

For Immediate Release

TRANSCONTINENTAL INC. INCREASES ITS REVENUES BY 8% IN THE THIRD QUARTER AND PURSUES THE INTEGRATION OF QUAD/GRAPHICS CANADA, INC.

Highlights

(in millions of dollars, except per share data)	Q3-12	Q3-11	%	YTD 2012	YTD 2011	%
Revenues	\$517.0	\$479.4	8%	\$1,527.0	\$1,467.7	4 %
Adjusted operating income ⁽¹⁾	49.9	57.1	(13%)	148.8	166.6	(11 %)
Adjusted net income applicable to participating shares ⁽¹⁾	24.9	32.5	(23%)	87.5	100.8	(13 %)
Per share	0.31	0.40	(23%)	1.08	1.24	(13 %)
Net income applicable to participating shares	8.1	31.5	(74%)	(131.4)	89.9	---
Per share	0.10	0.39	(74%)	(1.62)	1.11	---

Note 1 : Please refer to the table " Reconciliation of Non-IFRS financial measures" in this press release.

- Ongoing development of digital advertising representation with the acquisition of a majority stake in Redux Media and a partnership with Glacier Media.
- Acquisition of all outstanding shares of the newspaper *Métro* Montréal.
- Withdrawal of Transcontinental Inc. from the one- and two-colour book market through the sale of the assets of two printing plants: Transcontinental Gagné and Transcontinental Métrolitho.
- Extension to 2019 of contracts to print Rogers' marketing products and magazines for a value of up to \$250 million.
- Start of TC Media's television production activity with the morning show *Ça commence bien!*
- Net income applicable to participating shares declined 74% mainly due to restructuring, integration and acquisition costs related to the acquisition of Quad/Graphics Canada, Inc., to net income from discontinued operations and to the reduction in adjusted operating income.

Montreal, September 6, 2012 – Transcontinental's Inc. (TSX: TCL.A TCL.B TCL.PR.D) revenues grew 8% in the third quarter, from \$479.4 million to \$517.0 million. This growth was driven primarily by the acquisition of Quad/Graphics Canada, Inc. and Redux Media, among others, the volume generated from new printing contracts and the launches of new community newspapers in Quebec. It was, however, mitigated by the expected reduction in sales in the Educational Book Publishing Group, due mainly to the end of the school reform in Quebec, the incentives granted at the renewal of certain printing contracts and the decrease in national advertising in community newspapers outside Quebec. Excluding acquisitions, divestitures and closures, the impact of the exchange rate and the paper component variance, organic revenue growth was negative by 3% in the third quarter. The decrease originates in the Media Sector, while the Printing Sector recorded organic growth of 1%.

Adjusted operating income was down 13% during the same period, from \$57.1 million to \$49.9 million. This decrease is mainly due to lower volume from educational book sales, as indicated above, as well as a soft national advertising market outside Quebec and incentives granted at the renewal of certain contracts. This decrease was partially offset by improved printing platform efficiency. Net income applicable to participating shares declined 74%, from \$31.5 million, or \$0.39 per share, to \$8.1 million, or \$0.10 per share. This decrease is mainly due to restructuring, integration and acquisition costs related to the acquisition of Quad/Graphics Canada, Inc., to net income from discontinued operations namely, one- and two-colour book printing, and to the reduction in adjusted operating income. Excluding unusual items and discontinued operations, adjusted net income applicable to participating shares was down 23%, from \$32.5 million, or \$0.40 per share, to \$24.9 million, or \$0.31 per share.

“The third quarter results demonstrate the resilience of our printing operations and the adverse impact of difficult market conditions on some niches in the Media Sector,” said François Olivier, President and Chief Executive Officer. “In the Printing Sector, the integration of Quad/Graphics Canada, Inc. progressed and we are on track to generate the anticipated synergies of more than \$40 million over the next 18 months. In fact, starting in the fourth quarter, we will reap the benefits of this acquisition more significantly. We sold our remaining one- and two-colour book printing assets and renewed several contracts with national retailers. We also recently extended contracts to print Rogers’ marketing products and magazines.

François Olivier noted also that “although the Media Sector has been affected by the exceptional events that have lowered the results of the Educational Book Publishing Group, we continued to invest in the development of new products and services. The scope of our digital network was expanded through the acquisition of Redux Media and the partnership with Glacier Media. We enriched the content of our platforms by acquiring all outstanding shares of the newspaper *Métro* Montréal and launching several mobile apps. In addition, the organization continues to generate significant cash flows and has a solid financial position. Over the next 12 to 18 months, our priorities will be to complete the integration of Quad/Graphics Canada, Inc., to further invest in our multiplatform offering and to improve the Media Sector’s performance.”

Quarter Highlights

- Sold the assets of one- and two-colour book printing plants Transcontinental Gagné in Louiseville and Transcontinental Métrolitho in Sherbrooke, Quebec. Transcontinental Inc. plans to pursue its educational book printing activities in the four-colour web printing niche in the Quebec, Canada and U.S. markets.
- Extension to 2019 of contracts to print Rogers’ marketing products and magazines for a value of up to \$250 million. These agreements follow in the wake of other contracts renewed since January 2012 with key accounts in various sectors of the retail industry in Canada. These contracts with retailers are valued at more than \$1.5 billion and have terms of three to six years.
- Ongoing development of Transcontinental Inc.’s digital and interactive activities with the acquisition of a majority stake in Redux Media, a leading online advertising network that specializes in real-time bidding, and by setting up a digital advertising representation partnership with Glacier Media, publisher of newspapers and business information products. In addition to expanding its digital network, the Corporation is providing new mobile applications, notably *On the Table* and *P\$ Mobile Service*, an innovative remote parking payment solution for Stationnement de Montréal.
- Purchase of all outstanding shares of the newspaper *Métro* Montréal. With this transaction the weekday paper will become a provider of local, national and international information across the various TC Transcontinental platforms, including the new morning show, *Ça commence bien!* produced by the Corporation’s television production house.

- The Corporation has been authorized to redeem, for cancellation on the open market, between April 13, 2012 and April 12, 2013, up to 5% of its Class A Subordinate Voting Shares and its Class B Shares. In the three and nine months ended July 31, 2012, the Corporation redeemed 471,500 of its Class A Subordinate Voting Shares at a weighted average price of \$9.27 for a total cash consideration of \$4.4 million, in accordance with its normal course issuer bid put in place on April 13, 2012.

For more detailed financial information, please see *Management's Discussion and Analysis for the third quarter ended July 31, 2012* as well as the financial statements in the "Investors" section of our website at www.tc.tc

Highlights of the First Nine Months

For the first nine months of fiscal 2012, the revenues of Transcontinental Inc. grew 4%, from \$1,467.7 million to \$1,527.0 million. This increase is mainly due to the acquisition of Quad/Graphics Canada, Inc. and Redux Media, among others, to new contracts, notably with Canadian Tire, and to community-newspaper acquisitions in Quebec. It was mitigated by the lower volume from the non-recurring revenue from the printing contract for the Canadian Census last year, by the erosion of demand in the Educational Book Publishing Group due to the end of the school reform in Quebec, by the soft national advertising market which affected community newspapers outside Quebec and by the incentives granted at the renewal of certain printing contracts.

Adjusted operating income was down 11%, from \$166.6 million to \$148.8 million, primarily due to the above-noted reasons, and to margin erosion stemming from competitive pressures in the local solutions market. Net income applicable to participating shares decreased, from \$89.9 million, or \$1.11 per share, to a loss of \$131.4 million, or \$1.62 per share. This decrease is mainly due to an impairment of assets of \$180.8 million, which is non-cash and non-operational. The notices of re-assessment received from the federal and provincial tax authorities last February, totalling \$58 million, which the Corporation is currently contesting, and the restructuring, integration and acquisition costs to integrate Quad/Graphics Canada, Inc. also contributed to the decrease. Excluding unusual items and discontinued operations, adjusted net income applicable to participating shares was down 13%, from \$100.8 million, or \$1.24 per share, to \$87.5 million, or \$1.08 per share.

Reconciliation of Non-IFRS Financial Measures

Financial data have been prepared in conformity with IFRS. However, certain measures used in this press release do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many readers analyze our results based on certain non-IFRS financial measures because such measures are more appropriate for evaluating the Corporation's operating performance. Internally, Management uses such non-IFRS financial information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with IFRS.

The following table reconciles IFRS financial measures to non-IFRS financial measures.

Reconciliation of Non-IFRS financial measures

(unaudited)

(in millions of dollars, except per share amounts)	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Net income (loss) applicable to participating shares	\$ 8.1	\$ 31.5	\$ (131.4)	\$ 89.9
Dividends on preferred shares	1.7	1.7	5.1	5.1
Net loss (income) related to discontinued operations (after tax)	5.7	(0.1)	7.1	(1.0)
Non-controlling interest	(0.2)	-	-	0.8
Unusual adjustments to income taxes	-	-	42.0	-
Income tax expenses	10.8	12.9	6.5	26.3
Expenses related to long-term debt prepayment	-	-	-	5.8
Financial expenses related to unusual adjustments to income taxes	-	-	16.0	-
Financial expenses	9.0	9.9	22.7	29.3
Gain on business acquisition	-	-	(31.7)	-
Impairment of assets	-	0.4	180.8	3.9
Restructuring and integration expenses and acquisition costs	14.8	0.8	31.7	6.5
Adjusted operating income	\$ 49.9	\$ 57.1	\$ 148.8	\$ 166.6
Amortization	28.7	29.2	85.0	88.8
Adjusted operating income before amortization	\$ 78.6	\$ 86.3	\$ 233.8	\$ 255.4
Net income (loss) applicable to participating shares	\$ 8.1	\$ 31.5	\$ (131.4)	\$ 89.9
Net loss (income) from discontinued operations (after tax)	5.7	(0.1)	7.1	(1.0)
Unusual adjustments to income taxes (after tax)	-	-	42.0	-
Expenses related to long-term debt prepayment (after tax)	-	-	-	4.2
Financial expenses related to unusual adjustments to income taxes (after tax)	-	-	16.0	-
Gain on business acquisition (after tax)	-	-	(31.7)	-
Impairment of assets (after tax)	-	0.4	162.7	2.9
Restructuring and integration expenses and acquisition costs (after tax)	11.1	0.7	22.8	4.8
Adjusted net income applicable to participating shares	\$ 24.9	\$ 32.5	\$ 87.5	\$ 100.8
Average number of participating shares outstanding	80.9	81.0	81.0	81.0
Adjusted net income applicable to participating shares per share	\$ 0.31	\$ 0.40	\$ 1.08	\$ 1.24
			As at July 31, 2012	As at October 31, 2011
Long-term debt			\$ 205.5	\$ 292.5
Current portion of long-term debt			330.1	271.9
Cash and cash equivalents			(28.5)	(75.0)
Net indebtedness			\$ 507.1	\$ 489.4
Amount to be paid to Quad/Graphics following the closing of the transaction to acquire the shares of Quad/Graphics Canada			-	50.0
Adjusted net indebtedness			\$ 507.1	\$ 539.4
Adjusted operating income before amortization (last 12 months)			\$ 343.8	\$ 365.4
Net indebtedness ratio			1.47x	1.34x
Adjusted net indebtedness ratio			1.47x	1.48x

Dividend

At its September 6, 2012 meeting, the Corporation's Board of Directors declared a quarterly dividend of \$0.145 per Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on October 19, 2012 to participating shareholders of record at the close of business on October 1, 2012. On an annual basis, this represents a dividend of \$0.58 per share. Furthermore, at the same meeting, the Board also declared a quarterly dividend of \$0.4242 per share on cumulative 5-year rate reset first preferred shares, series D. This dividend is payable on October 15, 2012. On an annual basis, this represents a dividend of \$1.6875 per preferred share.

Additional Information

Upon releasing its third quarter results, Transcontinental Inc. will hold a conference call for the financial community today at 4:15 p.m. The dial-in numbers are (514) 807-9895 or (647) 427-7450 or 1-888-231-8191 and the access code is: 86643033. Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on the Corporation's Web site, which will then be archived for 30 days. For media requests for information or interviews, please contact Nancy Bouffard, Director, Internal and External Communications of TC Transcontinental, at 514 954-2809.

Profile

TC Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and the fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces, it is also one of Canada's major media groups. TC Transcontinental is also the leading door-to-door distributor of advertising material in Canada through its Publisac network in Quebec and Targeo in the rest of Canada. Thanks to a wide digital network of more than 3,500 websites, the Corporation reaches over 18.7 million unique visitors per month in Canada. TC Transcontinental also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental Inc. (TSX: TCL.A, TCL.B, TCL.PR.D), known by the brands TC Transcontinental, TC Media and TC Transcontinental Printing, has approximately 10,000 employees in Canada and the United States, and reported revenues of C\$2.0 billion in 2011. For more information about the corporation, please visit www.tc.tc

Forward-looking Statements

This press release contains certain forward-looking statements concerning the future performance of the Corporation. Such statements, based on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors, many of which are beyond the Corporation's control, including, but not limited to, the economic situation, structural changes in its industries, exchange rate, availability of capital, energy costs, increased competition, as well as the Corporation's capacity to engage in strategic transactions and integrate acquisitions into its activities. The risks, uncertainties and other factors that could influence actual results are described in the *Management's Discussion and Analysis (MD&A) for the fiscal year ended on October 31st, 2011* and in the *Annual Information Form* and have been updated in the *MD&A for the third quarter ended July 31st, 2012*.

The forward-looking information in this release is based on current expectations and information available as at September 6, 2012. The Corporation's management disclaims any intention or obligation to update or revise any forward-looking statements unless otherwise required by the Securities Authorities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter ended July 31, 2012

The purpose of this Management's Discussion and Analysis is to explain management's point of view on the past performance and future outlook of TC Transcontinental. More specifically, it is designed to give the reader a better understanding of our development strategy, performance in relation to objectives, future expectations and how Management addresses risk and manages financial resources. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes.

In this document, unless otherwise indicated, all financial data are prepared in accordance with International Financial Reporting Standards (IFRS). The term "dollar," as well as the symbols "\$" and "C\$" designate Canadian dollars, unless otherwise indicated. The IFRS-related disclosures and unaudited values in this report have been prepared using the standards and interpretations currently issued and expected to be effective at the end of our fiscal year on October 31, 2012. Note that amounts presented in this document and the consolidated interim financial statements which accompany them for the quarter ended July 31, 2012 have been restated to reflect the adoption of IFRS effective November 1, 2010. Periods prior to November 1, 2010 have not been restated and were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Note 21 of the consolidated interim financial statements for the period ended July 31, 2012 presents a reconciliation of the differences between our financial statements prepared according to Canadian GAAP and those prepared using IFRS for the three-month and nine-month periods ended July 31, 2011. In this Management's Discussion and Analysis we also use non-IFRS financial measures. Please refer to the section of this report entitled "Reconciliation of Non-IFRS Financial Measures" for a complete description of these measures, on page 11. This report should be read in conjunction with the information presented in the consolidated financial statements and Management's Discussion and Analysis for the fiscal year ended October 31, 2011 and with the consolidated interim financial statements for the period ended July 31, 2012.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our medium-term goals, our outlook, business project and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "objective," the use of the conditional tense, and words and expressions of similar nature are intended to identify forward-looking statements.

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

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to TC Transcontinental, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on

forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See “Risks and Uncertainties” in Management’s Discussion and Analysis for the fiscal year ended October 31, 2011 for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as of September 6, 2012.

