



ANNUAL INFORMATION FORM

January 26, 2010
Fiscal Year Ended October 31, 2009

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Note: In this Annual Information Form, all dollar figures are in Canadian dollars, unless otherwise specified. All the information contained in this Annual Information Form is up to date as of October 31, 2009, unless otherwise specified.

Item 1 - Corporate Structure

1.1 Name and Incorporation

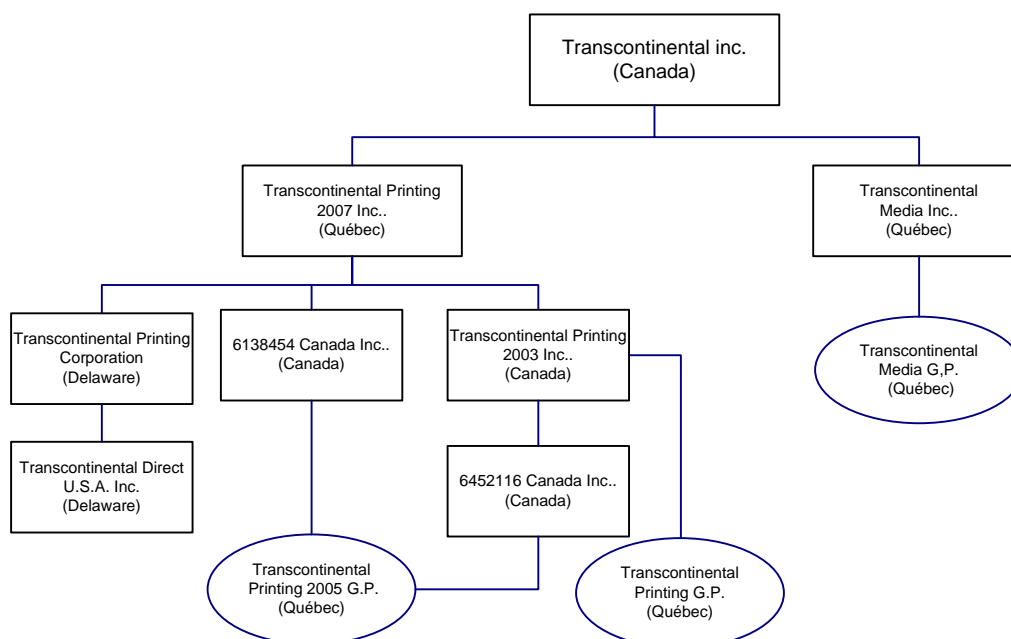
Transcontinental Inc. (the "Corporation") was incorporated under the *Canada Business Corporations Act* by Certificate of Incorporation dated March 3, 1978. A Restated Certificate of Incorporation was issued to the Corporation on October 7, 1988 containing amendments pertaining to the name of the Corporation, the number and appointment of directors of the Corporation and the share capital of the Corporation. Since the issuance of the Restated Certificate of Incorporation, the Articles of Incorporation have again been modified. Specifically, on March 27, 2003, the Corporation modified its corporate name from G.T.C. Transcontinental Group Ltd. to Transcontinental Inc. and split the number of Class A Subordinate Voting Shares and the number of Class B Shares on the basis of two Class A Subordinate Voting Shares for each Class A Subordinate Voting Share held and two Class B Shares for each Class B Share held, all of which took effect on April 10, 2003. Effective October 1, 2009, the Corporation created Cumulative 5-Year Rate Reset First Preferred Shares, Series D and Cumulative Floating Rate First Preferred Shares, Series E.

The registered office of the Corporation is located at 1 Place Ville Marie, Suite 3315, Montréal, Québec, Canada H3B 3N2.

In this Annual Information Form, the term "Corporation" means Transcontinental Inc. and the terms "Transcontinental" and "we" mean, according to the context, the Corporation, its subsidiaries (which include, for purposes of this Annual Information Form, partnerships, trusts and other unincorporated business entities) and other affiliated entities of the Corporation, or one or more of its affiliated entities.

1.2 Intercorporate Relationships

The following corporate chart is a list of the most important direct and indirect subsidiaries and other affiliated entities of the Corporation as of October 31, 2009, indicating their jurisdiction of incorporation. All of the shares or units of such subsidiaries and other affiliated entities are held directly or indirectly by the Corporation.



Item 2 - General Development of the Business

2.1 General Information

2.1.1 The Corporation

We provide printing, publishing and marketing services that deliver exceptional value to our clients and provide a unique, integrated platform for them to reach and retain their target audiences. We are the largest printer in Canada and Mexico and sixth-largest in North America. We are also the country's leading publisher of consumer magazines and French-language educational resources, its second-largest community newspaper publisher, and our digital platform delivers unique content through more than 120 websites. Our Marketing Communications Sector provides advertising services and marketing products using new communications platforms supported by database analytics, premedia, e-flyers, email marketing, and custom communications. We are a growth-oriented company with a culture of continuous improvement and financial discipline, whose values, including respect, innovation and integrity, are central to our operation. As of October 31, 2009, we had approximately 12,500 employees in Canada, the United States and Mexico, and reported revenues of \$2.3 billion for our fiscal year ended October 31, 2009.

2.1.2 Management of the Corporation

We favour decentralized management so as to further optimize the development of our operating sectors and provide customer services that are both flexible and rapid.

The corporate head office is responsible for financing, development, taxation, insurance and risk management, investor relations, external communications and control and offers services in the fields of human resources, procurement, information technology, legal affairs and accounting.

2.2 Three-Year History

The events that have influenced the general development of our business over the past three completed fiscal years are the following:

2009

- Sale of *Outdoor Canada* and *Canadian Home Workshop* to Quarto Communications Limited;
- Announcement of the official beginning of printing of the *San Francisco Chronicle* daily paper at our new plant in Fremont, California;
- Sale of our Dumais Street printing plant in Rimouski;
- Sale of Transcontinental Miami Valley, a printing plant in Fairborn, Ohio, specialized in insert printing for local retailers;
- Appointment of Christian Trudeau as President of our Marketing Communications Sector;
- Implementation of major rationalization measures to address the recession in virtue of which many jobs have been eliminated and of substantive cost-cutting measures throughout Canada, the United States and Mexico;
- Acquisition of Conversys Inc., Canada's leading supplier of electronic flyers;

