation.

The forward-looking statements in this Management's Discussion and Analysis are based on current expectations and information available as at September 6, 2018. Such forward-looking statements may also be found in other documents filed with Canadian securities regulators or in other communications. The Corporation's Management disclaims any intention or obligation to update or revise these statements unless otherwise required by the securities authorities.

PROFILE OF TC TRANSCONTINENTAL

TC Transcontinental is a leader in flexible packaging in North America, and Canada's largest printer. The Corporation is also a Canadian leader in its specialty media segments. For over 40 years, TC Transcontinental's mission has been to create products and services that allow businesses to attract, reach and retain their target customers.

Respect, teamwork, performance and innovation are strong values held by the Corporation and its employees. TC Transcontinental's commitment to its stakeholders is to pursue its business activities in a responsible manner.

Transcontinental Inc. (TSX: TCL.A TCL.B), known as TC Transcontinental, has over 9,000 employees, the majority of which are based in Canada, the United States and Latin America. TC Transcontinental had revenues of approximately C$2.0 billion for the fiscal year ended October 29, 2017. The Corporation has completed, on May 1, 2018, the transformational acquisition of Coveris Americas which generated approximately C$1.26 billion in revenues (US$966 million) for its fiscal year ended December 31, 2017. For more information, visit TC Transcontinental's website at www.tc.tc.

PREAMBLE

During the three-month period ended July 29, 2018, in connection with changes in the organizational structure and following the acquisition of Coveris Americas, the Corporation's operating segments have been modified and are now aggregated by Management into three sectors: Packaging, Printing and Media. The Corporation restated the corresponding segmented information for prior periods. The printing and packaging operations were previously presented under the Printing & Packaging Sector.

The Packaging Sector, which specializes in extrusion, lamination, printing and converting packaging solutions, generates revenues from the manufacturing of flexible plastic and paper products, including rollstock, bags and pouches, coextruded films, shrink films and coatings. Its facilities are located in the United States, Canada, Latin America and other geographic areas.

The Printing Sector generates revenues from an integrated service offering to retailers, including flyers and in-store marketing products printing, premedia and door-to-door distribution services, as well as a range of innovative print solutions for newspapers, magazines, 4-colour books and personalized and mass marketing products. Its facilities are located in Canada.

The Media Sector, which previously was reported separately, is now aggregated with certain head office costs and the elimination of inter-segment sales under the "Other" category. The Media Sector generates revenues from print and digital publishing products, in French and English, of the following type: educational books, specialized publications for professionals and newspapers.

HIGHLIGHTS - THIRD QUARTER

Table #1:

(in millions of dollars, except per share amounts)	**Q3-2018**	Q3-2017	Variation in $	Variation in %
Revenues	**$ 757.9**	$ 477.7	$ 280.2	58.7 %
Operating earnings before depreciation and amortization	**89.7**	93.7	(4.0)	(4.3)
Adjusted operating earnings before depreciation and amortization (1)	**116.4**	95.4	21.0	22.0
Operating earnings	**39.6**	68.2	(28.6)	(41.9)
Adjusted operating earnings (1)	**84.7**	74.2	10.5	14.2
Net earnings	**19.3**	49.0	(29.7)	(60.6)
Net earnings per share	**0.22**	0.64	(0.42)	(65.6)
Adjusted net earnings (1)	**52.1**	52.9	(0.8)	(1.5)
Adjusted net earnings per share (1)	**0.59**	0.68	(0.09)	(13.2)

(1) Please refer to table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

- Revenues increased by $280.2 million, or 58.7%, from $477.7 million to $757.9 million, mainly as a result of the transformational acquisition of Coveris Americas completed on May 1, 2018. This increase was slightly mitigated by the sale of our local and regional newspaper media assets in Québec and the sale of the printing activities of our Fremont, California, plant.
- Operating earnings decreased by $28.6 million, or 41.9%, from $68.2 million to $39.6 million. Adjusted operating earnings, which exclude restructuring and other costs (gains), impairment of assets, amortization of intangible assets and the reversal of the fair value adjustment of inventory sold arising from business combinations, increased by $10.5 million, or 14.2%, from $74.2 million to $84.7 million.
- Net earnings decreased by $29.7 million, or 60.6%, from $49.0 million to $19.3 million, and net earnings per share went from $0.64 to $0.22. Adjusted net earnings, which exclude restructuring and other costs (gains), impairment of assets, amortization of intangible assets and the reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes, decreased by $0.8 million, or 1.5%, from $52.9 million to $52.1 million, mostly due to higher financial expenses resulting from an increase in long-term debt caused by the acquisition of Coveris Americas. On a per share basis, it went from $0.68 to $0.59 due to higher financial expenses, as explained above, but also due to the issuance of 10.8 million Class A Subordinate Voting Shares of the Corporation.
- On May 1, 2018, Transcontinental Inc. completed the acquisition of Coveris Americas, thus becoming a North American leader in flexible packaging. The Corporation acquired 21 production facilities located in the United States, Canada, Ecuador, Guatemala, Mexico, the United Kingdom, New Zealand and China for US$1.32 billion (C$1.698 billion) and welcomed 3,100 employees. For its fiscal year ended December 31, 2017, Coveris Americas generated US$966 million in revenues (about C$1.26 billion).

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(unaudited)

The financial information has been prepared in accordance with IFRS. However, financial measures used, namely the adjusted revenues, the adjusted operating earnings, the adjusted operating earnings before depreciation and amortization, the adjusted net earnings, the adjusted net earnings per share, the net indebtedness and the net indebtedness ratio, for which a reconciliation is presented in the following table, do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many of our readers analyze the financial performance of the Corporation's activities based on these non-IFRS financial measures as such measures may allow for easier comparisons between periods. These measures should be considered as a complement to financial performance measures in accordance with IFRS. They do not substitute and are not superior to them.

We also believe that the adjusted revenues, the adjusted operating earnings before depreciation and amortization, the adjusted operating earnings, that takes into account the impact of past investments in property, plant and equipment and intangible assets, and the adjusted net earnings are useful indicators of the performance of our operations. Furthermore, management also uses some of these non-IFRS financial measures to assess the performance of its activities and managers.

Regarding the net indebtedness and net indebtedness ratio, we believe that these indicators are useful to measure the Corporation's financial leverage and ability to meet its financial obligations.

Table #2:

Reconciliation of revenues - Third quarter and cumulative

(in millions of dollars)	Three months ended July 29, 2018	Three months ended July 30, 2017	Nine months ended July 29, 2018	Nine months ended July 30, 2017
Revenues	**$ 757.9**	$ 477.7	**$ 1,794.3**	$ 1,480.0
Accelerated recognition of deferred revenues [1]	**—**	—	**(102.1)**	—
Adjusted revenues	**$ 757.9**	$ 477.7	**$ 1,692.2**	$ 1,480.0

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the third quarter ended July 29, 2018.

Reconciliation of operating earnings - Third quarter and cumulative

(in millions of dollars)	Three months ended July 29, 2018	Three months ended July 30, 2017	Nine months ended July 29, 2018	Nine months ended July 30, 2017
Operating earnings	**$ 39.6**	$ 68.2	**$ 262.1**	$ 198.4
Accelerated recognition of deferred revenues [1]	**—**	—	**(102.1)**	—
Accelerated depreciation [1]	**—**	—	**22.0**	—
Restructuring and other costs (gains)	**14.3**	1.7	**—**	(6.0)
Impairment of assets	**2.9**	—	**6.6**	2.5
Amortization of intangible assets arising from business combinations [2]	**18.4**	4.3	**27.1**	13.4
Reversal of the fair value adjustment of inventory sold arising from business combinations	**9.5**	—	**9.5**	—
Adjusted operating earnings	**$ 84.7**	$ 74.2	**$ 225.2**	$ 208.3
Depreciation and amortization [3]	**31.7**	21.2	**93.9**	65.1
Accelerated depreciation [1]	**—**	—	**(22.0)**	—
Adjusted operating earnings before depreciation and amortization	**$ 116.4**	$ 95.4	**$ 297.1**	$ 273.4

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the third quarter ended July 29, 2018. (2) Intangible assets arising from business combinations include our customer relationships, trademarks and non-compete agreements. (3) Depreciation and amortization excludes amortization of intangible assets arising from business combinations presented above.

Reconciliation of net earnings - Third quarter

	Three months ended			
	July 29, 2018		July 30, 2017	
(in millions of dollars, except per share amounts)	**Total**	**Per share**	Total	Per share
Net earnings	**$ 19.3**	**$ 0.22**	$ 49.0	$ 0.64
Restructuring and other costs (gains), net of related income taxes	**10.0**	**0.11**	1.1	0.01
Impairment of assets, net of related income taxes	**2.1**	**0.02**	—	—
Amortization of intangible assets arising from business combinations, net of related income taxes [1]	**13.5**	**0.16**	2.8	0.04
Reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes	**7.2**	**0.08**	—	—
Adjusted net earnings	**$ 52.1**	**$ 0.59**	$ 52.9	$ 0.68

(1) Intangible assets arising from business combinations include our customer relationships, trademarks and non-compete agreements.

Reconciliation of net earnings - Cumulative

(in millions of dollars, except per share amounts)	Nine months ended			
	July 29, 2018		July 30, 2017	
	Total	**Per share**	Total	Per share
Net earnings	**$ 146.4**	**$ 1.81**	$ 138.1	$ 1.79
Accelerated recognition of deferred revenues, net of related income taxes (1)	**(75.4)**	**(0.93)**	—	—
Accelerated depreciation, net of related income taxes (1)	**16.3**	**0.20**	—	—
Restructuring and other costs (gains), net of related income taxes	**(3.6)**	**(0.04)**	(6.0)	(0.08)
Impairment of assets, net of related income taxes	**4.9**	**0.06**	1.8	0.02
Impact of the U.S. tax reform on deferred taxes	**36.6**	**0.45**	—	—
Amortization of intangible assets arising from business combinations, net of related income taxes (2)	**20.0**	**0.25**	8.8	0.11
Reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes	**7.2**	**0.09**	—	—
Adjusted net earnings	**$ 152.4**	**$ 1.89**	$ 142.7	$ 1.85

(1) Related to the agreement signed with Hearst on December 21, 2017. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the third quarter ended July 29, 2018. (2) Intangible assets arising from business combinations include our customer relationships, trademarks and non-compete agreements.

Reconciliation of net indebtedness

(in millions of dollars, except ratios)	**As at July 29, 2018**	As at October 29, 2017
Long-term debt	**$ 1,256.0**	$ 348.3
Current portion of long-term debt	**250.0**	—
Cash	**(27.7)**	(247.1)
Net indebtedness	**$ 1,478.3**	$ 101.2
Adjusted operating earnings before depreciation and amortization (last 12 months)	**$ 420.4**	$ 396.7
Net indebtedness ratio	**3.5 x**	0.3 x

ANALYSIS OF CONSOLIDATED RESULTS - THIRD QUARTER

Revenues

Revenues increased by $280.2 million, or 58.7%, from $477.7 million in the third quarter of 2017 to $757.9 million in the corresponding period in 2018. This increase is mainly attributable to the acquisition of Coveris Americas completed on May 1, 2018 and, to a lesser extent, to the favourable effect of the price increase for certain types of paper in the Printing Sector. This increase was slightly mitigated by the effect of disposals and closures, the unfavourable exchange rate effect and the organic decline in revenues in certain Printing Sector verticals.

Operating and Other Expenses

Operating expenses increased by $268.7 million, or 70.3%, in the third quarter of 2018 compared to the corresponding period in 2017. This increase is mostly attributable to the effect of acquisitions, particularly that of Coveris Americas.

Restructuring and other costs (gains) went from $1.7 million in the third quarter of 2017 to $14.3 million in the third quarter of 2018. The unfavourable impact is mostly due to costs incurred in connection with the acquisition and integration of Coveris Americas.

The asset impairment charge amounted to $2.9 million in the third quarter of 2018 compared to a charge of nil in the third quarter of 2017. This charge is mostly due to the recording of an asset impairment charge on property, plant and equipment in connection with the closure of a plant following the termination of certain newspapers.

Depreciation and amortization increased by $24.6 million, from $25.5 million in the third quarter of 2017 to $50.1 million in the third quarter of 2018, mostly as a result of the acquisition of Coveris Americas.

Operating Earnings

Operating earnings decreased by $28.6 million, or 41.9%, from $68.2 million in the third quarter of 2017 to $39.6 million in the third quarter of 2018. This decrease is mostly due to the unfavourable impact of items related to the acquisition of Coveris Americas, namely the amortization of intangible assets, acquisition and integration costs and the reversal of the fair value adjustment of inventory sold arising from business combinations. Adjusted operating earnings increased by $10.5 million, or 14.2%, from $74.2 million to $84.7 million. A more detailed analysis of adjusted operating earnings is presented in the "Analysis of Sector Results - Third Quarter" section.