DEFINITION OF TERMS USED IN THIS REPORT

To make it easier to read this report, some terms have been shortened. The following are the full definitions of the shortened terms used in this report:

Terms Used	Definitions
Adjusted net income applicable to participating shares	Net income from continuing operations applicable to participating shares, before restructuring, integration and acquisition costs, asset depreciation and gain on business acquisition, and before expenses related to long-term debt prepayment (net of related income taxes) and unusual adjustments to income taxes and related financial expenses
Adjusted net indebtedness	Total of long-term debt plus current portion of long-term debt plus bank overdraft, less cash and cash equivalents and the amount paid to Quad/Graphics upon conclusion of the transaction to acquire the shares of Quad/Graphics Canada
Adjusted net indebtedness ratio	Adjusted net indebtedness divided by the last 12 months’ adjusted income before amortization
Adjusted operating income	Operating income from continuing operations before restructuring, integration and acquisition costs, asset depreciation and gain on business acquisition
Adjusted operating income before amortization	Operating income from continuing operations before amortization, restructuring, integration and acquisition costs, asset depreciation and gain on business acquisition
Net income from continuing operations applicable to participating shares	Net income from continuing operations minus dividends on preferred shares and excluding discontinued operations
Net indebtedness	Total of long-term debt plus current portion of long-term debt plus the amount drawn on the securitization program plus bank overdraft, less cash and cash equivalents
Net indebtedness ratio	Net indebtedness divided by the last 12 months’ adjusted income before amortization
Organic growth	Growth in revenues, adjusted operating income or net income applicable to participating shares excluding the effect of acquisitions, divestitures, closures, the exchange rates and paper

PROFILE OF TC TRANSCONTINENTAL

TC Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and the fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, and of community newspapers in Quebec and the Atlantic provinces, it is also one of Canada’s top media groups. TC Transcontinental is also the leading door-to-door distributor of advertising material in Canada through its Publisac network in Quebec and Targeo in the rest of Canada. Thanks to a wide digital network of more than 3,500 websites, the Corporation reaches over 18.7 million unique visitors per month in Canada. TC Transcontinental also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

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PREAMBLE

The consolidated financial statements and all financial data in this report have been restated to present net results from discontinued operations. The financial information disclosed herein thus represents the Corporation's continuing operations and, except for net income applicable to participating shares, excludes the results for our printing operations in Mexico and our black and white book printing business destined for U.S. export sold to Quad/Graphics, Inc. in September 2011, as well as the results for our book printing operations at the Louiseville and Sherbrooke printing plants sold to Marquis Imprimeur Inc. in July 2012.

HIGHLIGHTS

- Revenues for the third quarter of 2012 were up 7.8% over 2011, from \$479.4 million to \$517.0 million.
- Adjusted operating income declined from \$57.1 million in the third quarter of 2011 to \$49.9 million in 2012, a decrease of 12.6%.
- Adjusted net income applicable to participating shares was down \$7.6 million, or -23.4%, from \$32.5 million in the third quarter of 2011 to \$24.9 million in 2012.
- Adjusted net indebtedness ratio remained relatively stable, up slightly from 1.46x at April 30, 2012 to 1.47x at July 31, 2012.
- On May 17, 2012, we acquired a majority stake in Redux Media, a leading online advertising network.
- On June 18, 2012, we acquired all of our partners' shares in the *Métro* Montréal newspaper, becoming the sole owner of the newspaper and its interactive platforms.
- On July 16, 2012, we announced the sale of the assets of our book printing plants in Louiseville and Sherbrooke to Marquis Imprimeur Inc.
- We announced the extension to 2019 of two contracts with Rogers to print its marketing products and magazines, for a value of up to \$250 million.

ANALYSIS OF CONSOLIDATED RESULTS – THIRD QUARTER

(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares	%
Third quarter of 2011	\$ 479.4		\$ 57.1		\$ 31.5	
Acquisitions/Divestitures/Closures	55.0	11.5 %	4.4	7.7 %	2.8	8.9 %
Existing operations						
Paper effect	(3.0)	(0.6) %	0.2	0.4 %	0.1	0.3 %
Exchange rates	1.6	0.3 %	0.8	1.4 %	0.2	0.6 %
Organic growth (negative)	(16.0)	(3.3) %	(12.6)	(22.1) %	(10.7)	(34.0) %
Discontinued operations					(5.8)	(18.4) %
Restructuring, integration and acquisitions costs					(10.4)	(33.0) %
Impairment of assets					0.4	1.3 %
Third quarter of 2012	\$ 517.0	7.8 %	\$ 49.9	(12.6) %	\$ 8.1	(74.3) %

As shown in the above table, certain factors had an impact on the differences in results for the third quarter of 2012 compared to those for the third quarter of 2011.

Revenues

Revenues rose 7.8%, from \$479.4 million in the third quarter of 2011 to \$517.0 million in the third quarter of 2012, due to the following factors:

- The net effect of acquisitions, divestitures and closures resulted in a \$55.0 million increase in revenues, primarily due to the acquisition of Quad/Graphics Canada, Inc. and acquisitions in the Media Sector.

- The paper effect had a negative impact of \$3.0 million on Printing Sector revenues. This effect includes variations in the price of paper, the volume of paper supplied by our customers and changes in the type of paper used.
- Fluctuations in the Canadian/U.S. dollar exchange rate led to a \$1.6 million increase in revenues, mainly due to the positive impact of export sales from Canadian operations, net of the currency-hedging program.
- Organic growth was -\$16.0 million, or -3.3%, in the third quarter of 2012. The decrease originated mainly in the Media Sector due to lower revenues in our educational book publishing operations which, as expected, were greatly affected by the end of the school reform in Quebec in 2011 and, to a lesser extent, by a decrease education-related activities in Quebec as a consequence of the student strike which should, however, be partially recovered when the fall session starts. Revenues in our custom communications division were also down in the third quarter of 2012. In the Printing Sector, new flyer and book printing contracts, although partially offset by the incentives for early renewal of several flyer printing contracts, did generate positive organic growth of \$3.2 million in the third quarter of 2012.

Adjusted Operating Income

Adjusted operating income was down 12.6%, from \$57.1 million in the third quarter of 2011 to \$49.9 million in the third quarter of 2012, due to the following factors:

- The net effect of acquisitions, divestitures and closures increased adjusted operating income by \$4.4 million, primarily due to cost reductions from plant closures in 2011 and acquisitions in the Media Sector.
- Fluctuations in the Canadian/U.S. dollar exchange rate led to a \$0.8 million increase in adjusted operating income. The increase stemmed mainly from export sales, net of the currency-hedging program and purchases in U.S. dollars.
- Negative organic growth in adjusted operating income of -\$12.6 million, or -22.1%, in the third quarter of 2012 stemmed mainly from the above-noted decrease in revenues, coupled with investments in our multiple platforms in the Media Sector.

Restructuring, integration and acquisition costs

In the third quarter of 2012, an amount of \$14.8 million (\$11.1 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs. This charge, mainly related to the acquisition of Quad/Graphics Canada, Inc., is composed primarily of \$6.3 million for onerous contracts, i.e. operating leases for facilities no longer used by the Corporation, and \$5.6 million for workforce reductions.

In the third quarter of 2011, an amount of \$0.8 million (\$0.7 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs.

Asset impairment

No asset impairment was recorded in the third quarter of 2012.

In the third quarter of 2011, an amount of \$0.4 million (\$0.4 million after tax) was accounted for separately on the Consolidated Statement of Income as asset impairment with respect to Printing Sector assets.

Financial expenses

Financial expenses decreased by \$0.9 million in the third quarter of 2012, from \$9.9 million in 2011 to \$9.0 million in 2012. The decrease is primarily due to the optimization and reduction of our debt portfolio, partially mitigated by a higher exchange loss in 2012.

Income taxes

Income taxes decreased from an expense of \$12.9 million in the third quarter of 2011 to \$10.8 million in the third quarter of 2012, primarily due to a decline in income before income taxes. Excluding income taxes on restructuring, integration and acquisition costs, and asset impairment, income taxes would have amounted to \$14.5 million in the third quarter of 2012, for a tax rate of 35.5%, compared to \$13.0 million, or 27.5%, in the third quarter of 2011. The increase is mainly due to an adverse non-recurring adjustment and to differences between the tax treatment and accounting treatment of certain items.

Net Income Applicable to Participating Shares

Net income applicable to participating shares fell from \$31.5 million in the third quarter of 2011 to \$8.1 million in the third quarter of 2012. This decrease stems mainly from restructuring, integration and acquisition costs related to the integration of Quad/Graphics Canada, Inc. On a per share basis, net income declined from \$0.39 to \$0.10.

Adjusted net income applicable to participating shares was down \$7.6 million, or -23.4%, from \$32.5 million in the third quarter of 2011 to \$24.9 million in the third quarter of 2012. On a per share basis, adjusted net income declined from \$0.40 to \$0.31.

Discontinued operations

A net loss related to discontinued operations of -\$5.7 million, net of related income taxes, was recorded in the third quarter of 2012. This loss is related to our book printing business sold to Marquis Imprimeur Inc. in July 2012.

In the third quarter of 2011, the operation of our Mexican printing facilities and our book printing business sold to Quad/Graphics, Inc. in September 2011 as well as our book printing business sold to Marquis Imprimeur Inc. in July 2012 generated net income of \$0.1 million.

ANALYSIS OF SECTOR RESULTS – THIRD QUARTER

(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment Eliminations and Other activities	Consolidated Results
Revenues - Third quarter of 2011	\$ 321.5	\$ 175.5	\$ (17.6)	\$ 479.4
Acquisitions/Divestitures/Closures	40.3	14.7	-	55.0
Existing operations				
Paper effect	(3.0)	-	-	(3.0)
Exchange rates effect	1.5	0.1	-	1.6
Organic growth (negative)	3.2	(16.7)	(2.5)	(16.0)
Revenues - Third quarter of 2012	\$ 363.5	\$ 173.6	\$ (20.1)	\$ 517.0
Adjusted operating income (loss) - Third quarter of 2011	\$ 42.6	\$ 17.2	\$ (2.7)	\$ 57.1
Acquisitions/Divestitures/Closures	3.1	1.3	-	4.4
Existing operations				
Paper effect	-	0.2	-	0.2
Exchange rates effect	1.1	(0.3)	-	0.8
Organic growth (negative)	(4.4)	(8.2)	-	(12.6)
Adjusted operating income (loss) - Third quarter of 2012	\$ 42.4	\$ 10.2	\$ (2.7)	\$ 49.9

In this section, Management uses adjusted operating income to evaluate the financial performance of its operating sectors and deems this measure is appropriate.

Printing Sector

Printing Sector revenues were up 13.1%, or \$42.0 million, from \$321.5 million in the third quarter of 2011 to \$363.5 million in the third quarter of 2012. This increase stems from the acquisition of Quad/Graphics Canada, Inc. on March 1, 2012, which contributed \$41.2 million to sector revenues. Excluding the effect of acquisitions, divestitures, closures, the exchange rate and paper, organic growth was \$3.2 million, or 1.0%, principally due to new book and flyer printing contracts. These higher revenues were partially offset by incentives for early renewal of several major flyer-printing contracts.

Adjusted operating income was down slightly, from \$42.6 million in the third quarter of 2011 to \$42.4 million in the third quarter of 2012. Excluding the effect of acquisitions, divestitures, closures, the exchange rate and paper, organic growth was -\$4.4 million, or -10.3%. The contribution of new printing contracts in the third quarter of 2012 was not sufficient to offset the impact of early-renewal incentives offered to some of our key retail accounts.

Adjusted operating margin was down, from 13.3% in the third quarter of 2011 to 11.7% in the third quarter of 2012. This decrease stems mainly from the acquired Quad/Graphics Canada, Inc. operations, which generated revenues of \$41.2 million and adjusted operating income of \$0.8 million, as well as the above-mentioned incentives offered to some of our key accounts. However, in the coming quarters, synergies from the integration of Quad/Graphics Canada, Inc. such as the closure of the Dartmouth and Rivière-des-Prairies printing plants in the past few months as well as workforce reductions in various administrative departments, should ramp up to largely offset the incentives offered to some of our key account and increase our adjusted operating margin.

Media Sector

Media Sector revenues were down 1.1%, or \$1.9 million, from \$175.5 million in the third quarter of 2011 to \$173.6 million in the third quarter of 2012. Excluding the effect of acquisitions, divestitures, closures and the exchange rate, organic growth was -\$16.7 million, or -9.5%. This negative organic growth stems mainly from the \$7.4 million decrease in revenues from our educational book publishing operations, which, as expected, were significantly affected by the end of the school reform in Quebec in 2011, and, to a lesser extent, by a decrease in education-related activities as a consequence of the student strike which should, however, be partially recovered when the fall session starts. The decrease in custom communication activities, along with weak national advertising spending, which particularly affected our newspaper publishing operations outside Quebec and our digital operations, also had a negative impact on revenues in the third quarter of 2012.

Adjusted operating income was -\$7.0 million, or -40.7%, declining from \$17.2 million in the third quarter of 2011 to \$10.2 million in the third quarter of 2012. Organic growth was -\$8.2 million, or -47.7%, and adjusted operating margin declined from 9.8% in the third quarter of 2011 to 5.9% in 2012. These decreases stem primarily from the above-mentioned revenues, as well as our ongoing efforts to develop new products and services, including the investments required to start up our television production house and new digital initiatives.

Inter-Segment Eliminations and Other Activities

Eliminations of inter-segment revenues and other activities went from -\$17.6 million in the third quarter of 2011 to -\$20.1 million in the third quarter of 2012. This change is mainly due to a decrease in inter-segment transactions during this period. Adjusted operating income remained stable at -\$2.7 million, compared to the third quarter of 2011.

ANALYSIS OF CONSOLIDATED RESULTS – CUMULATIVE

(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	applicable to participating shares	%
Nine months ended July 31, 2011	\$ 1,467.7		\$ 166.6		\$ 89.9	
Acquisitions/Divestitures/Closures	94.3	6.4 %	10.6	6.4 %	7.4	8.2 %
Existing operations						
Paper effect	2.4	0.2 %	0.2	0.1 %	0.1	0.1 %
Exchange rates effect	(1.3)	(0.1) %	(2.7)	(1.6) %	(2.1)	(2.3) %
Organic growth (negative)	(36.1)	(2.5) %	(25.9)	(15.5) %	(18.7)	(20.8) %
Discontinued operations					(8.1)	(9.0) %
Restructuring, integration and acquisitions costs					(18.0)	(20.0) %
Impairment of assets					(159.8)	n/a
Gain on business acquisition					31.7	35.3 %
Expenses related to debt repayment					4.2	4.7 %
Financial expenses related to unusual adjustments to income taxes					(16.0)	(17.8) %
Unusual adjustments to income taxes					(42.0)	(46.7) %
Nine months ended July 31, 2012	\$ 1,527.0	4.0 %	\$ 148.8	(10.7) %	\$ (131.4)	n/a

As shown in the above table, certain factors had an impact on the differences in results for the first nine months of 2012 and the first nine months of 2011.

Revenues

Revenues were up 4.0%, from \$1,467.7 million in the first nine months of 2011 to \$1,527.0 million for the same period in 2012, due to the following elements:

- The net effect of acquisitions, divestitures and closures increased revenues by \$94.3 million, primarily due to the acquisition of Quad/Graphics Canada, Inc. and Media Sector acquisitions.
- The paper effect had a positive impact of \$2.4 million on Printing Sector revenues. This effect includes variations in the price of paper, the volume of paper supplied by our customers and changes in the type of paper used.
- Fluctuations in the Canadian/U.S. dollar exchange rate reduced revenues by \$1.3 million, mainly due to the negative impact of export sales from Canadian operations, net of the currency-hedging program.
- Organic revenues growth was -2.5%, or -\$36.1 million. More than half of this decrease is due to the completion of a major contract to print the five-year Canada census form in 2011. The remainder stems from the impact of the end of the school reform in Quebec on our educational book publishing operations, and incentives offered for early renewal of several major retail contracts. These factors were, however, partially offset by the contribution from new retail flyer and book printing contracts.