- Recipient of the triple chain of custody certification in all of our printing facilities in Canada and the United States;
- Recipient of seven awards at the 2008 Pearl Awards and four awards at the 2009 Pearl Awards, the North American competition which recognizes excellence in content, design, digital and strategy in custom publishing for our Marketing Communications Sector;
- Announcement that (i) an amount of \$27.4 million before tax (\$18.4 million after tax) was accounted for separately in our consolidated results for fiscal 2008 as impairment of assets and restructuring costs; (ii) an amount of \$78.0 million before tax (\$54.6 million after tax) was accounted for separately in our consolidated results for fiscal 2009 as impairment of assets and restructuring; (iii) an amount of \$172.6 million before tax (\$157.9 million after tax) was accounted for separately in our consolidated statement of income for fiscal 2009 as impairment of goodwill and intangible assets; and (iv) an amount of \$192.1 million (\$126.8 million after tax) was accounted for separately in our consolidated statement of income for fiscal 2008 as impairment of goodwill and intangible assets;
- Acquisition of Redwood Custom Communications Inc., a leading North American and full service marketing and communications company that creates turn-key custom publishing and branded content solutions for both print and digital platforms;
- Appointment of Brian Reid as President of our Printing Sector;
- Creation of the Marketing Communications Sector in the context of the implementation of a new operating structure to support our growth strategy;
- Consolidation of production by Transcontinental Direct U.S.A. Inc., our direct mail subsidiary in the United States from its Warminster, PA facility to its facility in Hamburg, PA.
- Completion and execution of several financing or refinancing:
 - Completion of a bought deal public offering of 4,000,000 Cumulative 5-Year Rate Reset First Preferred Shares, Series D for gross proceeds of \$100 million;
 - Execution of a six-year financing of €55.6 million, which will be used to buy production equipment over the next two years;
 - Execution of a five-year term loan of \$50 million arranged with Société générale de financement du Québec;
 - Execution of a five-year loan for \$100 million from Caisse de dépôt et placement du Québec;
 - Renewal of our credit facilities of \$150 million for one year;
 - Extension of our \$300 million securitization program for an additional year;
 - Completion of a private placement offering of \$100 million in unsecured debentures underwritten by Solidarity Fund QFL.

2008

- Launch of weblocal.ca, a local search site to "Find, rate, share" Canadian businesses;

- Launch of *Vita*, the French edition of *More* magazine;
- Award to Transcontinental Custom Communications of a multi-year contract by Canada Post to publish *Smart Moves™ - The Guide for your new home*, its existing magazine for Canadian Moving households;
- Announcement by Transcontinental Media of its working with NewspaperDirect to migrate its newspapers to digital editions;
- Acquisition of Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing, which enable fully personalized marketing communications;
- Execution of an exclusive 18-year contract with The Globe and Mail, a division of CTV GlobeMedia Publishing Inc. to print *The Globe and Mail* daily newspaper for all of the Canadian markets except Saskatchewan and Manitoba;
- Acquisition of *L'Express le journal d'ici*, a French newspaper published every two weeks that serves the city of Saint-Lin-Laurentides in Québec;
- Acquisition of Acquisition.biz;
- Announcement that the daily newspapers *The Globe and Mail* and *La Presse*, both printed by us, have been accepted into the International Newspaper Color Quality Club for 2008-2010;
- Acquisition of ThinData Inc., Canada's leading permission-based marketing services firm;
- Announcement of an investment of \$20 million in state-of-the-art equipment for Transcontinental Interweb Montréal, our South Shore printing facility;
- Execution of an exclusive 6-year contract for the printing of Rogers' complete magazine portfolio;
- Announcement of the closing of *The Daily News* in Halifax and of the launch of a free daily newspaper, *Metro*, for Halifax residents in partnership with Metro International S.A. and Torstar Corporation;
- Acquisition of the newspaper *L'Autre Voix* based in the Côte-de-Beaupré region of Québec;
- Acquisition of the Italian-language weekly newspaper *Corriere Italiano* based in the Montréal area;
- Acquisition of *The Springhill-Parrsboro Record* based in the Northern Nova Scotia region;
- Selection of an Environmental Products Inc. certified biodegradable plastic bag for our Publisac.

2007

- Appointment of Mr. François Olivier as President and Chief Executive Officer, effective February 20, 2008;
- Implementation of a paper purchasing policy that promotes the use of environmentally preferable papers through a classification process that allows clients to make an informed choice regarding the paper they choose for their printing and publishing needs;

- Acquisition of PLM Group Ltd. based in Markham, Ontario, a company whose niche is direct marketing products and services. PLM also offers leading edge services such as premedia and digital printing and prints a wide range of marketing related commercial printing products;
- Launch by Transcontinental Media of Transcontinental Custom Communications, a joint venture with Seven Squared, a United Kingdom agency, to provide custom publishing services to clients in Canada and the United States;
- Acquisition of the weekly newspaper *Seaway News* based in Cornwall, Ontario;
- Announcement of an investment of \$2 million for the expansion of our Transcontinental Metrolitho print plant located in Sherbrooke, Québec, which is specialized in short-run book, perfect bound, hard cover and bound book production;
- Acquisition of six magazines related to home building and renovation in Québec - *Maison D'aujourd'hui*, *Condo et Loft D'aujourd'hui*, *Maison Direct*, *Condo Direct*, *maisonsneuves.com* et *maisonmax.com*;
- Recipient of the Best Magazine of the Year at The Canadian Society of Magazine Editors 2007, Editors' Choice Awards for Transcontinental Media's publications *Canadian Gardening* and *The Hockey News*;
- Acquisition of weekly newspaper *The Oxbow Herald* based in southeast Saskatchewan;
- Acquisition of the weekly newspapers *The Grenfell Sun* and the *Broadview Express* based in southern Saskatchewan;
- Introduction of a new paper made from 100% post-consumer recycled material at price parity;
- Launch of the first issue of the Canadian edition of *More* magazine, which targets women over 40;
- Acquisition of the community newspapers *The Radville Star* and *The Deep South Star* based in southern Saskatchewan;
- Execution of an exclusive 5-year contract with Hudson's Bay Company for all flyer printing for Zellers, The Bay, Home Outfitters and the HBC Loyalty Program;
- Sale of our interest in *TV Hebdo*, a television programming guide;
- Execution of an exclusive 15-year agreement with Hearst Corporation to print the *San Francisco Chronicle* daily newspaper and related products, as well as to provide complete post-press services.

2.3 Significant Acquisition

During our fiscal year ended October 31, 2009, we did not complete any significant acquisition.

2.4 Strategic Orientation Update

2.4.1 General

Our ultimate goal is to ensure the growth and profitability of Transcontinental while promoting the common interests of our employees, customers and shareholders, the three pillars of the organization. Our strategy is based on several fundamental principles: to be the leader in the markets we serve, to have a disciplined approach

to acquisitions, and to foster a culture of continuous improvement. These underlying principles, which are reflected in our *Evolution 2010* business project, have served us well to date.

Having said this, our mission is primarily to help our customers identify, reach and retain their target consumers. We do this by offering products and services in printing, publishing and marketing, which include many new web-based technology platforms that our clients are increasingly using in their marketing campaigns. We plan to continue to adapt to the new realities of our customers in order to help them increase the return on their marketing dollars. In fact, our vision is to build a profitable, North American leadership position as a communications solutions provider.

2.4.2 Trends in the marketplace

Transcontinental does business in industries that are transforming at a rapid rate. Unprecedented changes are sweeping the publishing and printing industries, presenting both opportunities and risks. Marketing is moving from a mass marketing approach to a one-to-one targeted approach as marketers focus more and more on return on investment and measurability. As such, campaigns are becoming more and more targeted, as advertisers seek to establish and develop a relationship with their customer base. Concurrently, the rise of new media, digital platform and changing consumer habits coupled with the increasing availability of data and technology to make better use of this data, is increasing audience fragmentation, personalization of content, user-generated content and web-based communities. The velocity of certain trends has increased. This is especially true for the rate of adoption of digital technologies and the ensuing migration of advertising dollars toward online platforms.