Net Financial Expenses

Net financial expenses increased by $10.6 million, from $3.9 million in the third quarter of 2017 to $14.5 million in the third quarter of 2018. This increase is due to higher long-term debt and lower interest income in the third quarter of 2018 compared to the same period in 2017.

Income Taxes

Income taxes decreased by $9.5 million, from $15.3 million in the third quarter of 2017 to $5.8 million in the third quarter of 2018 as a result of the decrease in operating earnings. Excluding income taxes on restructuring and other costs (gains), impairment of assets, amortization of intangible assets and reversal of the fair value adjustment of inventory sold arising from business combinations, adjusted income taxes amounted to $17.4 million in the third quarter of 2017, for an effective tax rate of 24.7% compared to $18.1 million in the third quarter of 2018, for an effective tax rate of 25.8%. This slight increase in the effective tax rate is mostly attributable to favourable differences between the accounting and tax treatment of certain items in 2017.

Net Earnings

Net earnings decreased by $29.7 million, or 60.6%, from $49.0 million in the third quarter of 2017 to $19.3 million in the third quarter of 2018. This decrease is mostly due to lower operating earnings and higher financial expenses, partially offset by lower income taxes. On a per share basis, net earnings went from $0.64 to $0.22. Adjusted net earnings decreased by $0.8 million, or 1.5%, from $52.9 million in the third quarter of 2017 to $52.1 million in the third quarter of 2018, largely as a result of higher financial expenses. On a per share basis, adjusted net earnings went from $0.68 to $0.59 due to higher financial expenses, as explained above, but also to the issuance of 10.8 million Class A Subordinate Voting Shares of the Corporation.

ANALYSIS OF CONSOLIDATED RESULTS - CUMULATIVE

Revenues

Revenues increased by $314.3 million, or 21.2%, from $1,480.0 million in the first nine months of 2017 to $1,794.3 million in the corresponding period in 2018. This increase is mainly attributable to the contribution stemming from acquisitions, in particular that of Coveris Americas, and to the $102.1 million favourable effect of the accelerated recognition of deferred revenues related to the agreement signed with Hearst in December 2017. This increase was partially offset by the effect of disposals and closures, the unfavourable exchange rate effect and, to a lesser extent, the organic decline in revenues in certain of the Printing Sector verticals and the local and regional newspaper publishing niche in Québec and Ontario during the first nine months of 2018. Excluding the favourable effect of the accelerated recognition of deferred revenues, adjusted revenues increased by $212.2 million, or 14.3%. A more detailed analysis of adjusted revenues is presented in the "Analysis of Sector Results - Cumulative" section.

Operating and Other Expenses

Operating expenses increased by $198.0 million, or 16.4% in the first nine months of 2018 compared to the corresponding period in 2017. Excluding the stock-based compensation expense, which decreased by $5.8 million as a result of the change in the share price during these periods, operating expenses increased by $203.8 million, or 16.9%. This increase is mostly due to operating expenses related to acquisitions.

Restructuring and other costs (gains) went from a gain of $6.0 million in the first nine months of 2017 to $0.0 million in the corresponding period in 2018. The unfavourable effect is mostly due to acquisition and integration costs of $21.3 million related to the Coveris Americas transaction, partially offset by higher gains on the sale of certain media activities, which amounted to $26.3 million in the third quarter of 2018 compared to $10.8 million in the third quarter of 2017.

The asset impairment charge increased by $4.1 million, from $2.5 million in the first nine months of 2017 to $6.6 million in the corresponding period in 2018. This increase is mostly due to the recording of an asset impairment charge on property, plant and equipment in connection with the closure of a plant following the termination of certain newspapers in 2018.

Depreciation and amortization increased by $42.5 million, from $78.5 million in the first nine months of 2017 to $121.0 million in the corresponding period in 2018, mostly as a result of the accelerated depreciation related to the new agreement with Hearst and the acquisition of Coveris Americas.

Operating Earnings

Operating earnings increased by $63.7 million, or 32.1%, from $198.4 million in the first nine months of 2017 to $262.1 million in the corresponding period in 2018. This increase is mostly attributable to the favourable effect of the accelerated recognition of deferred revenues, higher gains on the sale of certain media activities and net gains on the sale of buildings, partially offset by the unfavourable effect of items related to the acquisition of Coveris Americas, namely the amortization of intangible assets, acquisition and integration costs and the reversal of the fair value adjustment of inventory sold arising from business combinations. Adjusted operating earnings increased by $16.9 million, or 8.1%, from $208.3 million to $225.2 million, of which $5.8 million arise from a reduction in the stock-based compensation expense as a result of the change in the share price in the first nine months of 2018 compared to the corresponding period in 2017. A more detailed analysis of adjusted operating earnings is presented in the "Analysis of Sector Results - Cumulative" section.

Net Financial Expenses

Net financial expenses increased by $7.1 million, from $13.4 million in the first nine months of 2017 to $20.5 million in the corresponding period in 2018. This increase is mostly due to the increase in debt during the third quarter, partially offset by higher interest income and higher net foreign exchange gains.

Income Taxes

Income taxes increased by $48.4 million, from $46.9 million in the first nine months of 2017 to $95.3 million in the corresponding period in 2018 as a result of the increase in operating earnings and the impact of the U.S. tax reform on deferred taxes. On December 22, 2017, the *Tax Cuts and Jobs Act,* which reforms income taxes in the United States, was enacted. This reform lowers the federal statutory tax rate for U.S. corporations from a progressive tax rate of up of 35% to a fixed rate of 21% effective January 1, 2018. During the first nine months of 2018, this decrease reduced previously recognized deferred tax assets by $36.6 million. Excluding income taxes on the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains), impairment of assets and amortization of intangible assets and reversal of the fair value adjustment of inventory sold arising from business combinations, as well as the impact of the U.S. tax reform on deferred taxes, adjusted income taxes amounted to $52.2 million in the first nine months of 2017, for an effective tax rate of 26.8%, compared to $52.5 million in the first nine months of 2018, for an effective tax rate of 25.6%. This decrease in the effective tax rate is mostly attributable to the geographic distribution of earnings before taxes.

Net Earnings

Net earnings increased by $8.3 million, or 6.0%, from $138.1 million in the first nine months of 2017 to $146.4 million in the corresponding period in 2018. This increase is mostly attributable to the growth in operating earnings, partially offset by higher income taxes and financial expenses. On a per share basis, net earnings went from $1.79 to $1.81. Excluding the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains), impairment of assets, amortization of intangible assets and reversal of the fair value adjustment of inventory sold arising from business combinations, net of related income taxes, as well as the impact of the U.S. tax reform on deferred taxes, adjusted net earnings increased by $9.7 million, or 6.8%, from $142.7 million in the first nine months of 2017 to $152.4 million in the corresponding period in 2018. On a per share basis, adjusted net earnings went from $1.85 to $1.89 due to the above-mentioned items, partially offset by the issuance of 10.8 million Class A Subordinate Voting Shares of the Corporation during the third quarter of 2018.

ANALYSIS OF SECTOR RESULTS - THIRD QUARTER

(unaudited)

Table #3:

(in millions of dollars)	Packaging Sector	Printing Sector	Other	Consolidated results
Revenues - Third quarter of 2017	**$ 76.5**	**$ 353.8**	**$ 47.4**	**$ 477.7**
Acquisitions/disposals and closures	323.9	(19.6)	(26.6)	277.7
Existing operations				
Exchange rate effect	(2.1)	(1.2)	—	(3.3)
Organic growth (decline)	1.9	1.2	2.7	5.8
Revenues - Third quarter of 2018	**$ 400.2**	**$ 334.2**	**$ 23.5**	**$ 757.9**
Adjusted operating earnings (1) - Third quarter of 2017	**$ 6.7**	**$ 70.9**	**$ (3.4)**	**$ 74.2**
Acquisitions/disposals and closures	25.2	(7.9)	(2.4)	14.9
Existing operations				
Exchange rate effect	(0.1)	(0.6)	—	(0.7)
Stock-based compensation	—	—	(1.0)	(1.0)
Organic growth (decline)	0.4	(3.6)	0.5	(2.7)
Adjusted operating earnings (1) - Third quarter of 2018	**$ 32.2**	**$ 58.8**	**$ (6.3)**	**$ 84.7**

(1) Please refer to Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

Packaging Sector

Packaging Sector revenues increased by $323.7 million, from $76.5 million in the third quarter of 2017 to $400.2 million in the third quarter of 2018. This significant increase is mostly attributable to the contribution from the acquisition of Coveris Americas and, to a lesser extent, of Multifilm Packaging and Les Industries Flexipak. Our existing operations experienced organic growth of $1.9 million in the quarter, which also contributed to the increase in the Sector's revenues.

Adjusted operating earnings increased by $25.5 million, from $6.7 million in the third quarter of 2017 to $32.2 million in the third quarter of 2018. This increase is attributable to the contribution stemming from our acquisitions. With respect to the acquisition of Coveris Americas, profit margins were lower than expected at the time of the acquisition, namely as a result of the impact of a delay in the pass-through of increases in the cost of paper, resin and freight provided for in several customer contracts, which had an unfavourable impact on the quarter's adjusted operating earnings. Consequently, the Sector's adjusted operating earnings margin went from 8.8% in the third quarter of 2017 to 8.0% in the third quarter of 2018.

Printing Sector

Printing Sector revenues decreased by $19.6 million, or 5.5%, from $353.8 million in the third quarter of 2017 to $334.2 million in the third quarter of 2018. This decrease is due to the impact of the sale to Hearst of our California printing operations, amounting to $19.6 million, of which $7.9 million is related to the end of the recognition of deferred revenues (see Table #4). The organic growth in revenues mostly resulted from the effect of the price increase for certain types of paper during the third quarter of 2018. Excluding this item, revenues from our service offering to Canadian retailers were slightly lower in the third quarter of 2018 compared to a solid quarter in the prior year. In the other Printing Sector verticals, the decline in revenues followed the same trends as in previous quarters.

Adjusted operating earnings decreased by $12.1 million, or 17.1%, from $70.9 million in the third quarter of 2017 to $58.8 million in the third quarter of 2018. Excluding the $11.3 million unfavourable impact of the end of the recognition of deferred revenues related to certain newspaper printing contracts (see Table #4), which had no impact on cash, organic growth would have amounted to -$0.8 million, or -1.1%. The transition and leasing revenues from Hearst and the closure of a plant in Montréal in January 2018, combined with other operational efficiency initiatives, largely offset the previously explained decrease in revenues in the other Printing Sector verticals. It should be noted that the increase in revenues related to the price increase for certain types of paper has no impact on profitability, as the cost of paper is passed through to the customer. As a result of the above-mentioned items, the Sector's adjusted operating earnings margin went from 20.0% in the third quarter of 2017 to 17.6% in the third quarter of 2018.

Table #4:

The following table presents the non-cash impact on revenues and adjusted operating earnings of the end of the recognition of deferred revenues related to the contracts to print the *San Francisco Chronicle*, *La Presse* and *The Globe and Mail* in the Maritimes, from the first quarter of 2018 to the second quarter of 2019. This recognition of deferred revenues results from the fact that the Corporation received over $260 million in cash from these customers between December 2012 and December 2015 for the modification of certain clauses, which have been recognized over the remaining term of the respective contracts.

	2018					2019	
(in millions of dollars)	Q1	Q2	Q3	Cumul.	Q4	Q1	Q2
Contract to print the *San Francisco Chronicle* (1)							
Prior year	$ 8.5	$ 7.7	$ 7.9	$ 24.1	$ 7.3	$ 7.9	$ 4.4
Current year	7.9	4.4	—	12.3	—	—	—
Unfavourable net change	**$ 0.6**	**$ 3.3**	**$ 7.9**	**$ 11.8**	**$ 7.3**	**$ 7.9**	**$ 4.4**
Contracts to print *La Presse* and *The Globe and Mail* in the Maritimes (2)							
Prior year	$ 2.9	$ 2.9	$ 4.5	$ 10.3	$ 5.8	$ 3.0	$ 1.1
Current year	3.0	1.1	1.1	5.2	1.1	1.0	1.0
Unfavourable (favourable) net change	**$ (0.1)**	**$ 1.8**	**$ 3.4**	**$ 5.1**	**$ 4.7**	**$ 2.0**	**$ 0.1**
Total unfavourable net change of these agreements on revenues and adjusted operating earnings	**$ 0.5**	**$ 5.1**	**$ 11.3**	**$ 16.9**	**$ 12.0**	**$ 9.9**	**$ 4.5**

(1) The net change for the contract to print the *San Francisco Chronicle* is presented as of the third quarter of 2018, under "Acquisitions/disposals and closures" in Tables #3 and #5, until the second quarter of 2019. (2) The net change for the contracts to print *La Presse* and *The Globe and Mail* in the Maritimes is presented under "Organic growth (decline)" in Tables #3 and #5.