Adjusted operating income

Adjusted operating income was down 10.7%, from \$166.6 million in the first three quarters of 2011 to \$148.8 million in 2012, due to the following elements:

- The net effect of acquisitions, divestitures and closures increased adjusted operating income by \$10.6 million, primarily due to cost reductions related to plant closures in the Printing Sector in 2011 and acquisitions in the Media Sector.
- Fluctuations in the Canadian/U.S. dollar exchange rate led to a \$2.7 million decrease in adjusted operating income. The decrease stemmed mainly from export sales, net of the currency-hedging program and purchases in U.S. dollars, and conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency.
- Organic growth in adjusted operating income was -\$25.9 million, or -15.5%, in the first nine months of 2012. This decrease was mainly due to the above-mentioned decrease in consolidated revenues, as well as a \$2.2 million charge recorded for the Media Sector's Business and Consumer Solutions Group following the April 2012 adoption by the Quebec government of new rates for businesses to cover the costs incurred by Quebec municipalities for waste recovery services for the period from 2010 to 2012.

Restructuring, integration and acquisition costs

In the first nine months of 2012, an amount of \$31.7 million (\$22.8 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs. Of that amount, \$20.2 million stems from workforce reductions and \$6.3 million from onerous contracts, i.e., operating leases for facilities no longer used by the Corporation, primarily related to the integration of the Quad/Graphics Canada, Inc. printing operations.

In the first nine months of 2011, an amount of \$6.5 million (\$4.8 million after tax) was accounted for separately on the Consolidated Statement of Income as restructuring, integration and acquisition costs. Of that amount, \$4.3 million stems from workforce reductions in the Printing Sector.

Asset impairment

In the first nine months of fiscal 2012, an asset impairment charge of \$180.8 million (\$162.7 million after tax) was recorded as a goodwill impairment almost entirely related to the Media Sector, with no impact on cash flows. An impairment charge of \$89.0 million was recorded in the Local Solutions Group due to a decline in national advertising, primarily outside Quebec, and increased competition in Quebec, which had a negative impact on this group's operating income. An impairment charge of \$70.6 million was recorded in the Business and Consumer Solutions Group due to a decline in advertising revenues, which had a negative impact on this group's operating income. Furthermore, the adoption in 2012 of new rates for 2010, 2011 and 2012 concerning contributions by businesses to cover the costs incurred by Quebec municipalities for waste recovery services had a negative impact on the operating income for this group. Finally, an impairment charge of \$20.4 million was recorded in the Educational Book Publishing Group due to lower profitability resulting from the end of educational reforms in Quebec's high school education program.

In the first nine months of fiscal 2011, an amount of \$3.9 million before tax (\$2.9 million after tax) was accounted for separately on the Consolidated Statement of Income as asset impairment related to the closure of Printing Sector plants.

Gain on business acquisition

In the first three quarters of 2012, we recorded a gain on business acquisition of \$31.7 million (\$31.7 million after tax) related to the Quad/Graphics Canada, Inc. transaction. Given the short period between the acquisition date and the end of the period, this gain results from a preliminary assessment that the estimated fair value of net assets acquired exceeds the consideration transferred. We expect to finalize the initial recording of this transaction by the end of our fiscal year following the final evaluation of the fair value of net assets acquired.

Financial expenses

Financial expenses rose by \$3.6 million in the first nine months of 2012, from \$35.1 million in 2011 to \$38.7 million in 2012. This increase is principally due to financial expenses related to unusual income tax adjustments in the first quarter of 2012, explained in the "Income taxes" section below, offset by expenses associated with long-term debt repayments in the second quarter of 2011.

However, excluding the expenses associated with unusual income tax adjustments and long-term debt repayments, financial expenses were down \$6.6 million, from \$29.3 million in 2011 to \$22.7 million in 2012. This is due to a significant reduction in our net indebtedness and the weighted average interest rate of our debt portfolio compared to last year, due to an optimization of our borrowing costs in recent quarters.

Income taxes

Income taxes rose \$22.2 million, from \$26.3 million in the first nine months of 2011 to \$48.5 million in the same period in 2012. This increase is mainly due to a \$42.0 million provision in the first quarter of 2012 pertaining to notices of tax re-assessment. Therefore, the outcome of this dispute could favorably influence the amounts recognized in the consolidated financial statements of the Corporation. This was offset by lower income taxes related to the asset impairment charge in the second quarter of 2012.

Excluding income taxes on restructuring and integration expenses, acquisition costs, asset impairment, the gain on business acquisition, and unusual adjustments, income taxes would have amounted to \$33.5 million in the first nine months of 2012, for a tax rate of 26.6%, compared to \$30.6 million, or 22.3%, in the first nine months of 2011. This increase is mainly due to an unfavorable non-recurring adjustment in the third quarter of 2012 and to differences between the tax treatment and accounting treatment of certain items.

Net Income Applicable to Participating Shares

Net income applicable to participating shares fell from \$89.9 million in the first three quarters of 2011 to -\$131.4 million in the first three quarters of 2012. The decrease is mainly due to a \$180.8 million (\$162.7 million after tax) asset impairment charge, and a \$58.0 million (\$58.0 million after tax) provision for the re-assessment notices received from tax authorities, composed of \$42.0 million accounted for as income taxes and \$16.0 million as financial expenses. These items were however offset by a gain on business acquisition of \$31.7 million (\$31.7 million after tax). On a per share basis, net income applicable to participating shares decreased from \$1.11 to -\$1.62.

Adjusted net income applicable to participating shares was down \$13.3 million, or 13.2%, from \$100.8 million in the first three quarters of 2011 to \$87.5 million in the first three quarters of 2012. On a per share basis, it declined from \$1.24 to \$1.08.

Discontinued operations

Net loss related to discontinued operations was -\$7.1 million, net of related income taxes, in the first nine months of 2012. The loss stems primarily from our book printing operations sold to Quad/Graphics Inc. in September 2011 and to Marquis Imprimeur Inc. in July 2012, as well as an unfavorable adjustment related to a price adjustment based on working capital at the close of the sale of our print operations in Mexico in the fourth quarter of 2011.

In the first three quarters of 2011, our Mexican operations and the book printing operations sold to Quad/Graphics, Inc. in September 2011 and to Marquis Imprimeur Inc. in July 2012 generated net income of \$1.0 million.

ANALYSIS OF SECTOR RESULTS - CUMULATIVE

(unaudited)

(in millions of dollars)	Printing Sector	Media Sector	Inter-segment Eliminations and Other activities	Total
Revenues - Nine months ended July 31, 2011	\$ 1,021.1	\$ 506.0	\$ (59.4)	\$ 1,467.7
Acquisitions/Divestitures/Closures	70.0	24.3	-	94.3
Existing operations				
Paper effect	2.4	-	-	2.4
Exchange rates effect	(1.1)	(0.2)	-	(1.3)
Organic growth (negative)	(13.1)	(24.4)	1.4	(36.1)
Revenues - Nine months ended July 31, 2012	\$ 1,079.3	\$ 505.7	\$ (58.0)	\$ 1,527.0
Adjusted operating income (loss) - Nine months ended July 31, 2011	\$ 139.9	\$ 38.0	\$ (11.3)	\$ 166.6
Acquisitions/Divestitures/Closures	8.8	1.8	-	10.6
Existing operations				
Paper effect	-	0.2	-	0.2
Exchange rates effect	(2.2)	(0.5)	-	(2.7)
Organic growth (negative)	(11.1)	(15.7)	0.9	(25.9)
Adjusted operating income (loss) - Nine months ended July 31, 2012	\$ 135.4	\$ 23.8	\$ (10.4)	\$ 148.8

In this section, Management uses adjusted operating income to evaluate the financial performance of its operating sectors and deems this measure is appropriate.

Printing Sector

Printing Sector revenues were up 5.7%, or \$58.2 million, from \$1,021.1 million in the first three quarters of 2011 to \$1,079.3 million for the same period in 2012. Excluding the effect of acquisitions, divestitures, closures, the exchange rate and paper, revenues were down \$13.1 million, or 1.3%. This decrease stems mainly from the completion of a major contract to print the five-year Canada census form in 2011, with a corresponding revenue decrease of more than \$18 million in 2012, and to incentives offered for early renewal of several major retail contracts. However, these items were partially mitigated by new book and retail flyer-printing contracts.

Adjusted operating income was down 3.2%, from \$139.9 million in the first three quarters of 2011 to \$135.4 million for the same period in 2012. Adjusted operating margin also decreased during this period, from 13.7% in the first three quarters of 2011 to 12.5%. Excluding the effect of acquisitions, divestitures, closures and the exchange rate, adjusted operating income was down \$11.1 million, or -7.9%. This negative organic growth stems mainly from the above-mentioned decrease in revenues, partially offset by the greater efficiency of our hybrid printing platform.

Media Sector

Media Sector revenues decreased slightly, by \$0.3 million or 0.1%, from \$506.0 million in the first three quarters of 2011 to \$505.7 million in the same period in 2012. Excluding the effect of acquisitions, divestitures, closures and the exchange rate, organic growth was -\$24.4 million, or -4.8%. The decrease stems mainly from the expected reduction in revenues in our educational book publishing business following the end of the school reform in Quebec in 2011 and, to a lesser extent, the student strike in Quebec. In addition, lower spending on national advertising, which mainly affected newspaper publishing operations outside Quebec, and the decrease in our custom communication activities also had an adverse impact on sector revenues in the first three quarters of 2012. The decrease was, however, partially offset by higher revenues in our digital, interactive and premedia operations.

During the same period, adjusted operating income was down \$14.2 million, or -37.4%, from \$38.0 million in the first three quarters of 2011 to \$23.8 million in 2012. Excluding the effect of acquisitions, divestitures, closures, the exchange rate and paper, organic growth was -\$15.7 million, or -41.3%. Apart from the negative impact of the decreased revenues noted above, adjusted operating income was affected by a \$2.2 million charge recorded in the Media Sector' Business and Consumer Solutions Group following the April 2012 adoption by the Quebec government of new rates for businesses for the 2010-2012 period to cover the costs incurred by Quebec municipalities for waste

recovery services. The sector's adjusted operating margin was down, from 7.5% in the first three quarters of 2011 to 4.7% in the same period in 2012.

Inter-Segment Eliminations, Other Activities and Head Office

Eliminations of inter-segment revenues and other activities went from -\$59.4 million in the first three quarters of 2011 to -\$58.0 million in the same period in 2012. The positive change of \$1.4 million is mainly due to a decrease in inter-segment transactions during this period. Adjusted operating income improved, from -\$11.3 million in the first three quarters of 2011 to -\$10.4 million in the same period in 2012, primarily due to compensation received from Quad/Graphics between the time we sold them our Mexican operations in September 2011 and the transaction to acquire the shares of Quad/Graphics Canada, Inc. was finalized on March 1, 2012.

SUMMARY OF CONSOLIDATED INTERIM RESULTS

(unaudited)

(in millions of dollars, except per share amounts)	IFRS							Canadian GAAP
	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	\$ 517	\$ 522	\$ 488	\$ 522	\$ 479	\$ 486	\$ 502	\$ 539
Adjusted operating income before amortization ⁽¹⁾	79	84	71	110	86	90	79	117
Adjusted operating income margin before amortization	15.3 %	16.1 %	14.5 %	21.1 %	18.0 %	18.5 %	15.7 %	21.7 %
Adjusted operating income ⁽¹⁾	50	56	43	80	57	60	49	88
Adjusted operating income margin	9.7 %	10.7 %	8.8 %	15.3 %	11.9 %	12.3 %	9.8 %	16.3 %
Net income applicable to participating shares	\$ 8	\$ (106)	\$ (33)	\$ 31	\$ 31	\$ 33	\$ 26	\$ 44
Per share	0.10	(1.31)	(0.41)	0.38	0.38	0.41	0.32	0.55
Adjusted net income applicable to participating shares ⁽¹⁾	25	36	27	55	33	39	29	62
Per share	0.31	0.44	0.33	0.68	0.40	0.48	0.36	0.77
% of fiscal year	- %	- %	- %	35 %	21 %	25 %	19 %	40 %

⁽¹⁾ Please refer to the section "Reconciliation of non-IFRS Financial Measures" on page 11 of this Management's Discussion and Analysis.

The above table shows changes in our quarterly results for the past eight quarters. The Quad/Graphics Canada, Inc. acquisition in the second quarter of 2012 contributed to revenues in the second and third quarters of 2012 without significantly impacting adjusted operating income. However, completion of the contract to print the five-year Canada census forms affected our fourth-quarter revenues in 2011 and in the first and second quarters of 2012 versus the corresponding quarters of the previous fiscal year. Lastly, fourth quarter results are higher than other quarters since our customers' marketing spending is normally higher in the fall.

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

Financial data have been prepared in conformity with IFRS. However, certain measures used in this report do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many readers analyze our results based on certain non-IFRS financial measures because such measures are more appropriate for evaluating the Corporation's operating performance. Internally, Management uses such non-IFRS financial information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with IFRS. The following table reconciles IFRS financial measures to non-IFRS financial measures.

(unaudited)

(in millions of dollars, except per share amounts)	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Net income (loss) applicable to participating shares	\$ 8.1	\$ 31.5	\$ (131.4)	\$ 89.9
Dividends on preferred shares	1.7	1.7	5.1	5.1
Net loss (income) related to discontinued operations (after tax)	5.7	(0.1)	7.1	(1.0)
Non-controlling interests	(0.2)	-	-	0.8
Unusual adjustments to income taxes	-	-	42.0	-
Income tax expenses	10.8	12.9	6.5	26.3
Expenses related to long-term debt repayments	-	-	-	5.8
Financial expenses related to unusual adjustments to income taxes	-	-	16.0	-
Financial expenses	9.0	9.9	22.7	29.3
Gain on business acquisition	-	-	(31.7)	-
Impairment of assets	-	0.4	180.8	3.9
Restructuring and integration expenses and acquisition costs	14.8	0.8	31.7	6.5
Adjusted operating income	\$ 49.9	\$ 57.1	\$ 148.8	\$ 166.6
Amortization	28.7	29.2	85.0	88.8
Adjusted operating income before amortization	\$ 78.6	\$ 86.3	\$ 233.8	\$ 255.4
Net income (loss) applicable to participating shares	\$ 8.1	\$ 31.5	\$ (131.4)	\$ 89.9
Net loss (income) from discontinued operations (after tax)	5.7	(0.1)	7.1	(1.0)
Unusual adjustments to income taxes (after tax)	-	-	42.0	-
Expenses related to long-term debt repayments (after tax)	-	-	-	4.2
Financial expenses related to unusual adjustments to income taxes (after tax)	-	-	16.0	-
Gain on business acquisition (after tax)	-	-	(31.7)	-
Impairment of assets (after tax)	-	0.4	162.7	2.9
Restructuring and integration expenses and acquisition costs (after tax)	11.1	0.7	22.8	4.8
Adjusted net income applicable to participating shares	\$ 24.9	\$ 32.5	\$ 87.5	\$ 100.8
Average number of participating shares outstanding	80.9	81.0	81.0	81.0
Adjusted net income applicable to participating shares per share	\$ 0.31	\$ 0.40	\$ 1.08	\$ 1.24
			As at July 31, 2012	As at October 31, 2011
Long-term debt			\$ 205.5	\$ 292.5
Current portion of long-term debt			330.1	271.9
Cash and cash equivalents			(28.5)	(75.0)
Net indebtedness			\$ 507.1	\$ 489.4
Amount to be paid to Quad/Graphics following the closing of the transaction to acquire the shares of Quad/Graphics Canada			-	50.0
Adjusted net indebtedness			\$ 507.1	\$ 539.4
Adjusted operating income before amortization (last 12 months)			\$ 343.8	\$ 365.4
Net indebtedness ratio			1.47x	1.34x
Adjusted net indebtedness ratio			1.47x	1.48x

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES – THIRD QUARTER

(unaudited)

(in millions of dollars)	2012	2011
Operating activities		
Cash flow from continuing operations before changes in non-cash operating items and income tax paid	\$ 69.8	\$ 89.0
Changes in non-cash operating items	18.5	(10.3)
Income tax paid	(46.0)	3.7
Cash flow related to operating activities of continuing operations	\$ 42.3	\$ 82.4
Investing activities		
Business acquisitions	\$ (1.4)	\$ -
Acquisitions of property, plant and equipment, net of disposals	(9.0)	(8.4)
Acquisitions of intangible assets and other assets	(7.3)	(6.4)
Cash flow related to investing activities of continuing operations	\$ (17.7)	\$ (14.8)
Financing activities		
Reimbursement of long-term debt	\$ (8.2)	\$ (59.2)
Increase (decrease) in revolving term credit facility	2.0	78.4
Financial expenses on long-term debt	(6.8)	(7.8)
Expenses related to debt repayment	-	(1.0)
Issuance of participating shares	0.2	-
Redemption of participating shares, net	(4.4)	-
Dividends on participating shares	(11.7)	(10.9)
Dividends on preferred shares	(1.7)	(1.7)
Cash flow related to financing activities of continuing operations	\$ (30.6)	\$ (2.2)
Financial position		
	As at July 31, 2012	As at October 31, 2011
Adjusted net indebtedness ⁽¹⁾	\$ 507.1	\$ 539.4
Adjusted net indebtedness ratio ⁽¹⁾	1.47x	1.48x
Credit rating		
DBRS	BBB high	BBB high
	Negative	Stable
Standard and Poor's	BBB	BBB
	Stable	Stable

⁽¹⁾ Please refer to the section "Reconciliation of non-IFRS Financial Measures" on page 11 of this Management's Discussion and Analysis.