The ongoing transformation of the media and marketing industries is having a profound impact on the printing industry as a whole. Printed products remain key components in the media mix. In fact, growth is confined to the niche segments that address the above trends and to players who adopt state-of-the-art technologies. These new technologies enable a better response to customers' ever-growing needs while at the same time allow printers to gain operational efficiency.

In addition, macroeconomic factors, including the globalization of markets, the rise of environmental and social consciousness and the volatility of the Canadian dollar, are all having an effect on our business as well as more recent happenings including the economic slowdown and the financial crisis.

Taken as a whole, these new trends have started to have an impact on the demands and expectations of our customers. In fact, they have driven our customers to increasingly experiment with one-to-one marketing, new platforms and an integrated service offering from their suppliers.

2.4.3 A two-pronged strategy

In light of these transformations in our industries, we have re-focused our strategy in order to continue to fulfill our mission. We believe we can accomplish this using a two-pronged approach: (1) build on our existing business; and (2) develop new opportunities in digital and marketing communications. That is how we believe we can maximize our growth potential over the medium and long term.

Build on our existing business

Throughout our history we have built a solid foundation for future growth. We have core assets that can help us grow new services: we master print-based communication products, we have strong brands and the ability to distribute relevant content with targeted multi-channel reach and we are moving towards becoming a customer centric organization, service advertisers as well as end-consumers. Below is a list of selected accomplishments in fiscal 2009:

- We started printing the *San Francisco Chronicle* daily paper at our new plant in Fremont, California under a 15-year contract signed in 2006 with Hearst Corporation. The project was completed on schedule and the startup was a success;
- We signed a second six-year contract with Rogers Communications for the production of its marketing products, in addition to having taken over the printing of all of the Rogers magazines in February 2009;
- We completed our capital improvements to Transcontinental Transmag, our newspaper printing plant, which is now equipped with state-of-the-art technology that gives us improved colour printing capacities, higher quality and more efficient production.

In sum, our existing business is solid and generates considerable cash flow. We believe we can generate earnings above the industry average given our strong competitive position and our investments in our network of state-of-the-art printing plants.

Develop new opportunities in digital and marketing communications

Transcontinental derives the majority of its revenues from the marketing budgets of its customers. For the future, in addition to building on our existing business, we are developing new opportunities focused on new digital platforms, one-to-one advertising and an integrated service offering. Below is a list of our selected accomplishments in fiscal 2009:

- We signed a number of major clients who will benefit from our marketing communications services. While this new business comes from a wide range of industries, the new contracts all follow a common thread: they focus on Transcontinental's ability to provide marketers with a comprehensive set of solutions that are developed to address customers' diverse business needs and expand their marketing mix. Selected customers include Shoppers Drug Mart, Zellers and Purolator Courier;
- We acquired Conversys Inc., the leading e-flyer provider for a number of Canadian retailers. The acquisition enriches Transcontinental's existing print and interactive communications offering to major retailers. Conversys's multi-channel marketing services enable businesses to increase sales and more effectively interact with their customers;
- We acquired Redwood Custom Communications, a North American leader in custom communications on multiple platforms and a full service marketing and communications company that creates turn-key custom publishing and branded content solutions for both print and digital. Redwood's offering also includes data sciences, research and measurement, database marketing, variable printing, photo studio and premedia tools. This makes it an attractive complement to the services offered by Transcontinental's Marketing Communications Sector, such as database analytics, premedia, email marketing, one-to-one marketing and the printing of marketing products;
- We invested approximately \$9.2 million in strategic investments in our Media Sector, mainly related to our digital assets;
- Weblocal.ca, our Canada-wide search site for local communities launched in late October 2008, has continued to attract consumers over the past year and now attracts close to 2.5 million unique visitors every month;
- The Marketing Communications Sector won a total of 25 medals at the Magnus Opus Awards and four awards at the 2009 Pearl Awards, two North American competitions which recognize excellence in content, design, digital and strategy in custom publishing;

- The mobile applications that we launched in September 2008 for the popular magazine *The Hockey News* have been a resounding success. The Hockey News Mobile has become a must-have companion for close to 400,000 hockey fans, who can download timely hockey scores and rich content onto their iPhone or BlackBerry. To a lesser degree, mobile apps have also been introduced for *Elle Canada*, *Canadian Living*, *Les Affaires*, *Finance et Investissement* and *Investment Executive*, and the number of downloads is growing.

In sum, we are ramping up the development of our new integrated service offering for advertisers. The solid foundation we have built over the years through our operations, our niche-based strategy and our exploitation of the new directions emerging with the new technologies has put us in a good competitive position to take advantage of opportunities as they arise over the long term. In fact, we plan to deploy these new services at a much faster rate in the coming years.

All this notwithstanding, some challenges will have to be dealt with so that we can maximize the growth of these new services. We must put more emphasis on the development of marketing strategies for our customers. We must also become increasingly integrated in our selling process. Lastly, we must change the market's tendency to consider us only in our role as printer and publisher.

While the current economic environment is somewhat tempering the growth of these new services, we have succeeded in winning many new contracts, which speaks to the relevance of our strategy and the transformation we are currently making in our selling process so that we present a more complete service offering to our customers.

2.4.4 Major rationalization measures

Since November 2008, we have announced major rationalization measures in order to maintain our solid financial position and to address the severe slowdown in demand for certain of our products and services, particularly in our direct mail activities in the U.S., and the printing of marketing products, magazines, books and catalogues, as well as magazine publishing. Below is a summary of what has been accomplished in fiscal 2009:

- About 2,000 layoffs were instituted during the year, slightly more than the announced job cuts. About half of the jobs eliminated were in the United States;
- We ceased the publication of a few print titles, consolidated five printing plants, and sold two plants and two magazines;
- Other extraordinary initiatives have been initiated including a hiring freeze, unpaid leaves and reduced work weeks. The Corporation's senior managers decided to take two weeks of unpaid leave but to work throughout that period which represents a salary decrease of 4%. The Executive Chairman of the Board and the President and Chief Executive Officer have reduced their salary by 10% and Board members have agreed to freeze their annual fees;
- Other measures were implemented throughout Canada, the United States and Mexico.

All of the announced rationalization measures were implemented before the end of fiscal 2009. The resulting cost savings are on the order of \$80 million for fiscal 2009 and close to \$110 million on an annualized basis, or slightly more than initially expected. As a result, the total restructuring costs related to this program also slightly exceeded our initial projections.

Total costs related to this program amounted to \$104.8 million before tax. For fiscal 2009, costs amounted to \$78 million before tax, of which \$21.1 million is non-cash as the table below demonstrates.