Other

Revenues for the Other category decreased by $23.9 million, from $47.4 million in the third quarter of 2017 to $23.5 million in the third quarter of 2018. This decrease is mostly due to the impact of the sale of our local and regional newspapers in Québec, partially offset by a decrease in inter-segment transactions. Adjusted operating earnings went from -$3.4 million in the third quarter of 2017 to -$6.3 million in the third quarter of 2018. This change is attributable to the above-mentioned disposals and the effect of the increase in the stock-based compensation expense as a result of the change in the share price in the third quarter of 2018 compared to the corresponding period in 2017, partially offset by the contribution from our cost reduction initiatives in the Media Sector and at the head office.

ANALYSIS OF SECTOR RESULTS - CUMULATIVE

(unaudited)

Table #5:

(in millions of dollars)	Packaging Sector	Printing Sector	Other	Consolidated results
Adjusted revenues [1] - Nine months ended July 30, 2017	**$ 228.7**	**$ 1,101.2**	**$ 150.1**	**$ 1,480.0**
Acquisitions/disposals and closures	335.4	(19.6)	(82.9)	232.9
Existing operations				
Exchange rate effect	(9.0)	(3.7)	—	(12.7)
Organic growth (decline)	3.9	(14.5)	2.6	(8.0)
Adjusted revenues [1] - Nine months ended July 29, 2018	**$ 559.0**	**$ 1,063.4**	**$ 69.8**	**$ 1,692.2**
Adjusted operating earnings [1] - Nine months ended July 30, 2017	**$ 19.9**	**$ 213.0**	**$ (24.6)**	**$ 208.3**
Acquisitions/disposals and closures	26.5	(7.9)	(7.3)	11.3
Existing operations				
Exchange rate effect	(0.6)	(0.2)	—	(0.8)
Stock-based compensation	—	—	5.8	5.8
Organic growth (decline)	(0.8)	(7.6)	9.0	0.6
Adjusted operating earnings [1] - Nine months ended July 29, 2018	**$ 45.0**	**$ 197.3**	**$ (17.1)**	**$ 225.2**

(1) Please refer to Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

Packaging Sector

Packaging Sector revenues increased by $330.3 million, from $228.7 million in the first nine months of 2017 to $559.0 million in the corresponding period in 2018. This increase is mostly attributable to the contribution from the acquisition of Coveris Americas and, to a lesser extent, of Multifilm Packaging and Les Industries Flexipak. The organic growth in revenues also contributed to the increase in revenues as a result of higher volume in our existing operations, partially offset by the unfavourable exchange rate effect.

Adjusted operating earnings increased by $25.1 million, from $19.9 million in the first nine months of 2017 to $45.0 million in the corresponding period in 2018. This increase is attributable to the contribution from our acquisitions, in particular that of Coveris Americas, completed on May 1, 2018. The Sector's adjusted operating earnings margin went from 8.7% in the first nine months of 2017 to 8.1% in the corresponding period in 2018, due to Coveris Americas' lower profit margins compared to those of our existing operations.

Printing Sector

Printing Sector revenues decreased by $37.8 million, or 3.4%, from $1,101.2 million in the first nine months of 2017 to $1,063.4 million in the corresponding period in 2018. Excluding the $16.9 million negative impact of the end of the recognition of deferred revenues related to certain contracts to print newspapers presented in Table #4, the decrease would have been $20.9 million, or 1.9%. During this period, revenues from our service offering to Canadian retailers remained relatively stable, while the decline in revenues from the other Printing Sector verticals continued as a result of the same trends in the advertising market. The transition and leasing revenues from Hearst and the cost increase for certain types of paper partially offset this decrease.

Adjusted operating earnings decreased by $15.7 million, or 7.4%, from $213.0 million in the first nine months of 2017 to $197.3 million in the corresponding period in 2018. Excluding the above-mentioned $16.9 million unfavourable impact of the end of the recognition of deferred revenues related to certain newspaper printing contracts, adjusted operating earnings would have increased by $1.3 million. This increase is mainly attributable to the transition and leasing revenues from Hearst and the closure of a plant in Montréal in January 2018, combined with other operational efficiency initiatives, which more than offset the previously explained decrease in revenues in the other Printing Sector verticals. The Sector's adjusted operating earnings margin went from 19.3% in the first nine months of 2017 to 18.6% in the corresponding period in 2018.

Other

Revenues for the Other category decreased by $80.3 million, from $150.1 million in the first nine months of 2017 to $69.8 million in the corresponding period in 2018. This decrease is mostly due to the impact of the sale of our media assets in Atlantic Canada and local and regional newspapers

in Québec, as well as the organic decline in the Media Sector revenues caused by the advertising market. This decrease was partially offset by a decrease in inter-segment transactions between the Media Sector and the Printing Sector. Adjusted operating earnings improved by $7.5 million, from -$24.6 million in the first nine months of 2017 to -$17.1 million in the corresponding period in 2018. This change is attributable to the favourable effect of our cost reduction initiatives related to our local and regional newspaper publishing activities as well as to the head office, partially offset by the above-mentioned effect of the sale of our media assets. In addition, the decrease of $5.8 million in the stock-based compensation expense as a result of the change in the share price in the first nine months of 2018 compared to the corresponding period in 2017 contributed to the improvement in adjusted operating earnings which was partially offset by the organic decline in the Media Sector mentioned above.

SUMMARY OF QUARTERLY RESULTS

(unaudited)

Table #6 summarizes selected consolidated financial information derived from the Corporation's unaudited condensed interim consolidated financial statements and some non-IFRS financial measures for each of the last eight quarters.

Table #6:

	2018			2017				2016
(in millions of dollars, except per share amounts)	**Q3**	Q2	Q1	Q4	**Q3**	Q2	Q1	Q4
Revenues	**$ 757.9**	$ 534.7	$ 501.7	$ 527.2	**$ 477.7**	$ 498.7	$ 503.6	$ 555.6
Adjusted revenues (1)	**757.9**	472.4	461.9	527.2	**477.7**	498.7	503.6	555.6
Operating earnings before depreciation and amortization	**89.7**	138.7	154.7	128.5	**93.7**	94.2	89.0	107.8
Adjusted operating earnings before depreciation and amortization (1)	**116.4**	89.7	91.0	123.3	**95.4**	90.1	87.9	133.9
Adjusted operating earnings margin before depreciation and amortization (1)	**15.4 %**	19.0 %	19.7 %	23.4 %	**20.0 %**	18.1 %	17.5 %	24.1 %
Operating earnings	**39.6**	99.0	123.5	103.6	**68.2**	67.8	62.4	81.3
Adjusted operating earnings (1)	**84.7**	70.3	70.3	102.5	**74.2**	68.2	65.9	111.9
Adjusted operating earnings margin (1)	**11.1 %**	14.9 %	15.2 %	19.4 %	**15.5 %**	13.7 %	13.1 %	20.1 %
Net earnings	**$ 19.3**	$ 68.9	$ 58.2	$ 73.4	**$ 49.0**	$ 46.4	$ 42.7	$ 57.7
Net earnings per share	**0.22**	0.89	0.75	0.94	**0.64**	0.60	0.55	0.75
Adjusted net earnings (1)	**52.1**	48.5	51.8	71.0	**52.9**	45.5	44.3	79.7
Adjusted net earnings per share (1)	**0.59**	0.63	0.67	0.91	**0.68**	0.59	0.58	1.03
% of fiscal year	**_ %**	_ %	_ %	33 %	**25 %**	21 %	21 %	39 %

(1) Please refer to Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

The variability of financial information for interim periods is influenced by many factors, such as:

- The impact of acquisitions, disposals and closures completed in line with our transformation;
- The exchange rate effect;
- The impact of the change in the share price on the stock-based compensation expense;
- The impact of adjusting items presented in Table #2, "Reconciliation of Non-IFRS Financial Measures".

Excluding the impact of the above-mentioned items, we can note a slight decrease in our Printing Sector adjusted revenues. This decrease is mostly due to lower advertising spending in print media, which has a negative impact on circulation or the number of pages of certain print publications. The decline in advertising spending results from the impact of new media and the shift of advertising revenues to new platforms. However, this trend was mitigated by an increase in revenues from our service offering to Canadian retailers. Many retailers still consider printed flyers as the marketing tool of choice for generating traffic to the store. In addition, as a result of the seasonality of printing activities, we note that volume is higher in the fourth quarter.

The upward trend in financial data related to profitability results from the numerous operational efficiency and rationalization measures that were implemented over the last few years as part of our transformation.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL STRUCTURE
(unaudited)

Table #7:

	Three months ended	
(in millions of dollars)	**July 29, 2018**	July 30, 2017
Operating activities		
Cash flows generated by operating activities before changes in non-cash operating items and income taxes paid	**$ 91.3**	$ 98.6
Changes in non-cash operating items	**(7.2)**	(17.0)
Income taxes paid	**(7.0)**	(8.6)
Cash flows from operating activities	**$ 77.1**	$ 73.0
Investing activities		
Business combinations, net of acquired cash	**$ (1,561.5)**	$ 0.1
Business disposals	**2.4**	(0.8)
Acquisitions of property, plant and equipment	**(19.5)**	(7.7)
Disposals of property, plant and equipment	**4.4**	—
Increase in intangible assets	**(9.0)**	(3.7)
Cash flows from investing activities	**$ (1,583.2)**	$ (12.1)
Financing activities		
Increase in long-term debt, net of issuance costs	**$ 959.0**	$ —
Reimbursement of long-term debt	**(143.9)**	—
Net decrease in credit facility	**175.8**	—
Financial expenses on long-term debt	**(13.1)**	(5.2)
Proceeds from issuance of shares in exchange for subscription receipts, net of issuance costs	**274.9**	—
Dividends	**(18.4)**	(15.5)
Cash flows from financing activities	**$ 1,234.3**	$ (20.7)
Effect of exchange rate changes on cash denominated in foreign currencies	**$ 1.4**	$ (0.8)
Net change in cash	**$ (270.4)**	$ 39.4

Financial position	**As at July 29, 2018**	As at October 29, 2017
Net indebtedness (1)	**$ 1,478.3**	$ 101.2
Net indebtedness ratio (1)	**3.5 x**	0.3 x
Credit rating		
DBRS	**BBB (low)**	BBB (low)
Outlook	**Stable**	Stable
Standard and Poor's	**BBB-**	BBB-
Outlook	**Negative**	Stable

Balance sheet	**As at July 29, 2018**	As at October 29, 2017
Current assets	**$ 865.9**	$ 780.2
Current liabilities	**666.4**	365.3
Total assets	**3,774.0**	2,136.7
Total liabilities	**2,176.1**	918.0

(1) Please refer to Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" in this Management's Discussion and Analysis for adjusted data presented above.

Cash Flows from Operating Activities

Cash flows from operating activities before changes in non-cash operating items and income taxes paid went from $98.6 million in the third quarter of 2017 to $91.3 million in the third quarter of 2018 mainly due to an increase in restructuring and other costs in 2018 related to the acquisition and integration of Coveris Americas. The favourable variation of non-cash operating items went from -$17.0 million in the third quarter of 2017 to -$7.2 million in the third quarter of 2018, mostly as a result of the decrease in the recognition of deferred revenues. Consequently, cash flows from operating activities increased from $73.0 million in the third quarter of 2017 to $77.1 million in the third quarter of 2018.

Cash Flows from Investing Activities

Cash flows from investing activities went from $12.1 million in the third quarter of 2017 to $1,583.2 million in the third quarter of 2018, mostly as a result of the acquisition of Coveris Americas completed on May 1, 2018.

Cash Flows from Financing Activities

Cash flows from financing activities went from a cash outflow of $20.7 million in the third quarter of 2017 to a cash inflow of $1,234.3 million in the third quarter of 2018. This increase is mostly due to the issuance of term loans of US$750 million (C$959.0 million) and the issuance of shares through a public offering for proceeds of $274.9 million, net of issuance costs.

Debt Instruments

Net indebtedness went from $101.2 million as at October 29, 2017 to $1,478.3 million as at July 29, 2018. This increase is attributable to the above-mentioned issuance of term loan as well as a $178.1 million draw on our $400.0 million credit facility to finance the acquisition of Coveris Americas. Consequently, our net indebtedness ratio stood at 3.5x as at July 29, 2018 compared to 0.3x as at October 29, 2017.

The senior unsecured notes of $250 million that mature in less than one year, namely in May 2019, are now presented in the current portion of long-term debt.

Lastly, on July 13, 2018, the Corporation modified certain terms of its Debentures - Fonds de solidarité FTQ Series 1 - 5.58% and Series 2 - 4.011% of $50.0 million each, by merging them into a single debenture (the "Unified Debenture - Fonds de solidarité FTQ") of $100.0 million, bearing interest at an annual rate of 4.784%, payable every six months, and maturing on February 1, 2028. The Corporation incurred issuance costs of $0.5 million, to be amortized using the effective interest rate method over the duration of the Unified Debenture.