Cash Flow Related to Continuing Operations

Cash flow from operating activities before changes in non-cash operating items and income tax paid decreased from \$89.0 million in 2011 to \$69.8 million in 2012, primarily due to a decrease in our adjusted operating income before amortization and higher restructuring expenses. Furthermore, changes in non-cash operating items led to a cash inflow of \$18.5 million in 2012, compared to a cash outflow of \$10.3 million in 2011. We also had a cash outflow of \$46.0 million for income taxes in 2012, compared to a cash inflow of \$3.7 million in

2011, including \$31.6 million related to the re-assessment notices received early in fiscal 2012, which are being contested. Consequently, cash flow from operating activities decreased, leading to a cash inflow of \$42.3 million in 2012, compared to \$82.4 million in 2011.

Cash Flow Related to Investing Activities of Continuing Operations

Our business acquisitions and our investments in tangible and intangible assets, net of disposals, combined with our other asset items, rose from \$14.8 million in the third quarter of 2011 to \$17.7 million in 2012.

Cash Flow Related to Financing Activities of Continuing Operations

In the third quarter of 2012, we paid \$11.7 million in dividends on participating shares and \$1.7 million on preferred shares compared to \$10.9 million and \$1.7 million respectively for the same period in 2011. The dividends paid on participating shares rose due to the increase announced in March 2012, which raised the quarterly dividend from \$0.135 in the third quarter of 2011 to \$0.145 in 2012.

Debt Instruments

At July 31, 2012, the adjusted net indebtedness ratio stood at 1.47x (1.48x at October 31, 2011). The cash flows generated combined with the reduction in our investments in tangible and intangible assets were partially offset by costs related to the integration of Quad/Graphics Canada, Inc., which led to a decrease in the adjusted net debt from \$539.4 million at October 31, 2011 to \$507.1 million at July 31, 2012. However, a decrease in our adjusted operating income before amortization in the first three quarters of 2012 mitigated the positive impact of this decrease on our adjusted net indebtedness ratio.

In the second quarter of 2012, we announced a new five-year unsecured term-credit facility of \$400.0 million, which matures in February 2017. We also have the current credit facility, which was reduced to \$200.0 million and will remain in place until it matures in September 2012. An amount of \$241.4 million was drawn on these credit facilities at July 31, 2012. Note that our \$200.0 million securitization program was unused at July 31, 2012.

Share Capital

In the second quarter of 2012, the Corporation was authorized to purchase for cancellation on the open market, between April 13, 2012 and April 12, 2013, up to 3,295,096 of its Class A Subordinate Voting Shares, representing 5% of the 65,901,932 issued and outstanding Class A Subordinate Voting Shares as of April 2, 2012, and up to 757,561 of its Class B Shares, representing 5% of the 15,151,235 issued and outstanding Class B Shares as of April 2, 2012. In accordance with the Toronto Stock Exchange requirements, the maximum daily purchase is 23,975 Class A Subordinate Voting Shares and a total of 1,000 Class B Shares. The purchases are made in the normal course of business at market prices through the facilities of the Toronto Stock Exchange and/or alternative Canadian trading platforms in accordance with the requirements of the exchange. In the three and nine months ended July 31, 2012, the Corporation purchased 471,500 of its Class A Subordinate Voting Shares at a weighted average price of \$9.27, for a total cash consideration of \$4.4 million. The excess of the total consideration paid over the book value of the shares, an amount of \$1.8 million, was accounted for as a reduction in retained earnings.

No Class B Shares were purchased in the first three quarters of 2012.

The following table provides data on shares issued and outstanding at July 31, 2012 and at August 31, 2012:

Shares Issued and Outstanding	At July 31, 2012	At August 31, 2012
Class A (Subordinate Voting Shares)	65,558,392	65,533,692
Class B (Multiple Voting Shares)	15,043,975	15,043,975
Series D Preferred (with rate reset)	4,000,000	4,000,000

FUTURE CHANGES IN ACCOUNTING POLICIES

Financial Instruments

In October 2010, the IASB issued IFRS 9, "Financial Instruments," the first part of a three-part project to replace IAS 39, "Financial Instruments: Recognition and Measurement" and IFRIC 9, "Reassessment of Embedded Derivatives." This first part covers classification and measurement of financial assets and financial liabilities, with impairment of financial assets and hedge accounting being addressed in the other two parts.

In order to determine whether a financial asset should be measured at amortized cost or fair value, IFRS 9 uses a single approach that replaces the multiple measurement and category models established by IAS 39. Under IFRS 9, determination is based on how an entity manages its financial instruments and the characteristics of the contractual cash flows of its financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward to IFRS 9. However, requirements concerning measurement of financial liabilities at fair value have changed; the portion of changes in fair value related to the entity's own credit risk must be presented in other comprehensive loss rather than in the Consolidated Statement of Income. IFRS 9 applies to annual periods beginning on or after January 1, 2015, and earlier application is permitted.

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements," intended to replace IAS 27 "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation – Special Purpose Entities." IFRS 10 defines the concept of control as the determining factor in whether an entity should be included in the basis of consolidation in an entity's consolidated financial statements. IFRS 10 applies to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Joint Arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements" intended to replace IAS 31, "Interests in Joint Ventures" and SIC 13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers." IFRS 11 deals with the contractual rights and obligations inherent in a joint arrangement, rather than the legal form of the arrangement. IFRS 11 eliminates the election to use the proportionate consolidation method when recognizing interests in jointly controlled entities, and requires use of the equity method. IFRS 11 applies to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Currently, the Corporation uses the proportionate consolidation method to recognize interests in joint ventures, but will have to apply the equity method under IFRS 11. Under this method, the Corporation's share of the net assets, net income and other comprehensive income (loss) in the joint ventures will be presented in a single line item in the Consolidated Statement of Financial Position, the Consolidated Statement of Income and the Consolidated Statement of Comprehensive Income, respectively.

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities." IFRS 12 completes the disclosure requirements concerning interests that an entity holds in subsidiaries, joint ventures, associates and consolidated structured entities. The standard requires an entity to disclose information regarding the nature and risks associated with all its interests in other entities and the effect of those interests on its financial position, financial performance and cash flows. IFRS 12 applies to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Fair Value Measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement." IFRS 13 improves consistency and reduces complexity by providing a specific definition of fair value. IFRS 13 therefore replaces the guidance on measurement of fair value contained in individual IFRS with a single source of guidance on all measurements of fair value. IFRS 13 applies to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Employee Benefits

In June 2011, the IASB issued an amended version of IAS 19, "Employee Benefits," in order to reflect significant changes in the recognition and measurement of the defined benefit pension expense and termination benefits. Under the amended IAS 19, use of the "corridor" approach, under which the recognition of actuarial gains and losses could be deferred, has been eliminated. The amended IAS 19 introduces a new approach to calculating and presenting net interest expense on defined benefit liabilities (assets), under which the return on assets will be identical to the rate used to discount the liability. The amended IAS 19 applies to annual periods beginning or after January 1, 2013, and earlier application is permitted.

Asset and Liability Offsetting

In December 2011, the IASB issued amended versions of IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation", to clarify the requirements for offsetting financial instruments and to require new disclosures on the effect of offsetting arrangements on an entity's financial position. The amended IFRS 7 will be applied retrospectively for annual periods beginning on or after January 1, 2013. The amended IAS 32 will be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

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

RISKS AND UNCERTAINTIES

There has been no major change in our risks and uncertainties since the publication of Management's Discussion and Analysis for the fiscal year ended October 31, 2011. For more information, please refer to the corresponding section of Management's Discussion and Analysis for the fiscal year ended October 31, 2011.

CONTROLS AND PROCEDURES

The purpose of internal control over financial reporting is to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and preparation of consolidated financial statements in accordance with IFRS.

In the third quarter ended July 31, 2012, no change that has materially affected or is reasonably likely to affect internal control over financial reporting was identified by Management, including the Corporation's President and Chief Executive Officer or Chief Financial and Development Officer.

As at July 31, 2012, Management excluded Quad/Graphics Canada, Inc. from its assessment of internal control over financial reporting, a measure which is accepted by the Autorité des marchés financiers (AMF) in the first year following acquisition. At the time of acquisition, Quad/Graphics Canada, Inc. had six printing plants, a premedia centre and close to 1,000 employees. Additional information about this acquisition is provided in the table below:

Balance Sheet	At July 31, 2012
Current Assets	\$48.0 M
Non-Current Assets	\$162.6 M
Current Liabilities	\$34.0 M
Non-Current Liabilities	\$66.8 M
Income Statement	3-month period ended July 31, 2012
Revenues	\$43.3 M
Adjusted operating income	\$1.0 M

Note that, given the short period between the dates of acquisition and the end of the period, Management was unable to obtain all the information to complete the initial accounting for business combinations, and therefore it is preliminary and subject to change following a final assessment of the fair value of assets acquired and liabilities assumed. See Note 17 in the interim consolidated financial statements for the period ended July 31, 2012 for additional information about the acquisition of Quad/Graphics Canada, Inc.

OUTLOOK

The integration of the Quad/Graphics Canada printing operations is progressing in line with the multi-phase transition plan; in the short term the focus is on the merger of the operations of two commercial printing plants in Ontario, which should be completed by the end of the first quarter of 2013. Synergy-generating measures have been fruitful since the acquisition on March 1, 2012 and we believe that in fiscal 2012 we will achieve an additional adjusted operating income before amortization of \$8 to \$10 million.

In fiscal 2013, these printing operations will also generate new income in the first four months of the year compared to 2012. This gain will, however, be largely mitigated by the loss of business from Zellers, which recently announced the sale and closure of all of its stores by March 2013. We thus anticipate that the business from this client will decrease rapidly in early fiscal 2013 and should end late in first quarter 2013. The adverse impact of the loss of this client will have a significant impact on our Printing Sector in 2013 and, to a lesser extent, on our Media Sector. Nevertheless, through our efforts to improve our hybrid printing platform by integrating the operations of Quad/Graphics Canada, Inc. and rationalizing operations in the Media Sector, we believe that we will be able to generate about \$50 million in cost savings on an annual basis over the next 12 - 24 months for the Corporation as a whole, which should largely counterbalance the loss of this client.

Market conditions for national advertising spending remain weak and will continue to affect the Media Sector, particularly our magazine publishing operations, newspaper publishing operations outside Quebec and digital activities, in the fourth quarter of 2012. Intensified competition in our distribution and newspaper publishing operations in Quebec will also continue in coming quarters. The fourth quarter of 2012 should not, however, see any major impact on our educational book publishing operations, since Quebec's school reform ended late in the third quarter of 2011. Our rationalization plan in the Media Sector is moving forward, which will allow us to maintain and even increase our operating margins in some niches experiencing downward market pressures. We are also investing in our multichannel products and services offering, most notably in our television production house which started operating in early September 2012, to generate new revenue streams.

In terms of our financial position, given the cash flow generated by operations and the fact that our investment in tangible and intangible assets should be about \$50 million for fiscal 2012 and at about \$70 million in 2013, primarily in the Media Sector, we expect our adjusted net indebtedness ratio to improve in the next several quarters. With respect to costs, we estimate the total cost of integrating Quad/Graphics Canada, Inc. will be in the range of \$40 to \$60 million, with \$25 to \$30 million being disbursed in fiscal 2012 and close to \$10 million in 2013.

On behalf of Management,

(s) Nelson Gentiletti
Chief Financial and Development Officer

September 6, 2012

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Unaudited

(in millions of Canadian dollars, except per share data)	Notes	Three months ended		Nine months ended	
		July 31	2011	July 31	2011
Revenues		\$ 517.0	\$ 479.4	\$ 1,527.0	\$ 1,467.7
Operating expenses	4	438.4	393.1	1,293.2	1,212.3
Restructuring, integration and acquisition costs	12	14.8	0.8	31.7	6.5
Impairment of assets	5	-	0.4	180.8	3.9
Gain on business acquisition	17	-	-	(31.7)	-
Operating income before amortization		63.8	85.1	53.0	245.0
Amortization	6	28.7	29.2	85.0	88.8
Operating income (loss)		35.1	55.9	(32.0)	156.2
Financial expenses	7	9.0	9.9	38.7	35.1
Income (loss) before income taxes		26.1	46.0	(70.7)	121.1
Income taxes	8	10.8	12.9	48.5	26.3
Net income (loss) from continuing operations		15.3	33.1	(119.2)	94.8
Net income (loss) from discontinued operations	9	(5.7)	0.1	(7.1)	1.0
Net income (loss)		9.6	33.2	(126.3)	95.8
Non-controlling interests		(0.2)	-	-	0.8
Net income (loss) attributable to shareholders of the Corporation		9.8	33.2	(126.3)	95.0
Dividends on preferred shares, net of related taxes		1.7	1.7	5.1	5.1
Net income (loss) attributable to participating shares		\$ 8.1	\$ 31.5	\$ (131.4)	\$ 89.9
Net income (loss) per participating share - basic and diluted					
Continuing operations	14	\$ 0.17	\$ 0.39	\$ (1.53)	\$ 1.10
Discontinued operations		(0.07)	-	(0.09)	0.01
		\$ 0.10	\$ 0.39	\$ (1.62)	\$ 1.11
Weighted average number of shares outstanding - basic (in millions)	14	80.9	81.0	81.0	81.0
Weighted average number of shares outstanding - diluted (in millions)	14	80.9	81.1	81.0	81.1

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited

(in millions of Canadian dollars)	Notes	Three months ended		Nine months ended	
		July 31		July 31	
		2012	2011	2012	2011
Net income (loss)		\$ 9.6	\$ 33.2	\$ (126.3)	\$ 95.8
Other comprehensive loss					
Items that will be reclassified to net income (loss):					
Net change related to cash flow hedges					
Net change in the fair value of derivatives designated as cash flow hedges		(0.4)	(0.9)	(2.0)	4.4
Reclassification of the net change in the fair value of derivatives designated as cash flow hedges in prior periods, recognized in net income (loss) during the period		(0.5)	(1.0)	4.4	(2.6)
Related income taxes		(1.8)	(0.4)	1.0	0.8
		0.9	(1.5)	1.4	1.0
Cumulative translation differences					
Net gains (losses) on the translation of the financial statements of foreign operations		0.8	0.2	0.7	(5.3)
Items that will not be reclassified to net income (loss):					
Changes in actuarial gains and losses of defined benefit pensions plans					
Actuarial losses of defined benefit pension plans		(49.4)	(29.4)	(79.7)	(18.0)
Related income taxes		(13.3)	(7.8)	(22.1)	(4.8)
		(36.1)	(21.6)	(57.6)	(13.2)
Other comprehensive loss	16	(34.4)	(22.9)	(55.5)	(17.5)
Comprehensive income (loss)		\$ (24.8)	\$ 10.3	\$ (181.8)	\$ 78.3
Attributable to:					
Shareholders of the Corporation		\$ (24.6)	\$ 10.3	\$ (181.8)	\$ 77.5
Non-controlling interests		(0.2)	-	-	0.8
		\$ (24.8)	\$ 10.3	\$ (181.8)	\$ 78.3