Restructuring Costs

| (in millions of dollars) | Fiscal Year Ended October 31 | | | |
|---------------------------------|------------------------------|-------------|------------|--------------|
| | 2008 (\$) | 2009 (\$) | 2010 (\$) | Total |
| Severances | 7.7 | 40.4 | 0.9 | 49.0 |
| Other costs | 0.0 | 16.5 | 3.2 | 19.7 |
| Total cash costs | 7.7 | 56.9 | 4.1 | 68.7 |
| Impairment of assets (non cash) | 15.0 | 21.1 | 0.0 | 36.1 |
| Total costs | 22.7 | 78.0 | 4.1 | 104.8 |

2.4.5 Evolution 2010

Evolution 2010, the business project that was launched in November 2005, continues to be the backbone of the two-prong strategy highlighted above. *Evolution 2010* identified the key issues underlying our future growth: Talent, Sales Growth, Efficiency and Digital. The focus of the Talent issue is to attract, develop and retain the best talent that will enable us to achieve our strategic objectives and foster engagement; the focus of the Sales Growth issue is to increase global organic sales growth by 5% on average per year by maximizing our sales and marketing effectiveness; the focus of the Efficiency issue is to increase both production and administrative efficiency and finally; the focus of the Digital issue is to broaden our offering through products and services based on digital capabilities.

Below you will find a table summarizing the financial objectives of *Evolution 2010* and our performance in the past three fiscal years in relation to these objectives. It is important to note that these financial objectives are not to be construed as guidance or forecasts for any individual year, but rather as long-term targets that we strive to achieve over the length of the *Evolution 2010* business project.

| Financial Objectives | 2006 | 2007 | 2008 | 2009 | Analysis and Comments |
|--|--------------------|---------|---------|---------|---|
| Increase economic value creation (variance compared to previous year): | N/A ⁽¹⁾ | (\$18M) | (\$28M) | (\$15M) | We were unable to increase the economic value created. This was mainly due to the economic situation, the negative impact of the exchange rate, and capital expenditures required for our major projects (<i>San Francisco Chronicle</i> , <i>The Globe and Mail</i> and <i>Transmag</i>), which all required capital outlays without yet being able to fully contribute to earnings. |
| Grow sales organically by 5% on average per year | 0% | 3% | 2% | (11%) | Organic growth is still lower than the 5% objective, mainly due to the North American recession and the turmoil it created in the publishing and printing industries in 2009. However, we believe that we will improve our performance going forward, since we will benefit from many new contracts, especially from the <i>San Francisco Chronicle</i> and <i>The Globe and Mail</i> . |

| Financial Objectives | 2006 | 2007 | 2008 | 2009 | Analysis and Comments |
|---|--------------------|-------------|-------------|-------------|---|
| Grow adjusted earnings per share (excluding the foreign exchange impact) by 10% on average per year | N/A ⁽¹⁾ | 11% | 19% | (11%) | We have exceeded our objective since the launch of our business project, except in fiscal 2009 given the negative impact on our operations of the North American recession. However, we believe that our performance will improve in fiscal 2010 due to new business and the fact that we have maintained our lead in most of our niches. |
| Maintain a range of net debt to total capitalization ratio (excluding securitization) of 35% to 50% | 25% | 29% | 39% | 42% | Our net debt to total capitalization ratio stands at 42%, within the range set by management. We are expecting this ratio to decrease slightly over the coming year, since capital investments will be lower and the San Francisco Chronicle project will generate additional cash flow, thereby reducing our net indebtedness. |
| Invest \$120 million on average per year in capital assets (excluding newspaper outsourcing projects) | \$114M | \$92M | \$131M | \$86M | Our capital expenditures, net of newspaper printing outsourcing projects, were lower than our objective this year, since several major projects were completed in 2008. |
| Sustain dividend growth | 19% | 10% | 13% | 3% | Despite the fact that in 2009 a number of companies reduced their dividends as a result of the havoc created in our markets by the North American recession, our dividend remained at the same level as in 2008. |

(1) Following the restatement of financial statements in December 2007, this data is no longer available.

2.5 Strategic Acquisitions

An intrinsic part of our strategy is also to grow through strategic acquisitions. We are committed to maintaining a disciplined approach when making acquisitions. We ensure that the companies we acquire fit our stringent acquisition criteria: (1) fit our strategic plan; (2) be profitable and growing; (3) provide synergies with our operations; (4) have good management and compatible corporate culture; and (5) be accretive to earnings and EVC positive within a reasonable period of time. We have recently made strategic acquisitions while continuing to deliver on our disciplined financial management objective.

In January 2009, we acquired Conversys Inc., Canada's leading supplier of electronic flyers. The acquisition complements our existing print and interactive communications offering to major retailers. Conversys's multi-channel marketing services enable businesses to increase sales and more effectively interact with their customers by delivering a continuous flow of digital content through various media, including web sites, email, and mobile devices. Conversys excels in providing content conversion and hosting services to large scale retail organizations.

In November 2008, we acquired Redwood Custom Communications, a North American leader in custom communications on multiple platforms. Redwood is a full service marketing and communications company and creates turn-key custom publishing and branded content solutions for both print and digital platforms. Redwood's offering includes data sciences, research and measurement, database marketing, variable printing, photo studio and premedia tools. This makes it an attractive complement to the services offered by our Marketing Communications Sector.

In September 2008, we acquired Rastar, Inc., a U.S.-based direct marketing company that specializes in interactive database marketing and variable data digital printing, which enable fully personalized marketing communications. Rastar's industry experience, combined with its digital printing expertise, allows us to further expand our integrated marketing services offering and enables our clients to achieve the best possible returns on their marketing campaigns.

In March 2008, we acquired ThinData Inc., Canada's leading permission-based email marketing services firm. ThinData's offering fits perfectly with our integrated marketing services growth strategy which includes expanding our premedia, database management, direct marketing and analytics and e-marketing capabilities to deliver unique solutions to our clients and our media properties.

2.6 Environmental Responsibility

We recognize the critical nature of environmental issues, and take extensive precautions to protect our natural world. Transcontinental is not a major contributor to Greenhouse Gases (GHG). However we remain vigilant with respect to the impact of our activities on air quality. Striving everyday to improve our environmental performance, our company-wide environmental policies and procedures are founded on three main guiding principles: (1) protect the environment for present and future generations; (2) reduce risks and improve efficiencies; and (3) introduce improved technology and processes. The following describes our environmental policies and examples of how we are implementing them.

We implemented a paper purchasing policy that promotes the use of environmentally preferable papers through a classification process that allows customers to make an informed choice regarding the paper they choose for their printing and publishing needs. Transcontinental promotes the use of environmentally preferable papers. With respect to fibre sourcing, Transcontinental promotes the use of papers with maximized post-consumer and de-inked recycled fibre and also encourages the use of papers made with pre-consumer recovered fibre or alternative fibres in preference to virgin wood fibre. Where virgin wood fibre is required, preference will be given to forest fibre from sustainable forests, certified by a recognized organization, avoiding fibre from high conservation value forests where those values are not protected. Other papers may also be promoted where it can be shown that there is an overall environmental advantage, in keeping with the principles of sustainable development.