Share Capital

Table #8:

Shares Issued and Outstanding	As at July 29, 2018	As at August 26, 2018
Class A (Subordinate Voting Shares)	**73,850,034**	**73,850,034**
Class B (Multiple Voting Shares)	**13,983,026**	**13,983,026**

In connection with the acquisition of Coveris Americas, the Corporation issued 10,810,000 subscription receipts on April 20, 2018 through a public offering. The price received per subscription receipt was $26.60, for net proceeds of issuance of $274.9 million. On May 1, 2018, upon final closing of the Coveris Americas transaction, each subscription receipt entitled its holder to receive, without payment of additional consideration or further action, one Class A Subordinate Voting Share of the Corporation.

Under its share repurchase program that expired on April 16, 2018 and was not renewed, the Corporation repurchased 529,610 Class A Subordinate Voting Shares at a weighted average price of $24.50 for a total cash consideration of $12.9 million during fiscal 2018.

CHANGES IN ACCOUNTING STANDARDS

New or amended accounting standards not yet adopted

The Corporation is currently conducting a detailed assessment of the impact of the changes in the following accounting standards on its consolidated financial statements:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"
- Amendments to IAS 7 "Statement of Cash Flow"

The Corporation has not yet determined the impact of adopting the changes in accounting standards listed below. The assessment of the impact on our consolidated financial statements of the new standard or the amendment to the standard is still ongoing.

- IFRS 16 "Leases"
- Amendments to IFRS 2 "Share-based Payment Transactions"
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 "Uncertainty over Income Tax Treatments"

Please see Note 2 to the condensed interim consolidated financial statements as well as our most recent annual financial statements in order to obtain more information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control. The purpose of internal control over financial reporting ("ICFR") is to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of consolidated financial statements in accordance with IFRS. Management certifies disclosures in annual and interim filings under Regulation 52-109 using the internal control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As at July 29, 2018, the Corporation's Management excluded Coveris Americas from its evaluation of internal control over financial reporting; this exclusion is accepted by the Autorité des marchés financiers (AMF) during the first year after the acquisition of a business, to give a corporation time to integrate the acquisition.

Coveris Americas, which has 3,100 employees, operates 21 manufacturing facilities producing a wide range of flexible plastic products and paper products. These facilities are located in the United States, Canada, Ecuador, Guatemala, Mexico, the United Kingdom, New Zealand and China. Acquired on May 1, 2018, Coveris Americas generated revenues of $309.3 million and operating earnings of -$2.4 million (adjusted operating earnings of $20.5 million) in the third quarter of 2018.

Additional information about this acquisition, for the third quarter of 2018, is presented in Table #9.

Table #9:

(in millions of dollars)	Coveris Americas
Statement of financial position	**As at July 29, 2018**
Current assets	371.7
Non-current assets	1,660.9
Current liabilities	148.6
Long-term liabilities	287.3
Statement of earnings	**For the three months ended July 29, 2018**
Revenues	309.3
Operating earnings before depreciation and amortization	24.7
Operating earnings	(2.4)

Please refer to Note 4 to the unaudited condensed interim consolidated financial statements for the third quarter ended July 29, 2018 for additional information on this acquisition.

During the third quarter ended July 29, 2018, except for the information provided above, no change that has materially affected or is reasonably likely to materially affect the ICFR was brought to the attention of Management, including the President and Chief Executive Officer, and the Chief Financial and Development Officer of the Corporation.

OUTLOOK

In our Packaging Sector, the acquisition of Coveris Americas will significantly contribute to revenues and adjusted operating earnings for the next three quarters compared to the corresponding quarters of the prior year. We expect revenues to be similar to those anticipated at the time of the acquisition and our profit margins to gradually improve over the coming quarters as a result of an increased focus on manufacturing efficiency as well as the effect of the announced synergies, which should gradually begin at the end of the fourth quarter of 2018 to reach the target of US$10 million on an annualized basis at the end of the second quarter of 2019. In our packaging operations other than those of Coveris Americas, we should continue generating sustained organic growth in revenues with the help of our well-established sales force, which should also contribute to profitability. Raw materials and transportation costs could once again have an unfavourable effect on profit margins should they experience a sustained increase.

In the Printing Sector, we expect revenues from our service offering to Canadian retailers to remain relatively stable over the next 12 months. The newspaper publishing vertical will continue to be affected by the end of the recognition of deferred revenues related to certain newspaper printing contracts (see Table #4), including the contract to print the *San Francisco Chronicle*, which will have an unfavourable effect on adjusted operating earnings of approximately $12 million in the next quarter, $10 million in the first quarter of 2019 and $4 million in the second quarter of 2019, with a limited impact on cash. In addition, revenues from the transition with Hearst, which began in January 2018, will cease at the end of the fourth quarter of 2018. In all the other printing verticals, we expect our revenues will continue to be affected by the same trends observed in recent quarters. Lastly, to limit the impact of these decreases, we will continue with our operational efficiency initiatives and will benefit from the cost reductions associated with the closure of a plant located in Montréal until the end of the first quarter of 2019.

To conclude, we will continue to generate significant cash flows from all our operating activities, which should enable us to reduce our net indebtedness.

On behalf of Management,

(s) Nelson Gentiletti
Chief Financial and Development Officer

September 6, 2018

CONSOLIDATED STATEMENTS OF EARNINGS

Unaudited

(in millions of Canadian dollars, unless otherwise indicated and per share data)	Notes	Three months ended		Nine months ended	
		July 29, 2018	July 30, 2017	**July 29, 2018**	July 30, 2017
Revenues	18	**$ 757.9**	$ 477.7	**$ 1,794.3**	$ 1,480.0
Operating expenses	5	**651.0**	382.3	**1,404.6**	1,206.6
Restructuring and other costs (gains)	6	**14.3**	1.7	**—**	(6.0)
Impairment of assets	7	**2.9**	—	**6.6**	2.5
Operating earnings before depreciation and amortization		**89.7**	93.7	**383.1**	276.9
Depreciation and amortization	8 & 18	**50.1**	25.5	**121.0**	78.5
Operating earnings		**39.6**	68.2	**262.1**	198.4
Net financial expenses	9	**14.5**	3.9	**20.5**	13.4
Earnings before share of net earnings in interests in joint ventures and income taxes		**25.1**	64.3	**241.6**	185.0
Share of net earnings in interests in joint ventures, net of related taxes		**—**	—	**0.1**	—
Income taxes	10	**5.8**	15.3	**95.3**	46.9
Net earnings		**$ 19.3**	$ 49.0	**$ 146.4**	$ 138.1
Net earnings per share - basic		**$ 0.22**	$ 0.64	**$ 1.81**	$ 1.79
Net earnings per share - diluted		**$ 0.22**	$ 0.64	**$ 1.81**	$ 1.78
Weighted average number of shares outstanding - basic (in millions)	14	**87.6**	77.4	**80.7**	77.3
Weighted average number of shares - diluted (in millions)	14	**87.7**	77.6	**80.8**	77.5

The notes are an integral part of these condensed interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

		Three months ended		Nine months ended	
(in millions of Canadian dollars)	Notes	**July 29, 2018**	July 30, 2017	**July 29, 2018**	July 30, 2017
Net earnings		**$ 19.3**	$ 49.0	**$ 146.4**	$ 138.1
Other comprehensive income (loss)					
Items that will be reclassified to net earnings					
Net change related to cash flow hedges					
Net change in the fair value of derivatives designated as cash flow hedges		**(0.5)**	5.3	**(0.5)**	4.4
Reclassification of the net change in the fair value of derivatives designated as cash flow hedges in prior periods, recognized in net earnings during the period		**0.2**	0.3	**(0.9)**	1.1
Related income taxes		**(0.1)**	1.5	**(0.4)**	1.5
		(0.2)	4.1	**(1.0)**	4.0
Cumulative translation differences					
Net unrealized exchange gains (losses) on the translation of the financial statements of foreign operations		**16.8**	(47.2)	**16.2**	(36.9)
Net gains (losses) on hedge of the net investment in foreign operations		**(4.9)**	6.0	**(4.5)**	5.0
Related income taxes		**(0.8)**	1.7	**(0.7)**	1.4
		12.7	(42.9)	**12.4**	(33.3)
Items that will not be reclassified to net earnings					
Changes related to defined benefit plans					
Actuarial gains on defined benefit plans	16	**8.7**	2.4	**8.8**	21.0
Related income taxes		**2.3**	0.6	**2.6**	5.6
		6.4	1.8	**6.2**	15.4
Other comprehensive income (loss)	16	**18.9**	(37.0)	**17.6**	(13.9)
Comprehensive income		**$ 38.2**	$ 12.0	**$ 164.0**	$ 124.2

The notes are an integral part of these condensed interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(in millions of Canadian dollars)	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
Balance as at October 29, 2017		**$ 371.6**	**$ 1.1**	**$ 851.5**	**$ (5.5)**	**$ 1,218.7**
Net earnings		**—**	**—**	**146.4**	**—**	**146.4**
Other comprehensive income		**—**	**—**	**—**	**17.6**	**17.6**
Shareholders' contributions and distributions to shareholders						
Share redemptions	13	**(2.9)**	**—**	**(10.0)**	**—**	**(12.9)**
Dividends	13	**—**	**—**	**(50.1)**	**—**	**(50.1)**
Issuance of shares, net of issuance costs	13	**278.2**	**—**	**—**	**—**	**278.2**
Balance as at July 29, 2018		**$ 646.9**	**$ 1.1**	**$ 937.8**	**$ 12.1**	**$ 1,597.9**
Balance as at October 31, 2016		$ 361.9	$ 3.2	$ 700.9	$ 2.7	$ 1,068.7
Net earnings		—	—	138.1	—	138.1
Other comprehensive loss		—	—	—	(13.9)	(13.9)
Shareholders' contributions and distributions to shareholders						
Exercise of stock options	13	6.7	(1.3)	—	—	5.4
Dividends	13	—	—	(45.3)	—	(45.3)
Balance as at July 30, 2017		$ 368.6	$ 1.9	$ 793.7	$ (11.2)	$ 1,153.0

The notes are an integral part of these condensed interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(in millions of Canadian dollars)	Notes	**As at July 29, 2018**	As at October 29, 2017
Current assets			
Cash		**$ 27.7**	$ 247.1
Accounts receivable		**484.7**	380.6
Income taxes receivable		**14.1**	17.2
Inventories		**311.8**	116.9
Prepaid expenses and other current assets		**27.6**	18.4
		865.9	780.2
Property, plant and equipment and investment properties		**871.7**	500.8
Intangible assets		**783.9**	171.1
Goodwill	4	**1,190.4**	505.0
Investments in joint ventures		**—**	2.3
Deferred taxes	10	**23.8**	139.0
Other assets		**38.3**	38.3
		$ 3,774.0	$ 2,136.7
Current liabilities			
Accounts payable and accrued liabilities		**$ 381.8**	$ 304.7
Provisions	12	**3.5**	6.4
Income taxes payable		**12.8**	9.5
Deferred revenues and deposits	18	**18.3**	44.7
Current portion of long-term debt	11	**250.0**	—
		666.4	365.3
Long-term debt	11	**1,256.0**	348.3
Deferred taxes	10	**125.1**	44.1
Provisions	12	**2.7**	1.3
Other liabilities		**125.9**	159.0
		2,176.1	918.0
Equity			
Share capital	13	**646.9**	371.6
Contributed surplus		**1.1**	1.1
Retained earnings		**937.8**	851.5
Accumulated other comprehensive income (loss)	16	**12.1**	(5.5)
		1,597.9	1,218.7
		$ 3,774.0	$ 2,136.7