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(in millions of Canadian dollars)

	Attributable to shareholders of the Corporation				Total	Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss			
Balance as at October 31, 2011	\$ 478.1	\$ 1.8	\$ 754.1	\$ (28.1)	\$ 1,205.9	\$ 0.8	\$ 1,206.7
Net loss	-	-	(126.3)	-	(126.3)	-	(126.3)
Other comprehensive loss	-	-	-	(55.5)	(55.5)	-	(55.5)
Shareholders' contributions and distributions to shareholders							
Redemption of participating shares	(2.6)	-	(1.8)	-	(4.4)	-	(4.4)
Exercise of stock options	0.6	(0.1)	-	-	0.5	-	0.5
Dividends	-	-	(39.5)	-	(39.5)	-	(39.5)
Stock-option based compensation	-	0.6	-	-	0.6	-	0.6
Balance as at July 31, 2012	\$ 476.1	\$ 2.3	\$ 586.5	\$ (83.6)	\$ 981.3	\$ 0.8	\$ 982.1
Balance as at November 1, 2010	\$ 477.9	\$ 1.1	\$ 673.1	\$ (4.5)	\$ 1,147.6	\$ 0.8	\$ 1,148.4
Net income	-	-	95.0	-	95.0	0.8	95.8
Other comprehensive loss	-	-	-	(17.5)	(17.5)	-	(17.5)
Shareholders' contributions and distributions to shareholders							
Exercise of stock options	0.2	-	-	-	0.2	-	0.2
Dividends	-	-	(33.8)	-	(33.8)	(0.8)	(34.6)
Stock-option based compensation	-	0.5	-	-	0.5	-	0.5
Balance as at July 31, 2011	\$ 478.1	\$ 1.6	\$ 734.3	\$ (22.0)	\$ 1,192.0	\$ 0.8	\$ 1,192.8

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(in millions of Canadian dollars)	Notes	As at July 31, 2012	As at October 31, 2011
Current assets			
Cash and cash equivalents		\$ 28.5	\$ 75.0
Accounts receivable	11	370.9	425.5
Income taxes receivable		26.2	14.7
Inventories		78.5	77.2
Prepaid expenses and other current assets		15.9	18.1
Assets from discontinued operations	9	-	14.0
		520.0	624.5
Property, plant and equipment			
		664.1	680.4
Intangible assets	17	194.3	149.6
Goodwill	5 & 17	516.9	679.2
Deferred income taxes	17	197.9	197.7
Other assets		34.0	20.2
Assets from discontinued operations	9	-	13.5
		\$ 2,127.2	\$ 2,365.1
Current liabilities			
Accounts payable and accrued liabilities		\$ 256.0	\$ 288.0
Provisions	12	17.4	8.6
Income taxes payable	8	43.7	33.5
Deferred subscription revenues and deposits		36.0	32.5
Current portion of long-term debt		330.1	271.9
Assets from discontinued operations	9	-	7.6
		683.2	642.1
Long-term debt		205.5	292.5
Deferred income taxes		39.5	127.2
Provisions	12	19.5	8.7
Other liabilities	16 & 17	197.4	87.9
		1,145.1	1,158.4
Equity			
Share capital	13	476.1	478.1
Contributed surplus		2.3	1.8
Retained earnings		586.5	754.1
Accumulated other comprehensive loss	16	(83.6)	(28.1)
Attributable to shareholders of the Corporation		981.3	1,205.9
Non-controlling interests		0.8	0.8
		982.1	1,206.7
		\$ 2,127.2	\$ 2,365.1

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(in millions of Canadian dollars)	Notes	Three months ended		Nine months ended	
		July 31		July 31	
		2012	2011	2012	2011
Operating activities					
Net income (loss)		\$ 9.6	\$ 33.2	\$ (126.3)	\$ 95.8
Less: Net income (loss) from discontinued operations	9	(5.7)	0.1	(7.1)	1.0
Net income (loss) from continuing operations		15.3	33.1	(119.2)	94.8
Adjustments to reconcile net income (loss) from continuing operations and cash flows from operating activities:					
Amortization	6	31.7	35.1	99.0	107.6
Impairment of assets	5	-	0.4	180.8	3.9
Gain on business acquisition	17	-	-	(31.7)	-
Financial expenses on long-term debt	7	6.9	7.7	20.2	25.9
Interest on tax contingencies	7	-	-	16.0	-
Expenses related to long-term debt prepayment	7	-	-	-	5.8
Net loss (gain) on disposal of assets		0.1	0.1	(0.2)	(0.2)
Income taxes	8	10.8	12.9	48.5	26.3
Stock-option based compensation	15	0.2	0.2	0.6	0.5
Loss (gain) on pension plans curtailment	12	0.1	-	(3.4)	-
Other		4.7	(0.5)	2.0	(2.6)
Cash flows generated by operating activities before changes in non-cash operating items and income tax paid		69.8	89.0	212.6	262.0
Changes in non-cash operating items		18.5	(10.3)	(25.4)	(33.5)
Income taxes recovered (paid)		(46.0)	3.7	(50.4)	(19.4)
Cash flows from continuing operations		42.3	82.4	136.8	209.1
Cash flows from discontinued operations		0.8	(0.7)	1.2	2.2
		43.1	81.7	138.0	211.3
Investing activities					
Business acquisitions	17	(1.4)	-	(59.2)	(5.4)
Acquisitions of property, plant and equipment		(9.4)	(8.6)	(26.3)	(37.1)
Disposals of property, plant and equipment		0.4	0.2	0.9	0.8
Increase in intangible assets and other assets		(7.3)	(6.4)	(16.8)	(14.5)
Cash flows from investments in continuing operations		(17.7)	(14.8)	(101.4)	(56.2)
Cash flows from investments in discontinued operations		10.0	(1.1)	10.0	(1.9)
		(7.7)	(15.9)	(91.4)	(58.1)
Financing activities					
Reimbursement of long-term debt		(8.2)	(59.2)	(89.4)	(167.3)
Increase in revolving term credit facility		2.0	78.4	57.8	109.4
Financial expenses on long-term debt		(6.8)	(7.8)	(19.4)	(23.9)
Expenses related to long-term debt prepayment		-	(1.0)	-	(4.4)
Dividends on participating shares		(11.7)	(10.9)	(34.4)	(28.7)
Dividends on preferred shares		(1.7)	(1.7)	(5.1)	(5.1)
Issuance of participating shares	15	0.2	-	0.5	0.2
Redemption of participating shares	13	(4.4)	-	(4.4)	-
Bond forward contract		-	-	-	(6.0)
Cash flows from the financing of continuing operations		(30.6)	(2.2)	(94.4)	(125.8)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		1.5	(0.4)	1.3	(1.2)
Increase (decrease) in cash and cash equivalents		6.3	63.2	(46.5)	26.2
Cash and cash equivalents (bank overdraft) at beginning of period		22.2	(0.7)	75.0	36.3
Cash and cash equivalents at end of period		\$ 28.5	\$ 62.5	\$ 28.5	\$ 62.5
Non-cash investing and financing activities					
Net change in capital asset acquisitions financed by accounts payable		\$ (0.8)	\$ (1.5)	\$ (3.0)	\$ (15.5)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Quarters ended July 31, 2012 and 2011

(in millions of Canadian dollars, except per share data)

1 GENERAL INFORMATION

Transcontinental Inc. (the "Corporation") is incorporated under the Canada Business Corporations Act. Its Class A Subordinate Voting Shares, Class B Shares and Cumulative Rate Reset First Preferred Shares, Series D, are traded on the Toronto Stock Exchange. The Corporation's head office is located at 1 Place Ville Marie, Suite 3315, Montreal, Quebec, Canada H3B 3N2.

The Corporation conducts business in Canada and the United States in two separate sectors: the Printing Sector and the Media Sector. The Printing Sector includes printing activities for publishers of magazines, books and newspapers, as well as for retail clients. The Media Sector includes the publishing of magazines, newspapers and educational books in French, a diversified digital platform and a door-to-door network for distributing advertising material that allows advertisers to reach consumers directly. The Media Sector also offers interactive marketing products and services that use new communication platforms supported by marketing strategy and planning services, database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

The operating results for interim periods are not necessarily indicative of full-year results due to the seasonality of certain operations of the Corporation. Results of operations are significantly influenced by the advertising market, which is stronger in the fourth quarter.

The Corporation's Board of Directors approved these financial statements on September 6, 2012.

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and, more specifically, in accordance with IAS 34, "Interim Financial Reporting", and IFRS 1, "First-time Adoption of International Financial Reporting Standards." Since November 1, 2011, IFRS have replaced Canadian Generally Accepted Accounting Principles ("GAAP"), as established in Part V of the Canadian Institute of Chartered Accountants' ("CICA") Handbook.

These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2011, established in accordance with Canadian GAAP, and the interim consolidated financial statements for the quarter ended January 31, 2012, established in accordance with IFRS. The Corporation's significant accounting policies in accordance with IFRS are disclosed in Note 2, "Significant accounting policies" of the interim consolidated financial statements for the quarter ended January 31, 2012. Supplemental information on the transition to IFRS is also disclosed in Note 21, "Transition to IFRS", which explains the extent to which the transition to IFRS has had an effect on the Corporation's consolidated financial statements for the three-month and nine-month periods ended July 31, 2011.

The accounting methods adopted in these interim consolidated financial statements are based on IFRS issued and effective for the Corporation on September 6, 2012, the date that the Board of Directors approved the interim consolidated financial statements. Any subsequent changes to IFRS, that are given effect in the Corporation's annual consolidated financial statements for the year ending October 31, 2012, could result in a retrospective restatement of these interim consolidated financial statements, including the transitional adjustments recognized on transition to IFRS.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which were measured at their fair value, as indicated in the Corporation's accounting policies disclosed in Note 2, "Significant accounting policies", of the interim consolidated financial statements for the three-month period ended January 31, 2012. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

3 FUTURE CHANGES IN ACCOUNTING POLICIES

a) Financial instruments

In October 2010, the IASB issued IFRS 9, "Financial Instruments", the first part of a three-part project to replace IAS 39, "Financial Instruments: Recognition and Measurement" and IFRIC 9, "Reassessment of Embedded Derivatives". This first part covers classification and measurement of financial assets and liabilities, and the two other parts will cover impairment of financial assets and hedge accounting.

In order to determine whether a financial asset should be measured at amortized cost or fair value, IFRS 9 uses a single approach that replaces the multiple measurement and category models established by IAS 39. Under IFRS 9, determination is based on how an entity manages its financial instruments and the characteristics of the contractual cash flows of its financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward to IFRS 9. However, requirements concerning measurement of financial liabilities at fair value have changed; the portion of changes in fair value related to the entity's own credit risk must be presented in other comprehensive income rather than in the Consolidated Statement of Income. IFRS 9 will apply to annual periods beginning on or after January 1, 2015, and earlier application is permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Quarters ended July 31, 2012 and 2011

(in millions of Canadian dollars, except per share data)

3 FUTURE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

b) Consolidated financial statements

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", intended to replace IAS 27, "Consolidated and Separate Financial Statements" and SIC-12, "Consolidation - Special Purpose Entities". IFRS 10 defines the concept of control as the determining factor in whether an entity should be included in the basis of consolidation in an entity's consolidated financial statements. IFRS 10 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

c) Joint arrangements

In May 2011, the IASB issued IFRS 11, "Joint Arrangements", intended to replace IAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-monetary Contributions by Venturers". IFRS 11 deals with the contractual rights and obligations inherent in a joint arrangement, rather than the legal form of the arrangement. IFRS 11 eliminates the election to use the proportionate consolidation method when recognizing interests in jointly controlled entities, and requires use of the equity method. IFRS 11 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

Currently, the Corporation uses the proportionate consolidation method to recognize interests in joint ventures, but will have to apply the equity method under IFRS 11. Under this method, the Corporation's share of the net assets, net income and other comprehensive income in its joint ventures will be presented in a single line item in the Consolidated Statement of Financial Position, the Consolidated Statement of Income and the Consolidated Statement of Comprehensive Income, respectively.

d) Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities". IFRS 12 complements the disclosure requirements concerning interests that an entity holds in subsidiaries, joint ventures, associates and consolidated structured entities. The standard requires an entity to disclose information regarding the nature and risks associated with all its interests in other entities and the effect of those interests on its financial position, financial performance and cash flows. IFRS 12 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

e) Fair value measurement

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement". IFRS 13 improves consistency and reduces complexity by providing a specific definition of fair value. IFRS 13 therefore replaces the guidance on measurement of fair value contained in individual IFRS with a single source of guidance on all measurements of fair value. IFRS 13 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

f) Employee benefits

In June 2011, the IASB issued an amended version of IAS 19, "Employee Benefits", in order to reflect significant changes in the recognition and measurement of the defined benefit pension expense and termination benefits. Under the amended IAS 19, use of the "corridor" approach, under which the recognition of actuarial gains and losses could be deferred, has been eliminated. The amended IAS 19 introduces a new approach to calculating and presenting net interest expense on defined benefit liabilities (assets), under which the return on the asset will be identical to the rate used to discount the liability. The amended IAS 19 will apply to annual periods beginning on or after January 1, 2013, and earlier application is permitted.

g) Financial instruments: asset and liability offsetting

In December 2011, the IASB issued amended versions of IFRS 7, "Financial Instruments: Disclosures" and IAS 32, "Financial Instruments: Presentation", to clarify the requirements for offsetting financial instruments and to require new disclosures on the effect of offsetting arrangements on an entity's financial position. The amended IFRS 7 will be applied retrospectively for annual periods beginning on or after January 1, 2013. The amended IAS 32 will be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

The Corporation is currently evaluating the effect of these new standards on its consolidated financial statements.

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4 OPERATING EXPENSES

Operating expenses by major heading were as follows for the three-month and nine-month periods ended July 31, 2012 and 2011:

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Employee-related costs	\$ 175.9	\$ 158.3	\$ 520.5	\$ 489.1
Supply chain and logistics ⁽¹⁾	229.7	205.6	677.8	637.2
Other goods and services ⁽²⁾	32.8	29.2	94.9	86.0
	\$ 438.4	\$ 393.1	\$ 1,293.2	\$ 1,212.3

⁽¹⁾ "Supply chain and logistics" includes 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.

5 IMPAIRMENT OF ASSETS

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Property, plant and equipment	\$ -	\$ 0.4	\$ 0.8	\$ 3.9
Goodwill	-	-	180.0	-
	\$ -	\$ 0.4	\$ 180.8	\$ 3.9

Impairment testing of goodwill and intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives (trade names and circulation) acquired in business combinations are attributed to cash generating units ("CGU"). As it pertains to goodwill, a CGU group represents the lowest level for which goodwill is monitored by the Corporation for internal management purposes; this level is lower than that of the Corporation's operating segments.

In the second quarter of fiscal 2012, the Corporation performed its annual goodwill impairment test. The test consists to determine if the recoverable amount of a CGU group is greater than its carrying amount, in which case no impairment charge is required. The recoverable amount of a CGU group is the greater of its value in use and its fair value less costs to sell. Value in use is determined by discounting estimated future cash flows, by applying a pre-tax discount rate that reflects current market assessments, the time value of money and risks specific to the CGU group. Fair value less costs to sell is determined using an EBITDA multiplier of comparable companies operating in similar industries for each CGU group. The Corporation has concluded that the recoverable amounts, determined on the basis of fair value less costs to sell for the CGU group of the Business and Consumer Solutions Group and the Educational Book Publishing Group and determined on the basis of value in use for the CGU group of the Local Solutions Group, were lower than their carrying amounts.