In fiscal 2009, with a view to environment protection, we have committed to the following:

- **Product Stewardship** - We recognize that we share in the responsibility for the environmental impact of the products we produce. Therefore, we cooperate with other public and private bodies to develop systems for the recovery, re-use and recycling of the Corporation's products;
- **Eco-Efficiency** - We strive to improve our products and processes so as to progressively reduce routine discharges of contaminants and to use resources efficiently;
- **Climate Change and Energy Use** - We recognize the dual challenge of climate change and energy supply security. Therefore, we will maximize the efficiency of our operations and encourage a transition to low carbon fuels and renewable energy;

- Waste Management - We strive to reduce our waste and to re-use and recycle materials. We strive to minimize the generation of hazardous waste;
- Risk Management - We strive to avoid accidental discharges of contaminants into the environment and will prepare emergency plans so that we can diligently contain and clean up any potential environmental incidents. We evaluate environmental risks prior to acquiring properties or businesses, and prior to changing or undertaking major new activities;
- Supply Chain Improvement - We encourage our suppliers to adopt environmental practices consistent with this policy;
- Monitoring and Reporting - We monitor our performance in carrying out this policy;
- Communication - We foster openness and dialogue with all stakeholders, including employees, regulators, neighbours, shareholders, suppliers, customers and the public, concerning the environmental impacts of Transcontinental's activities, and will be responsive to their legitimate concerns;
- Continuous Improvement - We strive to continuously improve our environmental performance.

In order to ensure implementation of our environmental policies, we have executed the following:

- Our new plant in Fremont, California is one of the first printing plants to be built to meet the Leadership in Energy and Environmental Design (LEED) standards in the United States and was recently certified LEED Silver;
- As of the date hereof, all of our printing facilities in Canada and the United States received triple chain-of-custody certification. This certification designates that the process by which paper is made promotes sustainable forest management standards. Transcontinental has been certified by the Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) and Programme for the Endorsement of Forest Certification (PEFC);
- In 2007, Transcontinental adopted a forward-looking Paper Purchasing Policy which goes well beyond existing standards and certifications. Since then, managers have taken steps to make our suppliers and customers more aware of it and to help them move forward with us. We are proud to announce the concrete and auditable results of our day-to-day efforts: use of "Gold" and "Gold Plus" ranked papers, which meet the highest standards of sustainable forest management, grew from 55% from 2008 to 2009, following on an increase of 37% from 2007 to 2008, and now represents nearly half the paper consumed in our printing activities;
- We developed a Classification of Environmental Papers and supporting documentation that will guide the implementation of the Paper Purchasing Policy. The Classification of Environmental Papers can be found on our internet site at www.transcontinental.com;
- We started using an Environmental Products Inc. (EPI) certified biodegradable plastic bag for our Ad-Bag (Publisac), a well-known tool used to distribute marketing material door-to-door to households in Québec and eastern Ontario. The plastic is engineered to degrade and totally fragment in 90 to 120 days and to biodegrade in a further 12 to 24 months after disposal;
- For the fourth year in a row, we are supporting the Carbon Disclosure Project (CDP) to reduce the production of CO₂. Transcontinental's support for the CDP reinforces its position on the environment, while demonstrating its commitment to continually finding new ways to help preserve the planet;

- At the beginning of fiscal 2009 we put in place an Energy Policy whose goal is to reduce energy consumption across Transcontinental.

2.7 Changes to the Organizational Structure

In early fiscal 2009, we announced the establishment of a new structure to support our growth strategy through the creation of the Marketing Communications Sector. At that time, the strategy involved accelerating the development of new services based on advertising personalization and new communication platforms, while continuing to strengthen and broaden our publishing and printing services through our two other Sectors.

Subsequently, after a strategic review, we reorganized further our Marketing Communications and Printing Sectors, and the new structure took effect on November 1, 2009. As a result, all of our Canadian commercial printing and direct mail operations in the Marketing Communications Sector were transferred to the Printing Sector. The aim of this reorganization was to make the development of new integrated and one-to-one marketing communication solutions on multiple platforms the fundamental mission of a separate sector, with print production being concentrated in another sector.

The Printing Sector now comprises our services to publishers of newspapers, books, magazines and catalogues, our marketing product printing business, our Mexican operations, our U.S. and Canadian direct mail operations, and our services for retailers. The Marketing Communications Sector is now consolidating its offer through a new model based on growing business through specialization. This Sector now has five Divisions:

- Custom communications: creating custom content and one-to-one media programs by combining a journalistic offering and high-level marketing, to help clients achieve their goals of building a solid relationship with their customer base;
- Premedia: offering solutions aimed at creating, managing and transforming visual content for use on multiple platforms;
- One-to-one marketing solutions: developing and implementing one-to-one dialogue strategies so that customers can move from mass communication to highly personalized communication;
- Digital promotions: transforming print promotional material, i.e., flyers and catalogues, into enriched, user-friendly and interactive web-based content that is distributed via multiple channels;
- Digital printing solutions: developing Internet marketing strategies tied in with digital printing.

As for the Media Sector, its four Groups remain unchanged: Business and Consumer Solutions, Local Solutions, New Media and Digital Solutions, and Educational Book Publishing. This Sector mainly focuses on two avenues of growth: offering content and solutions for Canadian women, and offering community newspaper publishing and distribution services for local communities.

Item 3 - Narrative Description of the Business

Unless otherwise specified, in this Annual Information Form, given the presentation of our consolidated financial statements, we will describe our business based on the structure in place as at October 31, 2009.

3.1 Operating Sectors

The following table sets forth the revenues and the percentage of revenues by operating sector for the fiscal years ended October 31, 2009 and 2008.

| (in millions of dollars except for percentages) | Fiscal Year Ended October 31 | | | | | |
|---|------------------------------|----------|------------------------|---------------------|-----------|---------|
| | 2009 (\$) | 2009 (%) | 2009 (\$) | 2009 (%) | 2008 (\$) | 2008(%) |
| Printing Sector | 1,405.6 | 61.2 | 1,659.2 ⁽¹⁾ | 72.3 ⁽¹⁾ | 1,536.7 | 63.2 |
| Marketing Communications Sector | 373.5 | 16.3 | 119.9 ⁽¹⁾ | 5.2 ⁽¹⁾ | 341.7 | 14.1 |
| Media Sector | 607.0 | 26.5 | 607.0 | 26.5 | 645.3 | 26.6 |
| Inter-segment sales, other activities and unallocated amounts | (91.5) | (4.0) | (91.5) | (4.0) | (94.4) | (3.9) |
| Total | 2,294.6 | 100.0 | 2,294.6 | 100.0 | 2,429.3 | 100.0 |

(1) Comparative figures of the Printing and Marketing Communications Sectors have been reclassified to reflect the transfer of the activities of the Marketing Products Group from the Marketing Communications Sector to the Printing Sector as of November 1, 2008.

3.2 Economic Cycles

A significant risk that we face and over which we have no control is related to economic cycles. However, because the Corporation has a development strategy based on becoming a leader in market niches that have high growth potential, and because it is well diversified, we have successfully reduced our exposure to economic cycles, without, of course, eliminating their occurrence or controlling their magnitude. The Corporation believes it mitigates this risk by the very nature of the composition of its operations as described below:

- Approximately 40% of consolidated revenues stems from niches that are less exposed to cyclical changes in the economy, such as book, flyer and insert printing, publishing of educational resources, publishing of local and regional newspapers and distribution of advertising material. Also, a large portion of our customer base is in less cyclical sectors, such as food and beauty products.
- We have entered into mid- and long-term agreements ranging from 1 to 15 years with customers who generate more than half the revenues in the Printing Sector.
- In the Media Sector, Transcontinental benefits from a good mix of local and national advertising. Almost half of advertising revenues generated by this Sector come from local advertising, which has been less volatile than national advertising in the last few years.