The notes are an integral part of these condensed interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(in millions of Canadian dollars)	Notes	Three months ended July 29, 2018	Three months ended July 30, 2017 [1]	Nine months ended July 29, 2018	Nine months ended July 30, 2017 [1]
Operating activities					
Net earnings		**$ 19.3**	$ 49.0	**$ 146.4**	$ 138.1
Adjustments to reconcile net earnings and cash flows from operating activities:					
Impairment of assets	7	**2.9**	—	**6.6**	2.5
Depreciation and amortization	8	**56.1**	31.1	**139.6**	96.6
Financial expenses on long-term debt	9	**15.0**	4.4	**23.8**	13.1
Net losses (gains) on disposal of assets		**(1.4)**	0.5	**(5.6)**	(2.3)
Net gains on business disposals	4 & 6	**(2.3)**	(1.0)	**(37.5)**	(11.4)
Income taxes	10	**5.8**	15.3	**95.3**	46.9
Net foreign exchange differences and other		**(4.1)**	(0.7)	**7.0**	1.1
Cash flows generated by operating activities before changes in non-cash operating items and income taxes paid		**91.3**	98.6	**375.6**	284.6
Changes in non-cash operating items [2]		**(7.2)**	(17.0)	**(116.4)**	(31.5)
Income taxes paid		**(7.0)**	(8.6)	**(36.0)**	(40.4)
Cash flows from operating activities		**77.1**	73.0	**223.2**	212.7
Investing activities					
Business combinations, net of acquired cash	4	**(1,561.5)**	0.1	**(1,616.3)**	(15.9)
Business disposals	4	**2.4**	(0.8)	**35.0**	24.4
Acquisitions of property, plant and equipment		**(19.5)**	(7.7)	**(37.6)**	(24.5)
Disposals of property, plant and equipment		**4.4**	—	**25.0**	7.0
Increase in intangible assets		**(9.0)**	(3.7)	**(16.9)**	(13.9)
Dividends received from joint ventures		**—**	—	**3.4**	—
Cash flows from investing activities		**(1,583.2)**	(12.1)	**(1,607.4)**	(22.9)
Financing activities					
Increase in long-term debt, net of issuance costs	11	**959.0**	—	**959.0**	—
Reimbursement of long-term debt	4 & 11	**(143.9)**	—	**(162.8)**	(0.2)
Net increase in credit facility, net of issuance costs	11	**175.8**	—	**175.8**	—
Financial expenses on long-term debt	9 & 11	**(13.1)**	(5.2)	**(21.3)**	(13.4)
Proceeds from issuance of shares in exchange for subscription receipts, net of issuance costs	13	**274.9**	—	**274.9**	—
Exercise of stock options	13	**—**	—	**—**	5.4
Dividends	13	**(18.4)**	(15.5)	**(50.1)**	(45.3)
Share redemptions	13	**—**	—	**(12.9)**	—
Cash flows from financing activities		**1,234.3**	(20.7)	**1,162.6**	(53.5)
Effect of exchange rate changes on cash denominated in foreign currencies		**1.4**	(0.8)	**2.2**	(0.2)
Net change in cash		**(270.4)**	39.4	**(219.4)**	136.1
Cash at beginning of period		**298.1**	113.4	**247.1**	16.7
Cash at end of period		**$ 27.7**	$ 152.8	**$ 27.7**	$ 152.8
Non-cash investing activities					
Net change in capital asset acquisitions financed by accounts payable		**$ —**	$ 1.2	**$ (0.4)**	$ (0.2)

[1] Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

[2] Includes the accelerated recognition of the deferred revenues opening balance as at October 29, 2017 as part of the transaction with Hearst for the nine-month period ended July 29, 2018 (Note 18).

The notes are an integral part of these condensed interim consolidated financial statements.

1 GENERAL INFORMATION

Transcontinental Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act. Its Class A Subordinate Voting Shares and Class B Shares are traded on the Toronto Stock Exchange. The Corporation's head office is located at 1 Place Ville Marie, Suite 3240, Montreal, Quebec, Canada H3B 0G1.

The Corporation is a leader in flexible packaging in North America and Canada's largest printer. The Corporation is also a Canadian leader in its specialty media segments. The Corporation mainly conducts business in Canada, United States, Latin America, the United Kingdom, Australia and New Zealand in three separate sectors: the Packaging Sector, the Print Sector and the Media Sector. The Corporation's main activities are described in Note 3 "Segmented Information".

The operating results for interim periods are not necessarily indicative of expected full-year results due to the seasonal nature of certain activities of the Corporation. Operating results are influenced by the advertising market, which is stronger in the fourth quarter.

The Corporation's Board of Directors approved these condensed interim consolidated financial statements on September 6, 2018.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation
These interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). In particular, these interim consolidated financial statements were prepared in accordance with IAS 34 "Interim Financial Reporting", and therefore, are condensed consolidated financial statements since they do not contain all disclosures required by IFRS for annual consolidated financial statements. These condensed interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended October 29, 2017, which include the significant accounting policies used by the Corporation.

The accounting policies adopted in these condensed interim consolidated financial statements are based on IFRS issued, in force and which were adopted by the Corporation as at July 29, 2018. Any subsequent change to the accounting policies, that will take effect in the Corporation's annual consolidated financial statements for the year ending October 28, 2018 or after, could result in a restatement of these condensed interim consolidated financial statements.

New accounting policy and change in accounting policies

- **Investment property**
  Investment properties owned by the Corporation and which it does not primarily occupy for its own use are held to earn rental income or capital appreciation. Investment properties are initially recorded at the transaction price plus transaction costs upon acquisition, or at previous amortized cost in the case of buildings transferred from Property, plant and equipment. These properties are subsequently measured at amortized cost. Investment properties are depreciated on a straight-line basis over a period of 20 to 40 years. Rental income is recognized in the consolidated Statements of Earnings on a straight-line basis over the term of the lease, and operating expenses of properties are recorded in Operating expenses.

- **Hedge accounting**
  The Corporation applies hedge accounting for its net investments in foreign operations by designating derivative financial instruments as hedge instruments. During the three-month period ended July 29, 2018, the Corporation pursued its hedge strategy and also designated certain financial instruments denominated in US dollars as as partial hedge instruments of its net investments in foreign operations (Note 11).

New or amended accounting standards not yet adopted

- **Revenue from Contracts with Customers**
  In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". IFRS 15 will replace IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations.

  The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to depict the transfer of promised goods or services to customers.

  Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

  IFRS 15 will be applicable to the Corporation for the annual period beginning on October 29, 2018, with earlier application permitted.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New or amended accounting standards not yet adopted (continued)

- **Revenue from Contracts with Customers (continued)**

  The analysis of this standard requires the Corporation to compile historical data for all of its contracts. Accordingly, the Corporation devotes the time and effort necessary to develop and implement the accounting policies, estimates, judgments and accounting processes (including incremental requirements of information technology systems) needed to have in place in order to comply with this standard.

  At this time, the Corporation is performing a detailed impact assessment that this standard and its amendments will have on its consolidated financial statements.

In addition to what is disclosed in the Corporation's annual consolidated financial statements for the year ended October 29, 2017, new accounting standards or interpretations were issued and not adopted.

- **Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)**
  On February 7, 2018, the IASB issued "Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)". The amendments apply for plan amendments, curtailments or settlements that will occur during annual periods beginning on or after January 1, 2019, or the date on which they are first applied. Earlier application is permitted. The amendments to IAS 19 clarify that:
  - on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
  - the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan.

  The Corporation intends to adopt the amendments to IAS 19 in its consolidated financial statements for the annual period beginning on October 28, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

- **IFRIC 23 Uncertainty over Income Tax Treatments**
  On June 7, 2017, the IASB issued IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments". The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires:
  - an entity to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
  - an entity to consider whether it is probable that the tax authorities will accept the uncertain tax treatment; and
  - if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

  The Corporation intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on October 28, 2019. The extent of the impact of adoption of the Interpretation has not yet been determined.

3 SEGMENTED INFORMATION

During the three-month period ended July 29, 2018, in connection with changes in the organizational structure and following the acquisition of Coveris Americas (Note 4), the Corporation's operating segments have been modified and are now aggregated by management into three separate sectors: Packaging, Printing and Media, which is presented in Other. The Corporation restated the corresponding segmented information for previous periods. The printing and packaging operations were previously presented under the Printing &Packaging Sector.

The Packaging Sector, which specializes in extrusion, lamination, printing and converting packaging solutions, generates revenues from the manufacturing of flexible plastic and paper products, including rollstock, bags and pouches, coextruded films, shrink films and coatings. Its facilities are located in the United States, Canada, Latin America and other geographic areas.

The Printing Sector generates revenues from an integrated service offering to retailers, including flyers and in-store marketing products printing, premedia and door-to-door distribution services, as well as a range of innovative print solutions for newspapers, magazines, 4-colour books and personalized and mass marketing products. Its facilities are located in Canada.

The "Other" column includes the Media Sector, which previously was reported separately, certain head office costs as well as the elimination of inter-segment sales. The Media sector generates revenues from print and digital publishing products, in French and English, of the following type: educational books, specialized publications for professionals and newspapers. Inter-segment sales of the Corporation are recognized at agreed transfer prices, which approximate fair value. Transactions other than sales are recognized at carrying amount.

The following tables present the various segment components of the Consolidated Statements of Earnings:

For the three-month period ended July 29, 2018	Packaging	Printing	Other	Consolidated Results
Revenues	**$ 400.2**	**$ 334.2**	**$ 23.5**	**$ 757.9**
Operating expenses	**360.9**	**262.7**	**27.4**	**651.0**
Restructuring and other costs	**6.4**	**0.9**	**7.0**	**14.3**
Impairment of assets	**—**	**2.9**	**—**	**2.9**
Operating earnings before depreciation and amortization	**32.9**	**67.7**	**(10.9)**	**89.7**
Depreciation and amortization	**33.8**	**13.7**	**2.6**	**50.1**
Operating earnings	**$ (0.9)**	**$ 54.0**	**$ (13.5)**	**$ 39.6**
Adjusted operating earnings before depreciation and amortization (1)	**$ 48.9**	**$ 71.5**	**$ (4.0)**	**$ 116.4**
Adjusted operating earnings (1)	**32.2**	**58.8**	**(6.3)**	**84.7**
Acquisitions of non-current assets (2)	**$ 12.0**	**$ 13.0**	**$ 3.5**	**$ 28.5**

For the three-month period ended July 30, 2017	Packaging (3)	Printing (3)	Other (3)	Consolidated Results (3)
Revenues	$ 76.5	$ 353.8	$ 47.4	$ 477.7
Operating expenses	67.6	267.0	47.7	382.3
Restructuring and other costs (gains)	(0.8)	0.8	1.7	1.7
Impairment of assets	—	—	—	—
Operating earnings before depreciation and amortization	9.7	86.0	(2.0)	93.7
Depreciation and amortization	5.3	16.8	3.4	25.5
Operating earnings	$ 4.4	$ 69.2	$ (5.4)	$ 68.2
Adjusted operating earnings before depreciation and amortization (1)	$ 8.9	$ 86.8	$ (0.3)	$ 95.4
Adjusted operating earnings (1)	6.7	70.9	(3.4)	74.2
Acquisitions of non-current assets (2)	$ 2.2	$ 6.1	$ 4.3	$ 12.6

3 SEGMENTED INFORMATION (CONTINUED)

For the nine-month period ended July 29, 2018	Packaging	Printing	Other	Consolidated Results
Revenues	**$ 559.0**	**$ 1,165.5**	**$ 69.8**	**$ 1,794.3**
Operating expenses	**502.0**	**823.4**	**79.2**	**1,404.6**
Restructuring and other costs (gains)	**6.5**	**6.7**	**(13.2)**	**—**
Impairment of assets	**—**	**3.5**	**3.1**	**6.6**
Operating earnings before depreciation and amortization	**50.5**	**331.9**	**0.7**	**383.1**
Depreciation and amortization	**45.3**	**67.4**	**8.3**	**121.0**
Operating earnings	**$ 5.2**	**$ 264.5**	**$ (7.6)**	**$ 262.1**
Adjusted operating earnings before depreciation and amortization [(1)]	**$ 66.6**	**$ 240.0**	**$ (9.5)**	**$ 297.1**
Adjusted operating earnings [(1)]	**45.0**	**197.3**	**(17.1)**	**225.2**
Acquisitions of non-current assets [(2)]	**$ 18.0**	**$ 24.9**	**$ 11.7**	**$ 54.6**

For the nine-month period ended July 30, 2017	Packaging [(3)]	Printing [(3)]	Other [(3)]	Consolidated Results [(3)]
Revenues	$ 228.7	$ 1,101.2	$ 150.1	$ 1,480.0
Operating expenses	202.9	839.3	164.4	1,206.6
Restructuring and other costs (gains)	(0.1)	2.9	(8.8)	(6.0)
Impairment of assets	—	0.2	2.3	2.5
Operating earnings before depreciation and amortization	25.9	258.8	(7.8)	276.9
Depreciation and amortization	15.4	52.1	11.0	78.5
Operating earnings	$ 10.5	$ 206.7	$ (18.8)	$ 198.4
Adjusted operating earnings before depreciation and amortization [(1)]	$ 25.8	$ 262.0	$ (14.4)	$ 273.4
Adjusted operating earnings [(1)]	19.9	$ 213.0	(24.6)	208.3
Acquisitions of non-current assets [(2)]	$ 7.0	$ 17.8	$ 13.4	$ 38.2

[(1)] The Corporation's officers mainly make decisions and assess segment performance based on adjusted operating earnings. Adjusted operating earnings before depreciation and amortization and adjusted operating earnings exclude restructuring and other costs (gains), impairment of assets, amortization of intangible assets arising from business combinations, reversal of the fair value adjustment of inventory sold in connection with business acquisitions, as well as the accelerated recognition of deferred revenues and accelerated depreciation of equipments as part of the new agreement with Hearst signed in December 2017 (Note 18) (only for adjusted operating earnings as it relates to accelerated depreciation of equipments).

During the three-month period ended July 29, 2018, the Corporation updated the definition of adjusted operating earnings, which now excludes the amortization of intangible assets arising from business combinations and the reversal of the fair value adjustment of inventory sold in connection with business acquisitions, This modification of definition had no impact on the Corporation's interim consolidated financial statements, other than segmented information presentation.