The Corporation recorded a \$180.0 million goodwill impairment charge during the three-month period ended April 30, 2012. An impairment charge of \$89.0 million was recorded in the CGU group of the Local Solutions Group due to a decline in national advertising, particularly outside Quebec, and increased competition within Quebec, which had a negative impact on the operating income of this CGU group. An impairment charge of \$70.6 million was recorded in the CGU group of the Business and Consumer Solutions Group due to a decline in advertising, which had a negative impact on the operating income of this CGU group. Furthermore, the adoption in 2012 of new rates for 2010, 2011 and 2012 concerning contributions by businesses to cover the costs incurred by Quebec municipalities regarding waste recovery services had a negative impact on the operating income in these two CGU groups. Finally, an impairment charge of \$20.4 million was recorded in the CGU group of the Educational Book Publishing Group due to lower profitability resulting from the end of educational reform in Quebec's high school education program. These impairment losses had no effect on the Corporation's activities, on cash or on meeting the requirements of debt covenants.

For their part, impairment tests resulted in no impairment losses to trade names and circulation.

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5 IMPAIRMENT OF ASSETS (CONTINUED)

The Corporation uses the following significant assumptions:

Growth

For the purpose of calculating value in use, future cash flows are based on the three-year financial plan approved by management, which has been adjusted to reflect the most recent information available, with no growth factor having been applied after three years. In developing the forecasts, the Corporation considered past experience, certain economic trends and industry and market trends.

Discount rate

For the purpose of calculating the value in use, the Corporation used pre-tax discount rates varying between 16.00% and 23.00%. The discount rate represents the weighted average cost of capital ("WACC") for comparable companies operating in similar industries as the applicable CGU groups. The WACC is an estimate of the overall rate of return required by debt and equity holders on their investments. Determining the WACC requires analyzing the cost of equity and debt separately, and takes into account a risk premium that is based on the applicable CGU groups.

Tax rate

For the purpose of calculating value in use, the Corporation used income tax rates varying between 26.00% and 26.90%. These rates were based on the effective rates for the entities comprising the applicable CGU groups.

The Corporation performed a sensitivity analysis of the discount rate in its assessment of the recoverable amounts of the CGU groups tested for impairment. The results of the sensitivity analysis demonstrated that a reasonable change to significant assumptions did not lead to an impairment in the other CGU groups, for which no impairment charge was required.

The carrying amount of trade names and circulation is allocated to the CGU groups as follows:

	As at July 31, 2012	As at October 31, 2011
Operating segments		
Media Sector		
Business and Consumer Solutions Group	\$ 0.7	\$ 0.7
Local Solutions Group	91.2	85.7
Educational Book Publishing Group	4.6	4.6
	\$ 96.5	\$ 91.0

The carrying amount of goodwill is allocated to the CGU groups as follows:

	As at July 31, 2012	As at October 31, 2011
Operating segments		
Printing Sector		
Magazine, Book and Catalogue Group	\$ 65.4	\$ 65.4
Retail and Newspaper Group	61.0	61.0
	126.4	126.4
Media Sector		
Business and Consumer Solutions Group	138.3	208.9
Local Solutions Group	171.4	256.1
Educational Book Publishing Group	55.4	74.2
Content Solutions Group	12.7	12.7
Digital Solutions Group	11.8	-
	389.6	551.9
Other activities	0.9	0.9
	\$ 516.9	\$ 679.2

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6 AMORTIZATION

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Property, plant and equipment	\$ 25.0	\$ 24.6	\$ 74.4	\$ 75.2
Intangible assets	3.7	4.6	10.6	13.6
	28.7	29.2	85.0	88.8
Intangible assets and other assets, recognized in revenues and operating expenses	3.0	5.9	14.0	18.8
	\$ 31.7	\$ 35.1	\$ 99.0	\$ 107.6

7 FINANCIAL EXPENSES

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Financial expenses on long-term debt	\$ 6.9	\$ 7.7	\$ 20.2	\$ 25.9
Interest on tax contingencies	-	-	16.0	-
Expenses related to long-term debt prepayment	-	-	-	5.8
Other expenses	1.0	1.8	2.6	3.8
Foreign exchange loss (gain)	1.1	0.4	(0.1)	(0.4)
	\$ 9.0	\$ 9.9	\$ 38.7	\$ 35.1

8 INCOME TAXES

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Income (loss) before income taxes	\$ 26.1	\$ 46.0	\$ (70.7)	\$ 121.1
Canadian statutory tax rate	27.2 %	28.7 %	27.2 %	28.7 %
Income taxes (recovered) at the statutory tax rate	7.1	13.2	(19.2)	34.7
Effect of assessments related to previous years (a)	-	-	42.0	-
Effect of differences in tax rates in other jurisdictions	(1.1)	(4.1)	(3.6)	(6.7)
Income taxes on non-deductible expenses (non-taxable revenues) and non-taxable portion of capital gain	-	9.5	(4.2)	10.3
Deferred income taxes related to capital losses	2.8	1.2	1.4	(2.5)
Permanent difference related to goodwill impairment	-	-	30.9	-
Other	2.0	(6.9)	1.2	(9.5)
Income taxes at effective tax rate	\$ 10.8	\$ 12.9	\$ 48.5	\$ 26.3
Effective tax rate	41.4 %	28.0 %	(68.6) %	21.7 %

Income taxes include the following items:

Income taxes before the following items:	\$ 14.5	\$ 13.0	\$ 75.5	\$ 30.6
Income taxes on restructuring costs	(3.7)	(0.1)	(8.9)	(1.7)
Income taxes on impairment of assets	-	-	(18.1)	(1.0)
Income taxes on expenses related to long-term debt prepayment	-	-	-	(1.6)
Income taxes at effective tax rate	\$ 10.8	\$ 12.9	\$ 48.5	\$ 26.3

(a) In February 2012, the Corporation received notices of re-assessment from the federal and provincial tax authorities estimated at \$58.0 million, including applicable interest and penalties to its fiscal years 2006 to 2010. The notices of re-assessment relate to deductions on investments in capital assets made by the Corporation, as well as the interprovincial allocation of income. The Corporation recorded a provision of \$58.0 million with respect to these matters, of which \$16.0 million was included in financial expenses and \$42.0 million in income taxes, even though the Corporation contests these notices of re-assessment. Consequently, the outcome of this dispute could favorably influence the amounts recognized in the consolidated financial statements of the Corporation.

In the third quarter of fiscal 2012, the Corporation paid the amounts required under the tax laws with respect to the notices of re-assessment received, which represents \$31.6 million. Notices of objection have also been filed with the relevant tax authorities.

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9 DISCONTINUED OPERATIONS

On July 16, 2012, the Corporation sold its black and white book printing assets for net proceeds of \$13.0 million, subject to a price adjustment clause based on working capital at the closing of the transaction. An amount of \$10.0 million was received upon closing the transaction and an amount of \$3.0 million will be received over the next five years. In the fourth quarter of fiscal 2011, in connection with the acquisition of Quad/Graphics Canada, Inc., the Corporation had also sold its black and white book printing business for U.S. export for \$5.0 million in net proceeds. The net income (loss), assets, liabilities and cash flows related to these activities were reclassified separately in the Consolidated Statements of Income (Loss), the Consolidated Statements of Financial Position, and the Consolidated Statements of Cash Flows as discontinued operations.

On July 12, 2011, the Corporation entered into a final agreement with Quad/Graphics, Inc. to sell its Mexican printing operations. The net income and cash flows related to these activities have been reclassified separately in the Consolidated Statements of Income and the Consolidated Statements of Cash Flows as discontinued operations. Note 17 provides more detailed information on the terms and conditions of this transaction.

The following table presents the results of discontinued operations:

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Revenues	\$ 6.2	\$ 30.7	\$ 21.5	\$ 87.2
Expenses	6.0	30.5	21.5	85.7
Income before income taxes	0.2	0.2	-	1.5
Income taxes	0.1	0.1	-	0.5
Income related to the operation of discontinued operations	0.1	0.1	-	1.0
Loss related to discontinuance of black and white book printing operations, net of \$2.1 in related income taxes	(5.8)	-	(5.8)	-
Adjustment to the gain related to discontinuance of Mexican printing operations (no tax effect)	-	-	(1.3)	-
Net income (loss) from discontinued operations ⁽¹⁾	\$ (5.7)	\$ 0.1	\$ (7.1)	\$ 1.0

⁽¹⁾ The net income (loss) related to the discontinued operations is fully attributable to the Corporation's shareholders.

10 EMPLOYEE BENEFITS

The Corporation offers various contributory and non-contributory defined benefit pension plans, post-employment benefits, defined contribution pension plans and registered group savings plans to its employees and those of its participating subsidiaries.

The following table presents the costs related to these plans and costs related to State plans:

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Defined benefit pension plans and post-employment benefits	\$ 0.3	\$ (0.4)	\$ 0.7	\$ (1.1)
Defined contribution pension plans	3.8	3.3	12.7	12.2
State plans	4.9	4.6	14.6	13.8
	\$ 9.0	\$ 7.5	\$ 28.0	\$ 24.9

11 ACCOUNTS RECEIVABLE

The Corporation has a securitization program maturing in 2013 with a trust whose financial services agent is a Canadian bank, for the sale, from time to time, of certain accounts receivable of its subsidiaries. The maximum net consideration permitted under the program is \$200.0 million, of which a maximum of 20% in accounts receivable may be in U.S. dollars.

No amount had been drawn on this source of financing as at July 31, 2012, nor as at October 31, 2011.

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12 PROVISIONS

	Restructuring costs	Onerous contracts	Other	Total
Balance as at October 31, 2011	\$ 5.5	\$ 9.6	\$ 2.2	\$ 17.3
Provisions recorded	24.9	6.4	0.3	31.6
Business acquisition	1.8	2.6	6.6	11.0
Amounts used	(19.7)	(1.0)	(0.3)	(21.0)
Provisions reversed	(1.3)	-	(0.8)	(2.1)
Other	0.1	-	-	0.1
Balance as at July 31, 2012	\$ 11.3	\$ 17.6	\$ 8.0	\$ 36.9
Current portion	11.3	4.2	1.9	17.4
Non-current portion	-	13.4	6.1	19.5
	\$ 11.3	\$ 17.6	\$ 8.0	\$ 36.9

Restructuring, integration and acquisition costs by major heading were as follows for the three-month and nine-month periods ended July 31, 2012 and 2011:

	Three months ended		Nine months ended	
	July 31		July 31	
	2012	2011	2012	2011
Workforce reductions	\$ 5.5	\$ 0.1	\$ 23.6	\$ 4.5
Loss (gain) on pension plans curtailment	0.1	-	(3.4)	-
Net losses on disposal of assets	1.6	-	1.6	-
Business acquisition costs	0.9	0.3	1.6	0.3
Other	6.7	0.4	8.3	1.7
	\$ 14.8	\$ 0.8	\$ 31.7	\$ 6.5

Restructuring costs

The Corporation is currently implementing rationalization measures that will affect all its operating segments. These measures will address excess production capacity in some specialized plants of the Printing Sector following the integration of Quad/Graphics Canada, Inc., and due to major structural changes in the printing industry. These measures also address the implementation of a new operating structure since November 1, 2011, which includes the majority of the Interactive Sector's activities with those of the Media Sector.

Onerous contracts

The provisions for onerous contracts are related to the operating leases for spaces not used by the Corporation and represent the present value of future rental expenses that the Corporation must pay under contracts that cannot be cancelled, net of estimated future sub-leasing revenues expected to be received on these sub-leases. The terms on these leases vary from 6 to 7 years.

Other

Other provisions include provisions for asset retirement obligations, claims, litigations and other obligations.

13 SHARE CAPITAL

The Corporation has been authorized to redeem, for cancellation on the open market, between April 13, 2012 and April 12, 2013, or at an earlier date if the Corporation concludes or cancels the offer, up to 3,295,096 of its Class A Subordinate Voting Shares, representing 5% of its 65,901,932 Class A Subordinate Voting Shares issued and outstanding as at April 2, 2012, and up to 757,561 Class B Shares, representing 5% of its 15,151,235 Class B Shares issued and outstanding as at April 2, 2012. The redemptions are being made in the normal course of business at market prices through the Toronto Stock Exchange and in accordance with the requirements of the Exchange.

During the three-month and nine-month periods ended July 31, 2012, the Corporation redeemed 471,500 Class A Subordinate Voting Shares for a weighted average price of \$9.27 and a total cash consideration of \$4.4 million. The excess of the total consideration paid over the carrying amount of the shares, in the amount of \$1.8 million, was applied against retained earnings. The Corporation was under no obligation to redeem its Class A Subordinate Voting Shares as at July 31, 2012.

The Corporation redeemed no Class B shares in the three-month and nine-month periods ended July 31, 2012, and had no obligation as such on this date.

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14 NET INCOME (LOSS) PER PARTICIPATING SHARE

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

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Numerator				
Net income (loss) from continuing operations	\$ 15.3	\$ 33.1	\$ (119.2)	\$ 94.8
Non-controlling interests	(0.2)	-	-	0.8
Dividends on preferred shares, net of related taxes	1.7	1.7	5.1	5.1
Net income (loss) from continuing operations, attributable to participating shares	\$ 13.8	\$ 31.4	\$ (124.3)	\$ 88.9
Denominator (in millions)				
Weighted average number of participating shares outstanding - basic	80.9	81.0	81.0	81.0
Weighted average number of dilutive options	-	0.1	-	0.1
Weighted average number of participating shares outstanding - diluted	80.9	81.1	81.0	81.1

In the calculation of the diluted earnings per share, 1,551,095 options were considered anti-dilutive as at July 31, 2012, being all of the options issued and outstanding on such date, considering the loss position for that period. As at July 31, 2011, 1,095,332 options were considered anti-dilutive, since their exercise price was greater than the average share price of Class A Subordinate Voting Shares during the period. Therefore, these stock options were excluded from the calculation of the diluted earnings per share for this period.

15 STOCK-BASED COMPENSATION

Stock option plan

The Corporation offers a stock option plan to certain 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.

Stock-based compensation expenses of \$0.2 million were charged to income and increased contributed surplus included in shareholders' equity for the three-month periods ended July 31, 2012 and 2011. For the nine-month periods ended July 31, 2012 and 2011, the expenses amounted to \$0.6 million and \$0.5 million, respectively.

The following table summarizes the changes in the plan's status:

	Three months ended July 31			
	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options issued at beginning of period	1,698,791	\$ 16.18	1,614,522	\$ 16.70
Exercised	(20,700)	9.64	-	-
Cancelled	(123,396)	15.81	(20,300)	20.77
Expired	(3,600)	18.78	-	-
Options outstanding at end of period	1,551,095	\$ 16.29	1,594,222	\$ 16.64

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15 STOCK-BASED COMPENSATION (CONTINUED)

	Nine months ended July 31			
	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options issued at beginning of period	1,572,640	\$ 16.67	1,542,490	\$ 16.76
Granted	235,984	12.40	164,672	16.20
Exercised	(49,450)	10.01	(18,590)	10.26
Cancelled	(189,479)	16.56	(94,350)	19.02
Expired	(18,600)	12.61	-	-
Options outstanding at end of period	1,551,095	\$ 16.29	1,594,222	\$ 16.64
options exercisable as at July 31	1,127,419	\$ 17.58	1,121,375	\$ 18.08

Exercise of stock options

When executives exercise their stock options, the consideration they pay is credited to share capital and the amount previously credited to contributed surplus is also transferred to share capital. For the three-month period ended July 31, 2012, the consideration received was \$0.2 million. For the three-month period ended July 31, 2011, no stock options were exercised. For the nine-month periods ended July 31, 2012 and 2011, the considerations received were \$0.5 million and \$0.2 million, respectively. An amount of \$0.1 million was transferred from contributed surplus to share capital during the three-month and nine-month periods ended July 31, 2012. Negligible amounts were transferred from contributed surplus to share capital during the three-month and nine-month periods ended July 31, 2011.