3.3 Printing Sector

The description of the activities of the Printing Sector is provided as of November 1, 2009 to reflect the transfer of the activities of the Marketing Products Group from the Marketing Communications Sector to the Printing Sector, unless otherwise specified. As of November 1, 2009, we were operating 47 production plants in Canada, the United States and Mexico. Management believes that our strategic focus on achieving plant specialization and reducing costs in the printing products that we create has allowed us to offer our customers superior quality products at very competitive prices.

3.3.1 Services, equipment and manufacturing process

Services

We operate 47 production plants in Canada, the United States and Mexico, allowing us to offer our customers a complete line of specialized services for the production of printed material, from the beginning to the end of the graphical production line:

- printing services including production on sheet-fed press, heat-set and cold-set web presses, ink jet printers, laser and digital printers, and screen printing;
- postpress services including finishing, lamination/coating, case and perfect binding/stitching and folding, customized ink jet printing, surprinting, branding, trimming and inserting; and
- distribution services including postal management and shipping.

Given the geographic location of our plants and the type of equipment we have, we are able to serve local, regional and national markets. The simultaneous printing of a single product in several plants leads to a reduction in transportation costs for the customer and allows for shorter lead times. Our operating flexibility allows us to transfer work from one plant to another to meet production deadlines while enabling us to handle contingencies.

Equipment and Manufacturing Process

We operate more than 240 presses and ultramodern printers spread out over our plants in the Printing Sector. The fleet of equipment includes:

- heat-set web offset presses;
- cold-set web offset presses;
- sheet-fed presses;
- ink jet printers;
- laser printers;
- digital printers; and
- large format presses.

The equipment and manufacturing process allow for short to zero make-ready time, speed in printing, superior reproduction quality and product differentiation. Most of our presses and printers are computer-controlled, and many have in-line finishing capabilities. Technical compatibility between presses gives tremendous flexibility and allows us to adapt easily to last-minute changes and ensure delivery seven days a week.

The quality of printing services is ensured by expert staff in compliance with industry standards. We currently use the services of the laboratories of the Québec Institute of Graphic Communications (QIGC). These ultramodern installations allow for the ongoing analysis of the inks, papers and other raw materials used by our network of plants. We share the results with our suppliers in order to quickly correct any problems or discrepancies, thus ensuring our high level of quality.

We use the offset printing process. This process is characterized by the transfer of a printing plate image to a rubber surface, called a blanket, which is mounted on a cylinder. The blanket is first rolled over the printing plate in order to receive the image, which is then transferred to paper. There are several types of offset printing processes: sheet-fed and web, heat-set and cold-set. The web printing process consists of printing on rolls of paper while the sheet-fed printing process consists of printing on sheets of paper. Short-run printing is generally best served by sheet-fed, while longer run printing is generally best served by web.

Heat-set web offset printing involves a press using a dryer to fix or dry instantaneously the oil-based inks. This process provides great speed (up to 90,000 copies per hour) and a better quality of printing on higher quality coated paper. This process is used mainly to print magazines, periodicals, catalogues, flyers, newspaper inserts, tabloids, books, directories and direct mail products. We own 68 heat-set web offset presses.

Cold-set offset printing involving a press that does not use a dryer; rather ink is absorbed into the paper and dries by oxidation. This process is used mainly to print newspapers, books printed in black and white, directories and certain types of flyers. We own 28 cold-set web offset presses.

We operate 52 sheet-fed presses which allow us to offer the highest quality services for books, commercial printing, entertainment and direct mail products.

The majority of our production plants are equipped with prepress equipment that allows carrying out the various stages of graphic production with the help of digital technology. Skills developed by us with electronic prepress equipment are used in all markets to further reduce production lead time while increasing the opportunity for last-minute changes.

We are able to provide our customers with direct digital imaging services that streamline the process of preparing pages for print, and allow use of data from other vehicles such as the Internet. We have also installed direct computer-to-plate production systems for offset printing in our production plants, which eliminate the costly and time-consuming film preparation in print productions.

3.3.2 Customers and competition

Although we are the largest printer in Canada, the printing industry is highly competitive with respect to most categories of products and regions. Further, this industry is North American in scope in several categories providing opportunities for a diverse set of competitors from both the United States and Canada. Some of the industry's markets are currently oversupplied in several geographic regions in North America, adding increased pricing pressure in the market. Some North American companies involved in those printing activities have greater capacity and financial resources than we do. We compete in certain segments with several large firms in North America, including R.R. Donnelley & Sons Company, Cenveo, Inc., World Color Press Inc. and Quad/Graphics, Inc, as well as with numerous regional printers.

We believe that the major competitive factors in the printing business are quality and product innovation, the range of services offered, pricing, the availability of printing capacity with the appropriate equipment and state-of-the-art technology, delivery lead times, distribution capacity and customer service. We believe that, primarily due to the continued excess capacity in the industry, there has been downward pricing pressure in many market segments in recent years and it has led to increased competition in the printing industry. The development of new printing technologies at reduced prices is also enabling small-niche printers to compete on highly specialized segments of the industry.

No single customer of the Printing Sector has accounted for more than 10% of such Sector's revenues during the last two fiscal years. Furthermore, we have entered into contracts with a significant number of our major customers in the Printing Sector. Such contracts have terms between one to 18 years and generally have price adjustment clauses based on volume, cost of raw materials, labour and/or the Consumer Price Index. Moreover, niche markets such as sheet-fed printing and the printing of direct marketing materials are not typically subject to long-term contracts with customers.

3.3.3 Geographic distribution

The following table sets forth the revenues and the percentage of revenues based on their geographic distribution for the Printing Sector for the fiscal years ended October 31, 2009 and 2008.

Revenues by Geographic Region

| (in millions of dollars except for percentages) | Fiscal Year Ended October 31 | | | |
|---|------------------------------|----------|-----------|----------|
| | 2009 (\$) | 2009 (%) | 2008 (\$) | 2008 (%) |
| Revenues generated from plants in Canada | 943.3 | 67.1 | 984.7 | 64.1 |
| Exports from plants in Canada | 164.6 | 11.7 | 181.4 | 11.8 |
| Revenues generated from plants in the United States and in Mexico | 297.7 | 21.2 | 370.6 | 24.1 |
| Total | 1,405.6 | 100.0 | 1,536.7 | 100.0 |

3.3.4 Raw materials and energy prices

The primary raw materials the Corporation uses in its Printing Sector are paper, ink and plates. This Sector's activities consume energy, i.e., electricity, natural gas and oil. Fluctuations in raw materials and energy prices affect our operations.

The current difficulties in the pulp & paper industry have resulted in a decrease in the supply of paper, which in turn could result in paper price increases. While paper costs are a pass through for our Printing Sector, the increase in the price of paper can have a negative effect on our printing operations if it changes the purchasing habits of our customers, in terms of number of pages printed for example. Moreover, the increase in the price of paper negatively affects the profitability of the Media Sector. In order to mitigate this risk, the Corporation does not rely on any one supplier and has agreements with its most important suppliers in order to ensure a stable flow of resources. In addition, some supply agreements contain escalation clauses that index selling prices to fluctuations in raw material costs and currency.