[(2)] These amounts include internally generated intangible assets, acquisitions of property, plant and equipment and intangible assets, excluding those acquired as part of business combinations, whether they were paid or not.

[(3)] Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

Following changes to its organizational structure and its operating segments, the Corporation revised its cash-generating units ("CGUs") and groups of CGUs, which had no impact on the allocation of goodwill as such goodwill was already presented separately, as disclosed in Note 15 of the Corporation's annual consolidated financial statements as of October 29, 2017.

3 SEGMENTED INFORMATION (CONTINUED)

The Corporation's revenues by main products and services are as follows:

	Three months ended		Nine months ended	
	July 29, 2018	July 30, 2017	**July 29, 2018**	July 30, 2017
Packaging products	**400.2**	76.5	**559.0**	228.7
Printing products	**243.8**	293.9	**969.5**	922.3
Publishing and content products	**80.7**	70.0	**165.5**	220.3
Other products and services	**33.2**	37.3	**100.3**	108.7
	757.9	477.7	**1,794.3**	1,480.0

The Corporation's total assets by segment are as follows:

	As at July 29, 2018	As at October 29, 2017 [(1)]
Packaging	**$ 2,567.5**	$ 480.1
Printing	**1,006.2**	1,208.3
Other [(2)]	**200.3**	448.3
	$ 3,774.0	$ 2,136.7

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

(2) This heading mainly includes cash, income taxes receivable, property, plant and equipment, intangible assets, deferred taxes and defined benefit asset not allocated to segments.

4 BUSINESS COMBINATIONS AND DISPOSALS

Business combinations

- **Coveris Americas**

  On April 2, 2018, the Corporation announced that it had entered into a Securities Purchase Agreement (the "SPA") with Coveris Holdings S.A. ("CHSA") in connection with the acquisition (the "Acquisition") by the Corporation of all of CHSA'S net investment in Coveris Americas (the "Coveris Americas Net Investment") and in the entities comprising the business of Coveris Americas. Headquartered in Chicago, Coveris Americas manufactures a variety of flexible plastic and paper products, including rollstock, bags and pouches, coextruded films, shrink films, coated substrates and labels. The Acquisition of Coveris Americas is in line with our growth strategy and allows the Corporation to become a North American leader in flexible packaging.

  The Acquisition, which was subject to certain customary closing conditions, in particular obtaining the approval of antitrust authorities, closed on May 1, 2018 (the "Acquisition date").

  The cash consideration was $1,581.1 million (US$1,228.8 million), subject to customary adjustments for working capital. At Acquisition date, the Corporation financed the consideration paid as well as the acquisition costs out of a combination of:
  - cash-on-hand for an amount of $236.2 million;
  - an amount drawn from existing credit facilities of $222.3 million, in the form of an amount of $55.0 million and US$130.0 million ($167.3 million) (Note 11);
  - an amount drawn from new credit facilities of approximately $965.0 million (US$750.0 million) (Note 11); and
  - the net proceeds from a bought deal public offering of subscription receipts of $274.9 million (Note 13).

  During the three-month and nine-month periods ended July 29, 2018, acquisition costs of $7.8 million and $13.2 million, and integration costs related to the acquisition of $8.1 million, respectively, were expensed and recorded under Restructuring and other costs (gains) (Note 6).

4 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)

Business combinations (continued)

- **Coveris Americas (continued)**

  The acquisition of Coveris Americas has been accounted for using the acquisition method. Coveris Americas has been consolidated from the Acquisition date. The provisional purchase price allocation and the total cash consideration paid are presented in the table below. Management's provisional measurement of the fair values of assets acquired and liabilities assumed based on best estimates taking into account all relevant information available is also presented in the table below. Because the Company recently acquired Coveris Americas, it is not reasonably practical to definitively allocate the purchase price as at July 29, 2018. The accounting for the business combination is expected to be completed as soon as management has gathered all of the relevant information available and considered necessary in order to finalize this allocation, no later than 12 months after the Acquisition date. The process may result in transferring amounts to or from assets acquired, liabilities assumed and goodwill. Any adjustment to provisional amounts will be retrospectively recognized as at the acquisition date to reflect information obtained about facts and circumstances that existed and, if known, would have affected the measurement of the amounts recognized as at the acquisition date.

  As at July 29, 2018, although the measurement process has begun, the Corporation had not yet finalized the fair value measurement of the following main items:
  - land and buildings,
  - equipments,
  - intangible assets, including client relationships which are provisionally recorded in the Statement of Financial Position and are amortized over a provisional average useful life of 12 years, and
  - determination of deferred income taxes.

  The measurement process for these assets will continue over the next months. The final purchase price allocation could differ significantly from the amounts presented below and could also give rise to favorable or unfavorable impacts, among other things, on the currently recorded amount of amortization and depreciation and income tax expenses, which would be recognized retrospectively as at the acquisition date.

  The fair value of receivables acquired of $162.3 million, which includes a negligible amount deemed uncollectible as at the acquisition date, and inventories of $177.1 million is included in the current assets in the provisional accounting of this business combination.

  The acquisition of Coveris Americas gave rise to goodwill because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce.

  During the nine-month period ended July 29, 2018, the Corporation entered into foreign exchange contracts to purchase approximately US$477.5 million in order to hedge the foreign exchange exposure of the transaction. Prior to their settlement during the three-month period ended July 29, 2018, these foreign exchange contracts did not qualify for hedge accounting, and their remeasurement to fair value was recorded under Net financial expenses. These contracts generated a gain of $1.3 million .

  The Corporation's Consolidated Statements of Earnings for the three-month and nine-month periods ended July 29, 2018 include the operating results of Coveris Americas since its acquisition date, including additional revenues of $309.3 million, and operating earnings before depreciation and amortization of $24.7 million , including adjustments related to the accounting of this acquisition and excluding acquisition costs and integration costs related to the acquisition of $6.0 million.

  If the Corporation had acquired Coveris Americas at the beginning of the nine-month period ended July 29, 2018, its revenues would have increased by $924.1 million and operating earnings before depreciation and amortization would have increased by $105.7 million.

- **Flexipak**

  On October 31, 2017, the Corporation acquired all the shares of Les Industries Flexipak Inc. ("Flexipak"), a flexible packaging supplier located in Montréal, Quebec, for a purchase price of $11.1 million, subject to adjustments and including a contingent cash consideration of $0.2 million payable following the achievement of pre-established financial performance thresholds.This acquisition allows the Corporation to pursue its development in the packaging industry.

  During the nine-month period ended July 29, 2018, the Corporation continued to analyze the purchase price allocation of Flexipak and finalized the accounting for this acquisition. Changes in the fair value of assets acquired and liabilities assumed during the nine-month period ended July 29, 2018 are negligible and reflected in the table below.

- **Contech**

  On January 9, 2018, the Corporation acquired Contech, a leader in the building industry for training, trade show planning, networking events and competitions for construction professionals in Québec for a purchase price of $0.7 million. This acquisition is a natural fit for the Corporation's offering and strengthens its position as a leader in strategic information for the construction sector in Quebec.

4 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)

Business combinations (continued)

- **Multifilm**
  On March 7, 2018, the Corporation acquired Multifilm Packaging Corporation ("Multifilm"), a flexible packaging supplier located in Elgin, Illinois, for a purchase price of $59.2 million, subject to adjustments and including a contingent cash consideration of $15.1 million payable following the achievement of pre-established financial performance. This acquisition is aligned with the growth strategy for the Packaging Sector.

  During the three-month period ended July 29, 2018, the Corporation continued to analyze the purchase price allocation and expects to finalize the accounting for this acquisition within the next months. Changes in the fair value of assets acquired and liabilities assumed during the three-month period ended July 29, 2018 are negligible and reflected in the table below.

  The Corporation's Consolidated Statements of Earnings for the three-month and nine-month periods ended July 29, 2018 include the operating results of Flexipak, Contech and Multifilm since their acquisition date, including additional revenues of $14.6 million and $26.1 million, respectively, and operating earnings before depreciation and amortization of $2.5 million and $4.3 million, respectively, including adjustments related to the accounting of these acquisitions. The fair value of receivables acquired of $6.5 million is included in current assets in the provisional accounting of these business combinations.

  If the Corporation had acquired these companies at the beginning of the nine-month period ended July 29, 2018, revenues would have increased by $39.3 million and operating earnings before depreciation and amortization would have increased by $5.7 million.

- **Purchase price allocation**
  The following table presents the value, which is provisional for Coveris Americas and Multifilm, of the acquired companies' assets acquired and liabilities assumed at the acquisition date:

	Coveris Americas	Other acquisitions (1)	Total (2)
Assets acquired			
Current assets (including cash acquired of $21.3)	$ 391.6	$ 15.0	$ 406.6
Property, plant and equipment	409.6	28.2	437.8
Intangible assets	604.7	30.1	634.8
Goodwill (no tax value)	638.6	34.7	673.3
Deferred taxes	1.2	—	1.2
Other assets	1.3	—	1.3
	2,047.0	108.0	2,155.0
Liabilities assumed			
Current liabilities	167.8	5.5	173.3
Long-term debt and capital leases (current portion included) (3)	149.9	18.9	168.8
Pension and other post-employment benefits	17.2	—	17.2
Deferred taxes	128.8	11.8	140.6
Other liabilities	2.2	—	2.2
	465.9	36.2	502.1
	$ 1,581.1	$ 71.8	$ 1,652.9
Total consideration			
Cash paid	$ 1,581.1	$ 56.5	$ 1,637.6
Short-term contingent consideration payable	—	0.2	0.2
Long-term contingent consideration payable	—	15.1	15.1
	$ 1,581.1	$ 71.8	$ 1,652.9

(1) Other acquisitions include Flexipak, Multifilm and Contech.

(2) Including adjustments made during the three-month and nine-month periods ended July 29, 2018 for Flexipak and Multifilm.

(3) As at July 29, 2018, long-term debt and certain capital leases of Coveris Americas totalling $143.9 million had been repaid by the Corporation. With respect to the other acquisitions, long-term debt of $18.9 million has also been repaid by the Corporation as at July 29, 2018.

4 BUSINESS COMBINATIONS AND DISPOSALS (CONTINUED)

Business disposals

- **Sale of local and regional newspapers in Quebec**
  During the nine-month period ended July 29, 2018, the Corporation disposed of several groups of local and regional newspapers in Quebec, representing a total of 67 newspapers and web-related properties, in exchange for a cash consideration and an amount receivable. These sales are part of the sale process of local and regional newspapers in Quebec and Ontario announced by the Corporation on April 18, 2017.

- **Sale of CEDROM-SNi**
  On December 20, 2017, the Corporation announced the sale of CEDROM-SNi inc., an equity investment owned at 50% and which was accounted for using the equity method, in exchange for a cash consideration and an amount receivable.

5 OPERATING EXPENSES

Operating expenses by major headings are as follows:

	Three months ended		Nine months ended	
	July 29, 2018	July 30, 2017	**July 29, 2018**	July 30, 2017
Employee-related costs	**$ 191.6**	$ 141.8	**$ 460.1**	$ 451.6
Supply chain and logistics [1]	**419.2**	208.4	**856.0**	657.3
Other goods and services [2]	**40.2**	32.1	**88.5**	97.7
	$ 651.0	$ 382.3	**$ 1,404.6**	$ 1,206.6

[1] "Supply chain and logistics" includes mainly production and distribution costs related to external suppliers.

[2] "Other goods and services" includes mainly promotion, advertising and telecommunications costs, office supplies, real estate expenses and professional fees.

6 RESTRUCTURING AND OTHER COSTS (GAINS)

Restructuring and other costs (gains) by major headings are as follows:

		Three months ended		Nine months ended	
	Notes	**July 29, 2018**	July 30, 2017	**July 29, 2018**	July 30, 2017
Workforce reductions		**$ 1.5**	$ 3.4	**$ 9.4**	$ 8.3
Gains related to the sale of certain activities (Note 4) and other [1]		**(2.0)**	(0.8)	**(26.3)**	(10.8)
Net gains on sale of buildings		**(1.1)**	—	**(6.5)**	(3.8)
Onerous contracts		**—**	(0.1)	**2.1**	0.6
Business acquisition costs [2]	4	**7.8**	—	**13.2**	0.5
Other acquisition-related costs [3]	4	**8.1**	—	**8.1**	—
Other costs		**—**	(0.8)	**—**	(0.8)
		$ 14.3	$ 1.7	**$ —**	$ (6.0)

[1] Includes a provision for impaired loan of $9.4 million related to a previous transaction for the nine-month period ended July 29, 2018.

[2] Business acquisition costs include transaction costs, primarily legal fees, success fees related to the acquisition and other professional fees, for potential or realized business combinations.

[3] Other acquisition-related costs include integration costs related to acquired companies.