The following table summarizes the weighted average assumptions used to calculate, using the Black-Scholes option pricing model, the fair value on the grant date of the options granted during the nine-month periods ended July 31:

	2012	2011
Share price of Class A Subordinate Voting Shares on the stock option grant date	\$ 12.40	\$ 16.20
Weighted average fair value of the stock options	\$ 3.01	\$ 4.82
Assumptions:		
Dividend yield	4.4 %	2.7 %
Expected volatility	40.5 %	39.0 %
Risk-free interest rate	1.4 %	2.6 %
Expected life	5 years	5 years

The dividend yield is based on the actual average dividend rate of the Corporation's participating shares. The expected volatility is based on the historical volatility of the price of the Corporation's Class A Subordinate Voting Shares over a period equal to the expected life of the options. The risk-free rate is the rate of return on Government of Canada bonds over a period equal to the expected life of the options. The expected life of the options represents the period of time during which the options granted are expected to be outstanding.

Senior executive share unit plan

The Corporation offers a share unit plan to its senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted. A portion of share units will vest based on performance targets being met and another portion of share units will vest based on the passage of time. Vested DSUs and RSUs will be paid, at the Corporation's option, in cash or with Class A Subordinate Voting Shares of the Corporation purchased on the open market.

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15 STOCK-BASED COMPENSATION (CONTINUED)

The following table summarizes the changes in the plan's status:

Number of units	Three months ended July 31			
	2012	2011	2012	2011
	DSU		RSU	
Balance, beginning of period	200,093	203,359	690,424	739,754
Units cancelled	-	-	(68,242)	(19,146)
Units paid	(25,735)	-	-	-
Dividends paid in units	2,241	1,498	-	-
Balance, end of period	176,599	204,857	622,182	720,608

Number of units	Nine months ended July 31			
	2012	2011	2012	2011
	DSU		RSU	
Balance, beginning of period	201,981	121,110	679,884	676,627
Units granted	-	40,123	309,097	233,383
Units cancelled	-	-	(209,337)	(93,704)
Units paid	(49,777)	(2,230)	(139,506)	(53,824)
Units converted	17,956	41,874	(17,956)	(41,874)
Dividends paid in units	6,439	3,980	-	-
Balance, end of period	176,599	204,857	622,182	720,608

As at July 31, 2012, the liability related to the senior executive share unit plan was \$4.5 million (\$6.1 million as at October 31, 2011). The expenses (the reversal) recorded in the Consolidated Statement of Income for the three-month periods ended July 31, 2012 and 2011 were (\$0.6) million and \$1.5 million, respectively. The expenses recorded in the Consolidated Statement of Income (Loss) for the nine-month periods ended July 31, 2012 and 2011 were \$0.5 million and \$2.7 million, respectively. An amount of \$0.3 million was paid under this plan for the three-month period ended July 31, 2012. No amount was paid under this plan for the three-month period ended July 31, 2011. Amounts of \$2.1 million and \$0.9 million were paid under this plan for the nine-month periods ended July 31, 2012 and 2011, respectively.

Directors share unit plan

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 summarizes the changes in the plan's status:

Number of units	Three months ended		Nine months ended	
	July 31		July 31	
	2012	2011	2012	2011
Balance, beginning of period	210,510	177,087	201,257	159,803
Directors' compensation	12,602	7,170	35,863	22,154
Units paid	-	-	(18,573)	-
Dividends paid in units	3,160	1,481	7,725	3,781
Balance, end of period	226,272	185,738	226,272	185,738

As at July 31, 2012, the liability related to the directors share unit plan was \$2.2 million (\$2.4 million as at October 31, 2011). The expense (the reversal) recorded in the Consolidated Statement of Income for the three-month periods ended July 31, 2012 and 2011 were (\$0.3) million and \$0.4 million, respectively. The expenses recorded in the Consolidated Statement of Income (Loss) for the nine-month periods ended July 31, 2012 and 2011 were \$0.1 million and \$0.7 million, respectively. No amounts were paid under this plan for the three-month periods ended July 31, 2012 and 2011, and the nine-month period ended July 31, 2011. An amount of \$0.3 million was paid under this plan for the nine-month period ended July 31, 2012.

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16 ACCUMULATED OTHER COMPREHENSIVE LOSS

		Cash flow hedges	Cumulative translation differences	Actuarial gains and losses of defined benefit plans	Accumulated other com- prehensive loss
Balance as at November 1, 2010	\$	(4.5)	\$ -	\$ -	\$ (4.5)
Net change in gains (losses), net of income taxes		1.0	(5.3)	(13.2)	(17.5)
Balance as at July 31, 2011	\$	(3.5)	\$ (5.3)	\$ (13.2)	\$ (22.0)
Balance as at November 1, 2011	\$	(6.3)	\$ (1.9)	\$ (19.9)	\$ (28.1)
Net change in gains (losses), net of income taxes		1.4	0.7	(57.6)	(55.5)
Balance as at July 31, 2012	\$	(4.9)	\$ (1.2)	\$ (77.5)	\$ (83.6)

As at July 31, 2012, the amounts expected to be reclassified to net income are as follows:

	2012	2013	2014	2015	2016 and thereafter	Total
Losses on derivatives designated as						
cash flow hedges	\$ (0.7)	\$ (1.1)	\$ (1.2)	\$ (0.9)	\$ (2.4)	\$ (6.3)
Income taxes	(0.2)	(0.2)	(0.2)	(0.1)	(0.7)	(1.4)
	\$ (0.5)	\$ (0.9)	\$ (1.0)	\$ (0.8)	\$ (1.7)	\$ (4.9)

17 BUSINESS ACQUISITIONS

Media Sector

On February 13, 2012, the Corporation acquired 100% of the shares of *Éditions Caractère*, a leader in the extracurricular book market in Quebec and publisher in the trade market. This transaction allows the Media Sector to improve its offer in the educational and extracurricular book markets in Quebec.

On February 15, 2012, the Corporation acquired the print and Internet assets of *Courier Frontenac*, a weekly newspaper serving Thetford Mines and the surrounding area. With this transaction, the Media Sector has added a weekly publication to its existing offer in the region of Chaudière-Appalaches.

On May 17, 2012, the Corporation acquired 60% of the shares in *Redux Media*, a leading online advertising network. This transaction allows the Media Sector to expand its existing online network. The Corporation recognized this acquisition using the acquisition method, as if 100% of the shares had been acquired, given the existence of an option for the purchaser to buy or the seller to sell three years after the date of acquisition. As such, the assets acquired and the liabilities assumed on the date of purchase were consolidated, as were 100% of earnings since this date.

On June 18, 2012, the Corporation acquired an additional 60% of the shares in *Métro* (Montréal), a daily newspaper serving the Island of Montreal. This transaction allowed the Corporation to become the sole owner of *Métro* (Montréal), and thereby expand the publication's advertising opportunities, particularly through links with other products of the Media Sector. This entity, which was formerly recognized using the proportionate consolidation method, is now fully consolidated.

Given the short period between the dates of acquisition and the end of the period, management was unable to obtain all the information to complete the initial accounting for business combinations, and therefore it is preliminary and subject to change following a final assessment of the fair value of assets acquired and liabilities assumed. The excess of the price paid over the estimated fair value of the assets acquired and liabilities assumed from acquisitions in the Media Sector was fully attributed to goodwill. Consequently, the intangible assets acquired and the related amortization have not been reflected in these interim consolidated financial statements. The Corporation expects to finalize initial recognition of these business combinations in the first quarters of fiscal 2013.

Printing Sector

On July 12, 2011, the Corporation and Quad/Graphics, Inc. have entered into a definitive agreement under which the Corporation agreed to acquire all the shares of Quad/Graphics Canada, Inc., which operates in the printing sector and has seven facilities in Canada: three in Ontario, two in Quebec, one in Alberta and one in Nova Scotia, representing six printing plants and one premedia facility. In consideration for this transaction, the Corporation sold its Mexican printing operations and its black and white book printing business for U.S. export. On March 1, 2012, the Corporation completed the acquisition of 100% shares of Quad/Graphics Canada, Inc. With this transaction, the Printing Sector has expanded its printing assets, and the Corporation expects to benefit from operating synergies by taking advantage of major investments made in the printing platform over the last few years.

This transaction was settled in cash for an amount of \$48.0 million, and by offsetting amounts receivable of \$30.0 million related to the sale of the Mexican printing operations and \$5.0 million for the black and white book printing business for U.S. export. The Mexican transaction was completed on September 8, 2011, for net proceeds of \$80.5 million. This transaction generated a net gain on disposal of \$25.5 million. A gain of \$26.8 million was recorded in fiscal 2011 and a \$1.3 million loss was recorded in the three-month period ended April 30, 2012.

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17 BUSINESS ACQUISITIONS (CONTINUED)

The estimated fair values attributed to assets acquired and liabilities assumed were based on a combination of independent assessments and internal estimates. Since the fair value of net identifiable assets is greater than the consideration paid, negative goodwill was recorded as a gain on business acquisition in the results of the three-month period ended April 30, 2012. This negative goodwill was mainly due to the recording of deferred income tax assets, in accordance with IAS 12, "Income taxes", attributable to the tax losses acquired through the business combination.

Given the short period between the date of acquisition and the end of the period, management was unable to obtain all the information to complete the initial accounting for Quad/Graphics Canada, Inc., and therefore it is preliminary and subject to change following a final assessment of the fair value of assets acquired and liabilities assumed. The assets acquired and liabilities assumed of Quad/Graphics Canada, Inc. that have been determined provisionally and may be subject to the most significant adjustments at year end include working capital, intangible assets, deferred income taxes (given that tax returns are still not available) and other liabilities. If adjustments are necessary, the provisional amounts recognized will be adjusted retrospectively to reflect new information obtained about facts and circumstances existing at the date of acquisition. These adjustments may affect the amount of the gain on business acquisition of \$31.7 million recorded during the three-month period ended April 30, 2012. The Corporation expects to finalize initial accounting of this business combination during the fourth quarter of fiscal 2012.

The following table presents a summary of the estimated fair value of assets acquired and liabilities assumed on the date of acquisition:

	Quad/Graphics Canada, Inc.	Other	Total
Assets acquired			
Current assets	\$ 48.0	\$ 11.1	\$ 59.1
Property, plant and equipment	34.9	0.1	35.0
Intangible assets	38.1	7.8	45.9
Goodwill (tax basis of \$5.3)	-	17.5	17.5
Deferred income taxes	79.6	0.2	79.8
	\$ 200.6	\$ 36.7	\$ 237.3
Liabilities assumed			
Current liabilities	\$ 34.0	\$ 13.8	\$ 47.8
Deferred income taxes	-	2.0	2.0
Other liabilities	56.8	1.9	58.7
	\$ 90.8	\$ 17.7	\$ 108.5
	\$ 109.8	\$ 19.0	\$ 128.8
Consideration			
Cash paid	\$ 48.0	\$ 13.8	\$ 61.8
Cash of the acquired businesses	-	(2.6)	(2.6)
Amount related to sold activities	35.0	-	35.0
Short-term receivables	(4.9)	(0.9)	(5.8)
Short-term liabilities	-	3.2	3.2
Long-term liabilities	-	5.5	5.5
	78.1	19.0	97.1
Negative goodwill	31.7	-	31.7
	\$ 109.8	\$ 19.0	\$ 128.8

In the third quarter of fiscal 2012, the Corporation made a final assessment of the fair value of assets acquired and liabilities assumed for Groupe Le Canada Français, acquired on August 1, 2011, and for Avantage Consommateurs de l'Est du Québec, acquired on August 29, 2011. Consequently, the intangible assets acquired and the related amortization have been included in these interim consolidated financial statements. The above table incorporates these adjustments.

The Consolidated Statement of Income (Loss) of the Corporation for the nine-month period ended July 31, 2012 includes the operating results of the acquired businesses since their date of acquisition, including supplementary revenues of approximately \$80.0 million, operating income before amortization of \$2.3 million and transaction costs of approximately \$1.6 million. If the Corporation had acquired these businesses on November 1, 2011, their operating results would have been as follows: supplementary revenues of approximately \$142.0 million and operating income before amortization of \$10.0 million. The fair value of trade receivables acquired, in an amount of \$45.8 million and of which \$5.7 million is considered uncollectible at the time of acquisition, is included in the current assets in the initial recognition of business combinations.

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18 COMMITMENTS

Following the acquisition of the shares of Quad/Graphics Canada, Inc., the Corporation is committed, under various leases of premises, to make payments until 2022. Minimum payments required over the following years for these commitments are as follows:

	Less than 1 year	1 - 5 years	More than 5 years	Total
Premises lease contracts	\$ 5.4	\$ 27.3	\$ 14.6	\$ 47.3

19 RELATED PARTY TRANSACTIONS

Transactions with joint ventures

The Printing Sector prints the newspapers or magazines of certain joint ventures of the Media Sector. These transactions are carried out in the normal course of business, and are recorded at the exchange amount. The portion of the Corporation's revenues with its joint ventures that was not eliminated during the three-month and nine-month periods ended July 31, 2012 and 2011 is negligible compared to consolidated revenues of the Corporation. It is the same for amounts receivable from these joint ventures as at July 31, 2012 and 2011.

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly, including any director (whether executive or otherwise) of the Corporation. Key management personnel earned the following amounts in the three-month and nine-month periods ended July 31:

	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Salaries and other short-term employee benefits	\$ 2.0	\$ 2.8	\$ 5.9	\$ 8.2
Post-employment benefits	0.3	0.4	0.8	1.2
Stock-based compensation	(0.4)	1.4	0.8	2.7
	\$ 1.9	\$ 4.6	\$ 7.5	\$ 12.1

20 SEGMENT REPORTING

On November 1, 2011, the Corporation implemented a new operating structure, combining the majority of Interactive Sector activities with those of the Media Sector to form a single sector in order to better meet the multi-platform marketing communication needs of organizations. For their part, digital printing activities established in the United States will complete the product offering of the Printing Sector. Comparative data have therefore been restated to reflect this change.

The operating segments are defined in terms of the types of products and services offered by the Corporation. The Printing Sector generates revenues through printing activities for magazine, book and newspaper publishers, as well as for retail customers. The Media Sector generates revenues through publishing, distribution, database analysis and management, as well as through interactive marketing solutions (mobile, digital platforms, etc.) and digital media. Sales between the Corporation's segments are recognized at the exchange amount. Transactions other than sales are recognized at the carrying amount.

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20 SEGMENT REPORTING (CONTINUED)

The Consolidated Statements of Income (Loss) for the three-month and nine-month periods ended July 31 include the following components (by segment):

Operating segments	Three months ended July 31		Nine months ended July 31	
	2012	2011	2012	2011
Revenues				
Printing Sector	\$ 363.5	\$ 321.5	\$ 1,079.3	\$ 1,021.1
Media Sector	173.6	175.5	505.7	506.0
Other activities and unallocated amounts	2.1	2.1	6.4	6.2
Inter-segment sales	(22.2)	(19.7)	(64.4)	(65.6)
	\$ 517.0	\$ 479.4	\$ 1,527.0	\$ 1,467.7
Operating income (loss) before amortization				
Printing Sector	\$ 51.3	\$ 63.3	\$ 203.8	\$ 195.4
Media Sector	13.8	23.7	(144.8)	58.0
Other activities and unallocated amounts	(1.3)	(1.9)	(6.0)	(8.4)
	\$ 63.8	\$ 85.1	\$ 53.0	\$ 245.0
Operating income (loss)				
Printing Sector	\$ 29.4	\$ 41.7	\$ 139.7	\$ 129.8
Media Sector	8.4	17.2	(161.3)	38.0
Other activities and unallocated amounts	(2.7)	(3.0)	(10.4)	(11.6)
	\$ 35.1	\$ 55.9	\$ (32.0)	\$ 156.2
Acquisitions of non-current assets ⁽¹⁾				
Printing Sector	\$ 13.2	\$ 6.0	\$ 29.9	\$ 19.4
Media Sector	15.2	8.2	33.3	21.8
Other activities and unallocated amounts	0.6	0.3	2.5	1.6
	\$ 29.0	\$ 14.5	\$ 65.7	\$ 42.8
Amortization of property, plant and equipment and intangible assets				
Printing Sector	\$ 21.8	\$ 21.7	\$ 64.0	\$ 66.4
Media Sector	5.5	6.3	16.6	18.6
Other activities and unallocated amounts	1.4	1.2	4.4	3.8
	\$ 28.7	\$ 29.2	\$ 85.0	\$ 88.8
Impairment of assets				
Printing Sector	\$ -	\$ 0.4	\$ 0.8	\$ 3.9
Media Sector	-	-	180.0	-
	\$ -	\$ 0.4	\$ 180.8	\$ 3.9

⁽¹⁾ These amounts include acquisitions of property, plant and equipment, intangible assets and other non-current assets, excluding those acquired in business combinations, whether they have been paid or not.