Furthermore, fluctuations in the price of oil, a core ingredient in the composition of ink, have a direct impact on ink prices. While most of our contracts with customers provide for escalation clauses based on fluctuations in the price of ink, an increase can have a negative effect on our operations if it changes the purchasing habits of our customers in terms of the number of pages printed or a reduction in the use of colour for example. Finally, fluctuations in the price of oil have an impact on gasoline prices. Any increase thereto would negatively affect our distribution activities in the Media Sector. In addition, Transcontinental continues to make efforts of finding new ways to reduce energy costs.

3.3.5 Services

Transcontinental is the largest printer in Canada. The Printing Sector's activities are divided into six groups: the Magazine, Book and Catalogue Group; the Retail Group; the Direct Mail Group (United States); the Newspapers Group; the Marketing Products Group; and the Mexico Group. Its core competency is manufacturing excellence. Our unique newspaper outsourcing model, as well as our on-demand printing and fulfillment of direct marketing products activities, positions Transcontinental well, particularly as this Sector is undergoing a challenging period. In addition, with state-of-the-art capital assets and a history of investing above the industry average, we are well positioned to remain a leader in our industry.

Magazine, Book and Catalogue Group

With five plants specialized in magazine and catalogue printing located in Québec, Ontario, Manitoba and Saskatchewan, the Magazine, Book and Catalogue Group prints more than 300 magazines, including all of the magazines published by Transcontinental's Media Sector, making it the largest magazine printer in Canada.

In fiscal 2008, we signed two exclusive six-year contracts to print all of Rogers' 70 magazines, including *Châtelaine*, *Maclean's*, *L'actualité* and *Canadian Business*, as well as its marketing communications products. These contracts took effect in the second quarter of fiscal 2009.

In addition, Transcontinental is Canada's largest book printer. The three specialized plants, located in Québec, offer printing services for various products (educational, trade, religious, cookbooks, yearbooks, agendas and maps). This Group has developed expertise in the short-run printing of books, in particular for the educational market, using traditional and digital technologies.

Retail Group

Transcontinental is the leading printer of retail flyers and inserts in Canada. The vast printing network means the Retail Group can serve national, regional and local customers, predominantly in the food, drug, home improvement and specialty retailer categories. Transcontinental prints flyers for major national customers at several different plants simultaneously. In fiscal 2008, we signed a 5-year contract with Shoppers Drug Mart to print its retail flyers valued at approximately \$25 million per year.

Direct Mail Group

The Direct Mail Group has six production plants specializing in direct marketing located in Pennsylvania, California and Texas. These business entities provide integrated services required to develop and deliver customized direct marketing campaigns.

Marketing Products Group

The Marketing Products Group includes 15 production plants specializing in digital and offset commercial printing of marketing products located in Ontario, Québec and the Atlantic Provinces serving both large and small customers as diverse as advertising agencies to blue-chip corporations in the financial and pharmaceutical sectors.

The production lines of sheet-fed presses, web presses (with and without in-line finishing capabilities), digital printers and large format presses enable the Group to support our customers with their marketing, business and consumer directed advertising material, point of purchase displays, banners, annual reports, etc. Our inserting, ink-jet printing and lasering capabilities can support our customers' direct marketing campaigns. This Group also offers fulfillment services to our customers.

Newspaper Group

Transcontinental is the leading printer of newspapers in Canada. Newspapers are produced in 10 plants located in seven provinces of Canada and in Fremont, California, of which seven are specialized. The list of customers is comprised of more than 150 newspapers across the country, including 22 dailies (including Transcontinental's 11 dailies). The dailies include the *San Francisco Chronicle*, *The Globe and Mail* in its principal markets (the Atlantic Provinces, Québec and Ontario), *La Presse* for its overall market, *The St-John's Telegram* in Newfoundland and Labrador, *Le Droit* in Québec and Ontario, *Le Soleil* in Québec City, *Le Nouvelliste* in Trois-Rivières and *Metro* in Montréal and in Halifax.

On August 26, 2008, we announced that we had signed an exclusive 18-year \$1.7 billion contract with The Globe and Mail, a division of CTV GlobeMedia Publishing Inc., to print *The Globe and Mail* in most of its major markets in Canada until 2028. This contract represents an extension of existing contracts with *The Globe and Mail* in the Atlantic Provinces, Québec and Ontario, and adds two new markets: Alberta and British Columbia. The printing will be done in Halifax, Montréal, Toronto, Calgary and Vancouver. The contract takes effect on January 1, 2011. In 2009 and 2010, we have and will invest approximately \$175 million in a new and innovative Canada-wide platform for newspaper and flyer printing, the first Canadian network to integrate the

printing of these two products. This network will provide the capacity to deliver colour on every page for *The Globe and Mail*, and it will also address the needs of our retail customers on the flyer side.

On July 6, 2009, we began officially printing the *San Francisco Chronicle* daily paper at our brand new 338,000-square-foot plant in Fremont, California. The plant in Fremont offers comprehensive printing and postpress services. As well as handling a range of related products, the plant prints 270,000 copies of the *San Francisco Chronicle* from Monday to Saturday and 360,000 on Sunday. Transcontinental has an exclusive, 15-year contract to print the daily newspaper and related products. The project represented a total investment size of approximately US\$230 million for Transcontinental. The contract size is for more than US\$1 billion (excluding paper) in revenues over 15 years, and provides for indemnification from Hearst Corporation should the *San Francisco Chronicle* cease publication or be sold. Transcontinental's Fremont plant capacity will have the opportunity to leverage capacity to additional production volumes generated by other contracts.

Mexico Group

As the largest printer in Mexico, Transcontinental operates three printing plants and employs close to 900 people. Two plants are located in the Mexico City area and one plant is located in the city of Toluca, an hour from Mexico City. Transcontinental is the only printer in Mexico with a plant and equipment specially designed for the retail market, using heat-set web offset presses with short cut-off. With a population of over 100 million in Mexico, Transcontinental believes this market offers long term growth potential. Services include printing of flyers for the retail market, newspapers, magazines, school books and trade books, catalogues and commercial material. In October 2009, we installed a new 32-page press with a capacity of 90,000 copies per hour; this is the first press of this kind installed in Mexico.

3.4 Marketing Communications Sector

The description of the activities of the Marketing Communications Sector is provided as of November 1, 2009 to reflect the transfer of the activities of the Marketing Products Group from the Marketing Communications Sector to the Printing Sector, unless otherwise specified.

3.4.1 Equipment and manufacturing process

The Marketing Communications Sector operates three production plants in Salt Lake City that are equipped with approximately 29 presses and ultramodern printers.

For more information on this particular topic, see 3.3.1 – Services, equipment and manufacturing process - *Equipment and Manufacturing Process*.

3.4.2 Customers and competition

The Marketing Communications Sector comprises of a variety of services that enhance the ability of advertisers to reach their target customers. Over the last few years, we have established ourselves amongst leaders in this rapidly changing and highly dynamic sector. Through acquisitions and organic growth, our Marketing Communications Sector is now offering services such as custom communications, premedia and digital content management, personalized permission-based email marketing, data analytics, transformation of offline content into interactive digital content, and personalized digital web to print. While the barriers to entry in many of these market segments can be limiting, we have been able to capitalize on the trusted relationships that we have developed through our traditional businesses to gain new business opportunities. We provide these services to both our clients directly and to advertising agencies who require our unique technologies, market knowledge or specialized services integration. As with most sectors that rely heavily on technological innovation for the development of new services, we face new competitors. In many instances, the providers of these services are not limited to Canada or North America as development capabilities are in high demand from all over the world.