7 IMPAIRMENT OF ASSETS

Impairment of assets by major headings is as follows:

	Three months ended		Nine months ended	
	July 29, 2018	July 30, 2017	**July 29, 2018**	July 30, 2017
Property, plant and equipment and investment properties	**$ 3.2**	$ —	**$ 3.5**	$ 1.2
Intangible assets	**(0.3)**	—	**3.1**	1.3
	$ 2.9	$ —	**$ 6.6**	$ 2.5

During the nine-month periods ended July 29, 2018 and July 30, 2017, the Corporation recognized amounts of $3.1 million and $1.3 million as impairment charges for intangible assets, respectively,mainly with respect to costs relating to technology projects in the Media Sector following the sale of its Quebec local and regional newspapers (Note 4). In addition, during the three-month and nine-month periods ended July 29, 2018, the Corporation recognized an amount of $3.2 million and $3.5 million, respectively, as an impairment charge for property, plant and equipment in connection with the closure of one of its facilities following the termination of certain newspapers.

8 DEPRECIATION AND AMORTIZATION

Depreciation and amortization by major headings is as follows:

	Three months ended		Nine months ended	
	July 29, 2018	July 30, 2017	**July 29, 2018**	July 30, 2017
Property, plant and equipment and investment properties	**$ 30.1**	$ 19.1	**$ 88.7**	$ 58.4
Intangible assets	**20.0**	6.4	**32.3**	20.1
	50.1	25.5	**121.0**	78.5
Intangible assets and other assets, recognized in revenues and operating expenses	**6.0**	5.6	**18.6**	18.1
	$ 56.1	$ 31.1	**$ 139.6**	$ 96.6

9 NET FINANCIAL EXPENSES

Net financial expenses by major headings are as follows:

		Three months ended		Nine months ended	
	Notes	**July 29, 2018**	July 30, 2017	**July 29, 2018**	July 30, 2017
Financial expenses on long-term debt	**11**	**$ 15.0**	$ 4.4	**$ 23.8**	$ 13.1
Net interest on defined benefit plans asset and liability		**0.4**	0.5	**1.3**	1.5
Other expenses (revenues)		**0.9**	(0.4)	**(1.8)**	(0.3)
Net foreign exchange losses (gains)		**(1.8)**	(0.6)	**(2.8)**	(0.9)
		$ 14.5	$ 3.9	**$ 20.5**	$ 13.4

10 INCOME TAXES

The following table presents a reconciliation of income taxes at the Canadian statutory tax rate and at the effective tax rate:

	Three months ended		Nine months ended	
	July 29, 2018	July 30, 2017	**July 29, 2018**	July 30, 2017
Earnings before share of net earnings in interests in joint ventures and income taxes	**$ 25.1**	$ 64.3	**$ 241.6**	$ 185.0
Canadian statutory tax rate [1]	**26.72 %**	26.82 %	**26.72 %**	26.82 %
Income taxes at the statutory tax rate	**6.7**	17.2	**64.6**	49.6
Effect of differences in tax rates in other jurisdictions	**(1.3)**	0.4	**(2.7)**	1.3
Income taxes on non-deductible expenses and non-taxable revenues	**0.8**	(1.9)	**(0.6)**	(3.0)
Change in deferred tax assets on tax losses or temporary differences not previously recognized	**(0.3)**	—	**(2.1)**	(0.3)
Impact of the U.S. Tax Act [2]	**—**	—	**36.6**	—
Other	**(0.1)**	(0.4)	**(0.5)**	(0.7)
Income taxes at effective tax rate	**$ 5.8**	$ 15.3	**$ 95.3**	$ 46.9
Income taxes before the following items:	**$ 10.9**	$ 15.9	**$ 64.0**	$ 47.6
Impact of the U.S. Tax Act [2]	**—**	—	**36.6**	—
Income taxes on restructuring and other gains	**(4.3)**	(0.6)	**(3.6)**	—
Income taxes on impairment of assets	**(0.8)**	—	**(1.7)**	(0.7)
Income taxes at effective tax rate	**$ 5.8**	$ 15.3	**$ 95.3**	$ 46.9

[1] The Corporation's applicable tax rate corresponds to the combined Canadian tax rates applicable in the provinces where the Corporation operates.

[2] On December 22, 2017, a U.S. tax reform (known as "Tax Cuts and Jobs Act" or U.S. Tax Act) was enacted and the Corporation measured its impacts on its earnings. The reform reduces the federal statutory tax rate for U.S. corporations from a progressive tax rate of up to 35% to a fixed rate of 21% effective January 1, 2018. During the nine-month period ended July 29, 2018, this decrease reduced previously recognized deferred tax assets by $36.6 million. This deferred tax expense was calculated considering the estimated enacted tax rate upon reversal of temporary differences.

11 LONG-TERM DEBT

Long-term debt is as follows:

	Effective interest rate as at July 29, 2018	Maturity	**As at July 29, 2018**	As at October 2017
Senior unsecured notes - 3.897%	4.03 %	2019	**$ 250.0**	$ 250.0
Credit facility in Canadian dollars	4.08	2023	**28.0**	—
Credit facility in U.S. dollars - US$115 million	3.73	2023	**150.1**	—
Term loans - US$750 million	3.89	2020 to 2023	**979.1**	—
Debentures - Fonds de solidarité FTQ				
Series 1 - 5.58%	5.58	2019	**—**	50.0
Series 2 - 4.011%	4.05	2020	**—**	50.0
Unified Debenture - Fonds de solidarité FTQ - 4.784%	4.84	2028	**100.0**	—
Capital leases			**5.9**	—
			1,513.1	350.0
Issuance costs on long-term debt at amortized cost			**7.1**	1.7
Total long-term debt			**1,506.0**	348.3
Current portion of long-term debt			**250.0**	—
			$ 1,256.0	$ 348.3

11 LONG-TERM DEBT (CONTINUED)

Issuance of term loans
On May 1, 2018, in connection with the acquisition of Coveris Americas (Note 4), the Corporation entered into an agreement to issue new non-revolving credit facilities in the form of six tranches of term loans issued in U.S. dollars (the "Term loans"), having the following characteristics at issuance :

	Issued amount in USD	Equivalent at issuance date	Maturity
Term loans			
Term loan A	$ 112.5	$ 144.8	2020
Term loan B	112.5	144.8	2021
Term loan C	150.0	192.9	2021
Term loan D	150.0	192.9	2022
Term loan E	112.5	144.8	2022
Term loan F	112.5	144.8	2023
	$ 750.0	$ 965.0	

Term loans bear interest at US base rate or LIBOR, plus an applicable margin ranging from 0.70% to 1.70%, payable every six months, and are repayable over a period between 30 to 60 months, depending on the tranche.

Issuance costs totalling $5.3 million were incurred and recorded against long-term debt, and will be amortized using the effective interest rate method over the duration of the Term loans.

Credit facility extension
On December 22, 2017, the Corporation extended the maturity of its credit facility (the "Existing Credit Facilities"), in the available amount of $400.0 million or the U.S dollar equivalent, for one additional year, until February 2023, on the same terms.

In order to finance a portion of the acquisition of Coveris Americas (Note 4), the Corporation drew down an amount of $222.3 million, in the form of an amount of $55.0 million and an amount of US$130.0 million ($167.3 million).

The Existing Credit Facilities bear interest at a rate based on the credit rating assigned to the Corporation. According to the current credit rating, the rate is either the banker's acceptance rate or LIBOR, plus 1.675%, or the Canadian prime rate or U.S. base rate, plus 0.675%.

As at July 29, 2018, an amount of $178.1 million had been drawn on the Existing Credit Facilities, and letters of credit of $2.1 million had been issued, and the unused amount under the credit facility was $219.8 million.

Hedging instruments
As at July 29, 2018, an amount of US$210.0 million ($274.0 million) of the Term loans and credit facility denominated in U.S. dollars had been designated by the Corporation as hedging instruments of its net investments in foreign operations. As there was no hedge ineffectiveness during the three-month and nine-month periods ended July 29, 2018, there was no impact on the Consolidated Statements of Earnings. Consequently, a foreign exchange loss of $4.0 million was reclassified to Other comprehensive income.

Modifications of Debentures - Fonds de solidarité FTQ
On July 13, 2018, the Corporation modified certain terms of its Debentures - Fonds de solidarité FTQ Series 1 - 5.58 % and Series 2 - 4.011 % of $50.0 million each, by merging them into a single debenture (the "Unified Debenture - Fonds de solidarité FTQ" or the "Unified Debenture") of $100.0 million, bearing interest at 4.784%, payable every six months, and maturing on February 1, 2028. The Corporation incurred issuance costs of $0.5 million, to be amortized using the effective interest rate method over the duration of the Unified Debenture.

The Corporation must comply with certain restrictive covenants, including maintaining certain financial ratios. During the three-month and nine-month periods ended July 29, 2018, the Corporation has not been in default under any covenants.

11 LONG-TERM DEBT (CONTINUED)

Principal payments to be made by the Corporation in forthcoming years are as follows:

	Principal payments
2019	$ 250.0
2020	146.8
2021	342.7
2022	342.7
2023	325.0
After	100.0
	$ 1,507.2

12 PROVISIONS

The following table presents changes in provisions for the nine-month period ended July 29, 2018:

	Restructuring costs	Onerous contracts	Other (1)	Total
Balance as at October 29, 2017	$ 4.6	$ 2.5	$ 0.6	$ 7.7
Provisions recorded	9.5	2.2	0.5	12.2
Amounts used	(12.5)	(1.5)	(0.3)	(14.3)
Provisions reversed	(0.1)	(0.1)	—	(0.2)
Business acquisition	—	0.8	—	0.8
Balance as at July 29, 2018	$ 1.5	$ 3.9	$ 0.8	$ 6.2
Current portion	$ 1.5	$ 1.5	$ 0.5	$ 3.5
Non-current portion	—	2.4	0.3	2.7
	$ 1.5	$ 3.9	$ 0.8	$ 6.2

(1) Other provisions include provisions for asset retirement obligations and provisions related to claims and litigations.

13 SHARE CAPITAL

The following table presents changes in the Corporation's share capital for the nine-month period ended July 29, 2018:

	Number of shares	Amount
Class A Subordinate Voting Shares		
Balance as at October 29, 2017	63,567,144	$ 352.6
Conversion of Class B Shares into Class A Subordinate Voting Shares	2,500	—
Issuance of shares through a public offering, net of issuance costs	10,810,000	278.2
Shares redeemed and cancelled	(529,610)	(2.9)
Balance as at July 29, 2018	73,850,034	627.9
Class B Shares		
Balance as at October 29, 2017	13,985,526	19.0
Conversion of Class B Shares into Class A Subordinate Voting Shares	(2,500)	—
Balance as at July 29, 2018	13,983,026	19.0
	87,833,060	$ 646.9

13 SHARE CAPITAL (CONTINUED)

Issuance of shares
In connection with the acquisition of Coveris Americas (Note 4), the Corporation issued 10,810,000 subscription receipts on April 20, 2018 through a bought-deal public offering. On May 1, 2018, upon final closing of the acquisition of Coveris Americas, each subscription receipt entitled its holder to automatically receive, without payment of additional consideration or further action, one Class A Subordinate Voting Share of the Corporation.

Shares issued in exchange for subscription receipts were as follows:

	Public offering
Number of shares issued in exchange for subscription receipts	10,810,000
Price per subscription receipt (in $)	$ 26.60
Gross proceeds	287.5
Less: share issuance costs	(12.6)
Plus: Income taxes related to share issuance costs	3.3
Carrying amount of shares issued in exchange for subscription receipts	$ 278.2
Less: Non-cash income taxes related to common share issuance costs	$ (3.3)
Net proceeds from shares issued in exchange for subscription receipts	$ 274.9

Issuance costs of $9.3 million, net of taxes, were recorded against share capital upon issuance of the Class A Subordinate Voting Shares.

Shares redemptions
The Corporation had been authorized to repurchase, for cancellation on the open market, or subject to the approval of any securities authority by private agreements, between April 17, 2017 and April 16, 2018, or at an earlier date if the Corporation concludes or cancels the offer, up to 2,000,000 of its Class A Subordinate Voting Shares and up to 442,349 of its Class B Shares. The repurchases were made in the normal course of business at market prices through the Toronto Stock Exchange.

The Corporation had been authorized to repurchase, for cancellation on the open market, or subject to the approval of any securities authority by private agreements, between April 15, 2016 and April 14, 2017, or at an earlier date if the Corporation concludes or cancels the offer, up to 2,000,000 of its Class A Subordinate Voting Shares and up to 226,344 of its Class B Shares. The repurchases were made in the normal course of business at market prices through the Toronto Stock Exchange.

During the nine-month period ended July 29, 2018, the Corporation repurchased and cancelled 529,610 of its Class A Subordinate Voting Shares at a weighted average price of $24.50, for total cash consideration of $12.9 million. The excess of the total consideration paid over the carrying amount of the shares, in the amount of $10.0 million, was applied against retained earnings. The Corporation was under no obligation to repurchase its Class A Subordinate Voting Shares and Class B Shares as at July 29, 2018.