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

Operating segments	As at July 31, 2012	As at October 31, 2011
Assets		
Printing Sector	\$ 1,272.7	\$ 1,207.3
Media Sector	755.0	928.7
Other activities and unallocated amounts	99.5	201.6
Asset from discontinued activities (Note 9)	-	27.5
	\$ 2,127.2	\$ 2,365.1

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20 SEGMENT REPORTING (CONTINUED)

The Corporation's revenues by main products and services for the three-month and nine-month periods ended July 31 were as follows:

	Three months ended		Nine months ended	
	July 31		July 31	
	2012	2011	2012	2011
Main products and services				
Printed products	\$ 342.1	\$ 302.5	\$ 1,015.7	\$ 959.0
Publishing products	103.7	104.9	303.9	303.3
Digital and interactive products	35.8	37.3	102.9	99.6
Other products and services	35.4	34.7	104.5	105.8
	\$ 517.0	\$ 479.4	\$ 1,527.0	\$ 1,467.7

21 TRANSITION TO IFRS

These interim consolidated financial statements have been prepared in accordance with IFRS, as described in Note 2, "Significant accounting policies".

The Corporation's date of transition to IFRS was November 1, 2010. For the purposes of preparing the opening Consolidated Statement of Financial Position as at that date, the Corporation applied the accounting policies described in Note 2, "Significant accounting policies", and the relief measures, called exemptions and exceptions, permitted under IFRS 1, "First-time Adoption of International Financial Reporting Standards", in order to avoid retroactive application of certain standards. Descriptions of the optional exemptions and mandatory exceptions applicable to the Corporation, as well as the Corporation's elections, are presented in Note 19, "Transition to IFRS", to the interim consolidated financial statements for the three-month period ended January 31, 2012. This note also presents a reconciliation, between GAAP and IFRS, of financial position and equity as at November 1, 2010 and as at October 31, 2011, as well as a reconciliation of the consolidated statements of income, comprehensive income and cash flows for the year ended October 31, 2011.

Reconciliation of Canadian GAAP and IFRS

The following tables present the effect of adjustments made by the Corporation in order to restate the consolidated financial statements under Canadian GAAP as at July 31, 2011, and for the three-month and nine-month periods ended as at that date. Explanations regarding the restatement in IFRS of the consolidated financial statements under Canadian GAAP are provided in the section that follows the tables.

a) Reconciliation of equity

	Notes	As at July 31, 2011
Equity in accordance with Canadian GAAP		\$ 1,303.4
IFRS adjustments:		
Employee benefits	C	(59.9)
Borrowing costs	D	(12.1)
Deemed cost	E	(95.9)
Income taxes	F	13.5
Business combinations	G	(0.3)
Tax effect of all restatements	H	50.1
Other	I	(6.8)
		(111.4)
Non-controlling interests	A	0.8
Equity in accordance with IFRS		\$ 1,192.8

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21 TRANSITION TO IFRS (CONTINUED)

b) Reconciliation of net income and comprehensive income

Consolidated Statement of Income and Comprehensive Income for the three-month period ended July 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Revenues		\$ 479.4	\$ -	\$ 479.4
Operating expenses	I	393.2	(0.1)	393.1
Restructuring, integration and acquisition costs	G	0.5	0.3	0.8
Impairment of assets		0.4	-	0.4
Operating income before amortization		85.3	(0.2)	85.1
Amortization	D, E, F, I	28.9	0.3	29.2
Operating income		56.4	(0.5)	55.9
Financial expenses		9.9	-	9.9
Income before income taxes		46.5	(0.5)	46.0
Income taxes	H	12.7	0.2	12.9
Net income from continuing operations		33.8	(0.7)	33.1
Net income (loss) from discontinued operations	B	(21.5)	21.6	0.1
Net income and net income attributable to shareholders of the Corporation		12.3	20.9	33.2
Dividends on preferred shares, net of related taxes		1.7	-	1.7
Net income attributable to participating shares		\$ 10.6	\$ 20.9	\$ 31.5
Net income		\$ 12.3	\$ 20.9	\$ 33.2
Other comprehensive income (loss)	B, C, D, E, H	20.7	(43.6)	(22.9)
Comprehensive income		\$ 33.0	\$ (22.7)	\$ 10.3
Net income (loss) per participating share - basic and diluted				
Continuing operations		\$ 0.40	\$ (0.01)	\$ 0.39
Discontinued operations		(0.27)	0.27	-
		\$ 0.13	\$ 0.26	\$ 0.39
Weighted average number of shares outstanding - basic (in millions)		81.0	81.0	81.0
Weighted average number of shares outstanding - diluted (in millions)		81.1	81.1	81.1

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21 TRANSITION TO IFRS (CONTINUED)

Consolidated Statement of Income and Comprehensive Income for the nine-month period ended July 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Revenues		\$ 1,467.7	\$ -	\$ 1,467.7
Operating expenses	I	1,212.6	(0.3)	1,212.3
Restructuring, integration and acquisition costs	G	6.2	0.3	6.5
Impairment of assets		3.9	-	3.9
Operating income before amortization		245.0	-	245.0
Amortization	D, E, F, I	88.0	0.8	88.8
Operating income		157.0	(0.8)	156.2
Financial expenses		35.1	-	35.1
Income before income taxes		121.9	(0.8)	121.1
Income taxes	H	25.6	0.7	26.3
Non-controlling interests	A	0.8	(0.8)	-
Net income from continuing operations		95.5	(0.7)	94.8
Net income (loss) from discontinued operations	B	(20.6)	21.6	1.0
Net income		74.9	20.9	95.8
Non-controlling interests	A	-	0.8	0.8
Net income attributable to shareholders of the Corporation		74.9	20.1	95.0
Dividends on preferred shares, net of related taxes		5.1	-	5.1
Net income attributable to participating shares		\$ 69.8	\$ 20.1	\$ 89.9
Net income		\$ 74.9	\$ 20.9	\$ 95.8
Other comprehensive income (loss)	B, C, D, E, H	14.6	(32.1)	(17.5)
Comprehensive income		\$ 89.5	\$ (11.2)	\$ 78.3
Net income (loss) per participating share - basic and diluted				
Continuing operations		\$ 1.12	\$ (0.02)	\$ 1.10
Discontinued operations		(0.25)	0.27	0.02
		\$ 0.87	\$ 0.25	\$ 1.12
Weighted average number of shares outstanding - basic (in millions)		81.0	81.0	81.0
Weighted average number of shares outstanding - diluted (in millions)		81.1	81.1	81.1

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21 TRANSITION TO IFRS (CONTINUED)

c) Reconciliation of cash flows

Summary Consolidated Statement of Cash Flows for the three-month period ended July 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Cash flows from operating activities	A, B, E, F, G, H, I	\$ 74.3	\$ 7.4	\$ 81.7
Cash flows from investing activities	I	(17.4)	1.5	(15.9)
Cash flows from financing activities	A, I	6.7	(8.9)	(2.2)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(0.4)	-	(0.4)
Increase in cash and cash equivalents		63.2	-	63.2
Bank overdraft at beginning of period		(0.7)	-	(0.7)
Cash and cash equivalents at end of period		\$ 62.5	\$ -	\$ 62.5

Summary Consolidated Statement of Cash Flows for the nine-month period ended July 31, 2011

	Notes	Canadian GAAP	IFRS adjustments	IFRS
Cash flows from operating activities	A, B, E, F, G, H, I	\$ 186.1	\$ 25.2	\$ 211.3
Cash flows from investing activities	I	(62.2)	4.1	(58.1)
Cash flows from financing activities	A, I	(96.5)	(29.3)	(125.8)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(1.2)	-	(1.2)
Increase in cash and cash equivalents		26.2	-	26.2
Cash and cash equivalents at beginning of period		36.3	-	36.3
Cash and cash equivalents at end of period		\$ 62.5	\$ -	\$ 62.5

Restatement in IFRS of the consolidated financial statements prepared in accordance with Canadian GAAP

The following items explain the most significant restatements made to the Corporation's consolidated financial statements for the three-month and nine-month periods ended July 31, 2011, following application of IFRS.

A) Reclassifications

i) Non-controlling interests

Under Canadian GAAP, non-controlling interests are presented as a separate component between liabilities and equity in the Consolidated Statement of Financial Position and as a reduction of net income in the Consolidated Statement of Income. Under IFRS, non-controlling interests are presented in equity in the Consolidated Statement of Financial Position and as a separate component of the Consolidated Statement of Income, as net income attributable to non-controlling interests.

Consequently, an amount of \$0.8 million was reclassified to equity as at July 31, 2011.

ii) Financial expenses on long-term debt

Under Canadian GAAP, financial expenses on long-term debt are classified in operating activities in the statement of cash flows. Under IFRS, an entity may elect to classify financial expenses on long-term debt in operating or financing activities in the statement of cash flows. The Corporation has elected to classify financial expenses on long-term debt in financing activities in the Consolidated Statement of Cash Flows.

Consequently, \$8.9 million and \$29.3 million were reclassified in financing activities in the Consolidated Statement of Cash Flows for the three-month and nine-month periods ended July 31, 2011, respectively.

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21 TRANSITION TO IFRS (CONTINUED)

B) Cumulative translation differences

The Corporation's application of the IFRS 1 exemption, under which cumulative translation differences for all foreign operations is deemed to be zero at the date of transition, resulted in a \$21.6 million increase to net income from discontinued operations for the three-month and nine-month periods ended July 31, 2011, in order to reverse the foreign exchange loss related to the reduced net investment in foreign operations realized on the sale of the Mexican printing operations during these same periods.

C) Employee benefits

IAS 19, "Employee Benefits", requires measuring actuarial gains and losses of defined benefit plans in accordance with IFRS from the commencement of the plans until the date of transition. IFRS 1 permits the recognition of cumulative actuarial gains and losses in retained earnings on the date of transition, and prospective application of IAS 19. The Corporation has elected to apply this exemption and, as a result, accumulated actuarial gains and losses as at November 1, 2010 have been recognized in retained earnings for all its defined benefit plans. For subsequent periods, the actuarial gains and losses are no longer amortized in the Consolidated Statement of Income, rather they are recognized directly in other comprehensive income.

The effect of this exemption has been a \$59.9 million decrease in equity as at July 31, 2011. The reversal of cumulative unamortized actuarial gains and losses, recognized in the three-month period ended July 31, 2011, has resulted in a decrease to other assets of \$16.5 million, an increase to other liabilities of \$12.9 million and the effect, net of deferred income taxes, has affected the accumulated other comprehensive income. The reversal of cumulative unamortized actuarial gains and losses, recognized in the nine-month period ended July 31, 2011, has resulted in a decrease to other assets of \$10.0 million, an increase to other liabilities of \$8.0 million and the effect, net of deferred income taxes, has affected the accumulated other comprehensive income. The reversal of unamortized actuarial gains and losses has had a negligible effect on the Consolidated Statements of Income for the three-month and nine-month periods ended July 31, 2011.

D) Borrowing costs

IAS 23, "Borrowing Costs", is more directive than Canadian GAAP regarding the nature of borrowing costs that are directly capitalized as part of the acquisition, construction or production of a qualifying asset. IFRS 1 offers an exemption that permits prospective compliance with the requirements of IAS 23 for all qualifying assets whose capitalization begins on a date prior to the date of transition. The Corporation has elected to use this exemption and apply IAS 23 to all qualifying assets whose capitalization begins on or after the date of transition. Consequently, the balance of the capitalized borrowing costs in property, plant and equipment as at November 1, 2010 under Canadian GAAP has been reversed and recognized in retained earnings. For subsequent periods, the effect on the Consolidated Statement of Income is a reduction of the amortization expense.

The effect of this exemption has been a \$12.1 million decrease in equity as at July 31, 2011. The effect of this exemption for the three-month period ended July 31, 2011 has been a \$0.3 million decrease in amortization expense, and its effect on cumulative translation differences in the Consolidated Statement of Financial Position has been negligible. The effect of this exemption for the nine-month period ended July 31, 2011 has been a \$0.8 million decrease in amortization expense and a \$0.3 million increase in cumulative translation differences in the Consolidated Statement of Financial Position.

E) Deemed cost

IFRS 1 allows for property, plant and equipment to be valued on the date of transition at fair value and to use such fair value as deemed cost as at this date. Deemed cost is the amount used as a substitute for cost or amortized cost, with subsequent amortization calculated based on this amount. The Corporation has elected to apply this exemption to certain items of property, plant and equipment on the date of transition. For subsequent periods, the effect on the Consolidated Statement of Income is a reduction of the amortization expense.

The effect of this exemption has been a \$95.9 million decrease in equity as at July 31, 2011. The effect of this exemption for the three-month period ended July 31, 2011 has been a \$0.9 million decrease in amortization expense and a \$0.6 million decrease in cumulative translation differences in the Consolidated Statement of Financial Position. The effect of this exemption for the nine-month period ended July 31, 2011 has been a \$2.7 million decrease in amortization expense and a \$3.8 million increase in cumulative translation differences in the Consolidated Statement of Financial Position.

F) Income taxes

Under IFRS, a deferred income tax asset must be recognized for all taxable temporary differences, except if the deferred income tax asset arises from the initial recognition of an asset or a liability in a transaction that, at the time of the transaction, affects neither accounting income nor taxable income. The effect of this restatement was a \$13.5 million increase in equity as at July 31, 2011. The effect of this restatement for the three-month and nine-month periods ended July 31, 2011 was a \$0.9 million increase and a \$2.8 million increase, respectively, in amortization expense.

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21 TRANSITION TO IFRS (CONTINUED)

Under Canadian GAAP and IFRS, deferred income taxes are calculated based on temporary differences between the tax basis of an asset or liability and its carrying value on the Consolidated Statement of Financial Position. Under Canada's Income Tax Act, up to 75% of the cost of "eligible capital property" is deductible. Canadian GAAP addresses this particular situation, stating that the tax basis must be grossed up 25%. Consequently, there are no temporary differences on an accounting basis. IFRS does not address this specific situation, such that temporary differences are created between the tax bases and the carrying values of these assets. These temporary differences must be recognized when the transaction is eligible as a business combination. The effect of this restatement on the date of transition resulted in increases in the deferred tax assets and liabilities related to certain intangible assets of \$0.6 million and \$3.9 million, respectively, with corresponding amounts recorded in retained earnings. This restatement had no other effect on the consolidated financial statements for the three-month and nine-month periods ended July 31, 2011.

G) Business combinations

The Corporation's application of the exemption under IFRS 1, according to which it is allowed to apply IFRS 3, "Business Combinations", prospectively from the date of transition resulted in a \$0.3 million decrease in prepaid expenses and other current assets and a \$0.3 million increase in restructuring, integration and acquisition costs for the three-month and nine-month periods ended on July 31, 2011.

H) Tax effect of all restatements

The tax effect of all these restatements has been a \$50.1 million increase in equity as at July 31, 2011. The effect of all these restatements under IFRS for the three-month period ended July 31, 2011 has resulted in a \$0.5 million decrease in income before income taxes, and the tax effect of all these restatements has resulted in the recognition of \$0.2 million in additional income taxes. The effect of all these restatements under IFRS for the nine-month period ended July 31, 2011 has resulted in a \$0.8 million decrease in income before income taxes, and the tax effect of all these restatements has resulted in the recognition of \$0.7 million in additional income taxes.

I) Other

The other adjustments are related to various items whose individual and total effects on the Corporation's consolidated financial statements for the three-month and nine-month periods ended July 31, 2011 have been negligible.