During the nine-month period ended July 30, 2017, the Corporation repurchased and cancelled 2,663 of its Class A Subordinate Voting Shares at a weighted average price of $17.48, for a total negligible consideration. The excess of the total consideration paid over the carrying amount of the shares, of a negligible amount, was applied against retained earnings. The Corporation was under no obligation to repurchase its Class A Subordinate Voting Shares and Class B Shares as at July 30, 2017.

Exercise of stock options
When officers and senior executives exercise their stock options, any consideration paid is credited to share capital and the amount previously credited to contributed surplus is also transferred to share capital. For the nine-month period ended July 29, 2018, no stock options were exercised. For the nine-month period ended July 30, 2017, the consideration received was $5.4 million and an amount of $1.3 million was transferred from contributed surplus to share capital.

Dividends
Dividends of $0.21 and $0.20 per share were declared and paid to holders of shares for the three-month periods ended July 29, 2018 and July 30, 2017, respectively. Dividends of $0.620 and $0.585 per share were declared and paid to holders of shares for the nine-month periods ended July 29, 2018 and July 30, 2017, respectively.

14 NET EARNINGS PER SHARE

The following table presents a reconciliation of the components used in the calculation of basic and diluted net earnings per share:

	Three months ended		Nine months ended	
	July 29, 2018	July 30, 2017	**July 29, 2018**	July 30, 2017
Numerator				
Net earnings	**$ 19.3**	$ 49.0	**$ 146.4**	$ 138.1
Denominator (in millions)				
Weighted average number of shares outstanding - basic	**87.6**	77.4	**80.7**	77.3
Dilutive effect of stock options	**0.1**	0.2	**0.1**	0.2
Weighted average number of shares - diluted	**87.7**	77.6	**80.8**	77.5

As at July 29, 2018 and July 30, 2017, all stock options are included in the calculation of the diluted net earnings per share due to their potential dilutive effect.

15 STOCK-BASED COMPENSATION

Share unit plan for certain officers and senior executives

The Corporation offers a share unit plan for the benefit of certain officers and senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted. Vested DSUs and RSUs will be paid, at the Corporation's discretion, in cash or with Class A Subordinate Voting Shares of the Corporation purchased on the open market.

The following table presents the changes in the plan's status for the nine-month period ended July 29, 2018:

	Number of units	
	DSU	RSU
Balance as at October 29, 2017	289,786	957,312
Units granted	18,278	293,880
Units cancelled	(4,129)	(28,940)
Units paid	(5,613)	(353,927)
Units converted	(35)	35
Dividends paid in units	6,718	17,742
Balance as at July 29, 2018	305,005	886,102

As at July 29, 2018, the liability related to the share unit plan for certain officers and senior executives was $24.3 million ($25.1 million as at October 29, 2017). The expenses recorded in the Consolidated Statements of Earnings for the three-month and nine-month periods ended July 29, 2018 were $5.0 million and $9.1 million, respectively. The expenses recorded in the Consolidated Statements of Earnings for the three-month and nine-month periods ended July 30, 2017 were $4.0 million and $12.6 million, respectively. An amount of $9.9 million was paid under this plan for the nine-month period ended July 29, 2018. Amounts of $0.2 million and $8.0 million were paid under this plan for the three-month and nine-month periods ended July 30, 2017, respectively.

15 STOCK-BASED COMPENSATION (CONTINUED)

Share unit plan for directors

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

The following table presents the changes in the plan's status for the nine-month period ended July 29, 2018:

	Number of units
Balance as at October 29, 2017	268,551
Directors' compensation	16,440
Units paid	(55,928)
Dividends paid in units	5,393
Balance as at July 29, 2018	234,456

As at July 29, 2018, the liability related to the share unit plan for directors was $7.5 million ($7.6 million as at October 29, 2017). The expenses recorded in the Consolidated Statements of Earnings for the three-month and nine-month periods ended July 29, 2018 were $1.0 million and $1.4 million, respectively. The expenses recorded in the Consolidated Statements of Earnings for the three-month and nine-month periods ended July 30, 2017 were $1.0 million and $3.6 million, respectively. An amount of $1.5 million was paid under this plan for the nine-month period ended July 29, 2018. Amounts of $0.9 million and $2.4 million were paid under this plan for the three-month and nine-month periods ended July 30, 2017, respectively.

Stock option plan

The Corporation has a stock option plan for the benefit of certain officers and senior executives. Under the plan, each stock option entitles its holder to receive upon exercise one Class A Subordinate Voting Share. The exercise price of each option is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option. The Corporation ceased granting stock options during the year ended October 31, 2014.

For the three-month and nine-month periods ended July 29, 2018, stock-based compensation expense was nil. For the three-month and nine-month periods ended July 30, 2017, stock-based compensation expenses of a negligible amount were charged to the Consolidated Statements of Earnings and increased contributed surplus included in equity.

The following table presents the changes in the plan's status for the nine-month period ended July 29, 2018:

	Number of options	Weighted average exercise price
Options outstanding as at July 29, 2018 and October 29, 2017	135,240	$ 11.33
Options exercisable as at July 29, 2018	135,240	$ 11.33

16 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Cash flow hedges	Cumulative translation differences	Actuarial gains and losses on defined benefit plans	Accumulated other comprehensive income (loss)
Balance as at October 29, 2017	**$ 1.0**	**$ 21.7**	**$ (28.2)**	**$ (5.5)**
Net change in gains (losses), net of income taxes	**(1.0)**	**12.4**	**6.2**	**17.6**
Balance as at July 29, 2018	**$ —**	**$ 34.1**	**$ (22.0)**	**$ 12.1**
Balance as at October 31, 2016	$ (1.6)	$ 38.7	$ (34.4)	$ 2.7
Net change in gains (losses), net of income taxes	4.0	(33.3)	15.4	(13.9)
Balance as at July 30, 2017	$ 2.4	$ 5.4	$ (19.0)	$ (11.2)

As at July 29, 2018, the amounts expected to be reclassified to net earnings in future years are as follows:

	2019	2020	Total
Net change in the fair value of derivatives designated as cash flow hedges	$ (0.6)	$ 0.2	$ (0.4)
Income taxes	(0.1)	0.2	0.1
	$ (0.5)	$ —	$ (0.5)

Actuarial gains (losses) on defined benefit plans
The actuarial gains (losses) on defined benefit plans recognized in other comprehensive income reflect the following items:

	Three months ended		Nine months ended	
	July 29, 2018	July 30, 2017	**July 29, 2018**	July 30, 2017
Actuarial gains (losses) on obligation - change in discount rate	**$ (0.2)**	$ 31.2	**$ 10.1**	$ 66.9
Actuarial gains (losses) on plan assets - excluding interest income	**9.3**	(28.1)	**(1.5)**	(40.8)
Effect of the asset ceiling	**(0.4)**	(0.7)	**0.2**	(5.1)
	$ 8.7	$ 2.4	**$ 8.8**	$ 21.0

Actuarial gains on obligation recognized in the Statements of Comprehensive Income for the three-month and nine-month periods ended July 29, 2018 are explained by the change in the discount rate, which increased from 3.6 % as at October 29, 2017 and January 28, 2018, to 3.7 % as at April 29, 2018 and July 29, 2018 in Canada, and 4.25% as at the Acquisition date and July 29, 2018 in the United States. Actuarial gains (losses) on plan assets are due to actual rates of return on assets that were higher than expected for the three-month period ended July 29, 2018 and globally lower than expected for the nine-month period ended July 29, 2018.

Actuarial gains (losses) on obligation recognized in the Statements of Comprehensive Income for the three-month and nine-month periods ended July 30, 2017 are explained by the change in the discount rate, which increased from 3.3% as at October 31, 2016, to 3.9% as at January 29, 2017, to 3.6% as at April 30, 2017, and to 3.9% as at July 30, 2017. Actuarial gains (losses) on plan assets are due to the actual rate of return on assets that was globally lower than expected return for the three-month and nine-month periods ended July 30, 2017.

17 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value represents the amount that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value estimates are calculated at a specific date taking into consideration assumptions regarding the amounts, the timing of estimated future cash flows and discount rates. Accordingly, due to its approximative and subjective nature, the fair value must not be interpreted as being realizable in an immediate settlement of the financial instruments.

The carrying amount of cash, accounts receivable, and accounts payable and accrued liabilities approximates their fair value due to their short term maturities.

The fair value of long-term debt is determined using the discounted future cash flow method and at discount rates based on market interest rates for identical or similar issuances as determined by management.

The only financial instruments of the Corporation that are measured at fair value on a recurring basis subsequent to their initial recognition are derivative financial instruments, including foreign exchange forward contracts, and contingent considerations payable related to business combinations. The fair value of derivative financial instruments is determined using an evaluation of the estimated market value, adjusted for the credit quality of the counterparty. The valuation model of the contingent considerations considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering various scenarios of achievement of pre-established financial performance thresholds, the amount to be paid under each scenario and the probability of each scenario.

The Corporation presents a fair value hierarchy with three levels that reflects the significance of inputs used in determining the fair value assessments.

The fair value of financial assets and liabilities classified in these three levels is evaluated as follows:

- Level 1 - Unadjusted prices on active markets for identical assets or liabilities
- Level 2 - Inputs other than the prices included within Level 1, that are observable for the asset or liability, directly (prices) or indirectly (derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data

The following table presents the fair value and the carrying amount of other financial instruments and derivative financial instruments:

	As at July 29, 2018		As at October 29, 2017	
	Fair value	**Carrying amount**	Fair value	Carrying amount
Foreign exchange forward contracts in assets	**$ 2.0**	**$ 2.0**	$ 5.0	$ 5.0
Contingent considerations	**(15.3)**	**(15.3)**	—	—
Capital leases	**(5.9)**	**(5.9)**	—	—
Long-term debt	**(1,499.8)**	**(1,500.1)**	(359.6)	(348.3)
Foreign exchange forward contracts in liabilities	**(0.7)**	**(0.7)**	(0.1)	(0.1)

These financial instruments are classified in Level 2 of the fair value hierarchy, with the exception of contingent considerations payable with respect to the business combinations which are classified in Level 3. For the nine-month period ended July 29, 2018, no financial instruments were transferred between Levels 1, 2 and 3.

Sensitivity analysis of the Level 3 financial instruments
As at July 29, 2018, all other things being equal, a 10% increase in pre-established financial performance thresholds of acquired businesses would have resulted in a decrease of $4.9 million in net earnings. A 10% decrease in pre-established financial performance thresholds would have resulted in an increase of $7.4 million in net earnings.

The changes in Level 3 financial instruments are as follows for the nine-month period ended:

	July 29, 2018
Balance, beginning of period	**$ —**
Business combinations (Note 4)	**15.3**
Balance, end of period	**$ 15.3**

18 NEW AGREEMENT WITH HEARST

On December 21, 2017, The Hearst Corporation ("Hearst") terminated its printing services agreement under which the Corporation printed the San Francisco Chronicle in its Fremont, California facility, and a new agreement was signed under which the parties acknowledged the following:

- the Corporation would continue to offer its printing services until April 1, 2018,
- the Corporation would sell to Hearst certain of its equipments used to print the San Francisco Chronicle,
- the Corporation would lease to Hearst its Fremont facility until 2025, with an option for a three-year renewal period,
- the Corporation would offer transition services to allow Hearst to acquire the necessary skills to operate the Fremont facility until October 31, 2018.

The initial agreement included a payment by Hearst of an amount of $31.9 million as compensation for early termination of the printing agreement.

During the nine-month period ended July 29, 2018, the Corporation received a total amount of $54.7 million relating to the termination of the previous agreement and the signing of the new one.

Deferred revenues relating to the printing services agreement, which totaled $95.0 million as at December 21, 2017, to which the termination compensation of $31.9 million was added, were recognized during the nine-month period ended July 29, 2018 as indicated in the table below, excluding the portion of deferred revenues of $16.5 million allocated to rental income, which is recognized as revenues over the term of the Fremont lease contract. Due to this transaction, the Corporation reclassified the carrying amount of its Fremont building and land from a building for own use to an investment property for an amount of $55.3 million.

In addition, the Corporation revised the depreciation schedule and residual value of the printing equipments sold to Hearst under the new agreement, and of printing equipments to be transferred in other plants.

The following table presents the impact of this transaction on the Corporation's operating earnings for the three-month and nine-month periods ended July 29, 2018:

	Three months ended	Nine months ended
Recognition of deferred revenues		
Recognition for the period, printing services portion	$ —	$ 12.3
Recognition for the period, lease contract portion	0.6	0.8
Accelerated recognition	—	102.1
	0.6	115.2
Other revenues		
Transition services and building lease	4.5	8.5
	4.5	8.5
Depreciation of printing equipments sold and to be transferred		
Depreciation for the period	—	(2.3)
Accelerated depreciation	—	(22.0)
	—	(24.3)
Net impact of the transaction on operating earnings	**$ 5.1**	**$ 99.4**