This market pressure fosters a challenging environment where we, and our customers, are constantly learning about new technologies and strategies for enhanced interaction and connections with targeted demographics.

Our competitors are widely dispersed, diverse in scale and specialization and in many cases new to the markets they serve. Included in this industry would be companies such as Acxiom, Harte-Hanks Inc., Epsilon, Razorfish/Microsoft, Consolidated Graphics, Inc. and Vistaprint N.V. There are also a number of smaller companies that are privately held who compete for our customers on unique offerings. As such, this market remains highly fragmented and competitive.

No single customer of the Marketing Communications Sector has accounted for more than 10% of said Sector's revenues during the last two fiscal years. We orient our services towards the Chief Marketing Officers of our customers or through direct relationships with individual operating entities, depending on the size of the firm and project. Some facets of our marketing communications offering operate through recurring revenue streams, and others are single projects. We plan to increase the renewal rate of our customer contracts by leveraging upon our other services.

3.4.3 Geographic distribution

The following table sets forth the revenues and the percentage of revenues of the Marketing Communications Sector, based on their geographic distribution for the fiscal years ended October 31, 2009 and 2008.

Revenues by Geographic Region

| (in millions of dollars except for percentages) | Fiscal Year Ended October 31 | | | |
|---|------------------------------|----------|-----------|----------|
| | 2009 (\$) | 2009 (%) | 2008 (\$) | 2008 (%) |
| Revenues generated from plants in Canada | 286.1 | 76.6 | 301.2 | 88.1 |
| Exports from plants in Canada | 42.7 | 11.4 | 33.6 | 9.8 |
| Revenues generated from plants in the United States | 44.7 | 12.0 | 6.9 | 2.1 |
| Total | 373.5 | 100.0 | 341.7 | 100.0 |

3.4.4 Services

The Marketing Communications Sector encompasses the Corporation's custom communications, premedia services and digital content management services, personalized permission-based email marketing, data analytics services, transformation of offline content into interactive digital content, and personalized digital web to print services. This Sector is structured by specialty and is composed of five divisions: the Custom Communications Division; the Premedia Division; the One-to-One Marketing Solutions Division; the Digital Promotions Division; and the Digital Printing Solutions Division. Its core competency is integrating strategy, content and execution across multi-channel marketing programs, by leveraging knowledge of the latest trends in marketing and new platforms for reaching consumers.

Custom Communications Division

The Custom Communications Division provides marketing consulting, design services, and content creation and management, including custom publishing, photography, print-to-web, and digital content distribution. Our acquisition of Redwood Custom Communications, completed in November 2008, expanded our offering to include content agency services. With four locations located in Ontario, the service offering includes communications strategy, branded content development and complete outsourcing and management of creative advertising production for our customers.

Premedia Division

This Division offers premedia services and digital content management services. For a number of our clients, we provide extensive digital storage of their visual content library for multi-channel marketing purposes. The Premedia Division has also become an outsource partner for retail clients, working closely with them and their sales and marketing teams, to provide timely, high-end content for their marketing campaigns. The Premedia Division has developed a market leading reputation for its use of state-of-the art technology, its full complement of physical media facilities, and the technical expertise of the staff.

One-to-One Marketing Solutions Division

This Division provides database marketing and analytics services to allow the Corporation's clients to better target their respective customers. In September 2008, we acquired Rastar, Inc., a U.S.-based direct marketing company that specializes in personalized digital web to print services. This acquisition allowed us to expand our marketing communications service offering and provided us access to Rastar's many Fortune 500 companies' clients in diversified verticals such as the automotive, consumer goods and retail industries. Rastar's thought leadership in interactive database marketing, combined with the Corporation's vision and scope, helps clients develop and execute personalized dialogue strategies driven by data analytics. The Division also provides email delivery of marketing content, and a rapidly expanding business in direct-to-consumer digital photo-book production.

With the acquisition of ThinData Inc., completed in February 2008, we have extended our ability to reach individual consumers, as email marketing becomes a key element of an integrated direct marketing offering. ThinData is Canada's leading personalized permission-based email marketing services firm.

Digital Promotions Division

The January 2009 acquisition of Conversys Inc., a significant North American provider of online e-flyer services to retailers, extended our services to include transformation of offline content into interactive digital content.

The Digital Promotions Division provides integrated marketing solutions for creative and content development across multiple channels, driving coherent communications strategies supporting customers' brands, and delivering improved marketing performance of advertising campaigns.

Digital Printing Solutions Division

For several customers such as financial institutions, pharmaceutical corporations, retailers and manufacturing companies, targeted printed material is the vehicle of choice for efficiently promoting their image as well as their products and services. Therefore, this Division produces various printed materials used in marketing: catalogues, brochures, etc.

The Division also includes the business communications and consumer solutions businesses. Our production facilities include state-of-the-art digital on-demand printing and finishing technology as well as other mailing and fulfillment capabilities.

3.5 Media Sector

As the fourth largest press group in Canada, the Media Sector combines our magazines, local and regional newspapers and educational book publishing activities, digital media activities with more than 120 websites and our distribution activities. This Sector is known under the name of Transcontinental Media. These activities are divided into four Groups: the Local Solutions Group, the Business and Consumer Solutions Group, the Educational Book Publishing Group and the New Media and Digital Solutions Group. The core competency of

the Media Sector is creating top-quality content and deploying it on multiple platforms. Transcontinental is connecting advertisers and consumers through engaging content. The Media Sector's four Groups focus on two of our priority growth areas: offering content and solutions for Canadian women and local communities.

With our newspaper portfolio that includes 11 dailies and 140 weekly, bi-weekly, and monthly newspapers published in the provinces of Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, Québec, Ontario and Saskatchewan, we are the second largest publisher of community newspapers in Canada.

We distribute door-to-door in Québec newspapers printed mainly by us, flyers and advertising material as well as new products and services which activities have made us the leader in this industry in Eastern Canada. We also offer, through our Canadian Media Network division, a Pan-Canadian distribution brokerage service. The Corporation distributes more than 50 million printed products to more than 12 million Canadian households every week. Innovative and popular products, such as the Publisac and Publisac.ca, deliver over three billion pieces of advertising items per year.

Information is increasingly being distributed on a digital platform and creating interactive communities of interest has become a major trend. The share of the Internet in advertising has also grown significantly in recent years. As an example, the Local Solutions Group operates more than 80 local and regional websites that are the local reference with respect to virtual community information.

With our portfolio of approximately 30 magazines, we are the leading consumer magazine publisher in Canada. We have two categories of magazines: (i) consumer publications which benefit with leading positions in the Canadian market such as *Canadian Living*, *Style at Home*, *Canadian Gardening*, *Good Times*, *More* and *Elle Canada*, as well as their French language counterparts *Coup de Pouce*, *Décormag*, *Fleurs*, *Plantes et Jardins*, *Le Bel Âge*, *Vita* and *Elle Québec*; and (ii) business publications such as *Investment Executive* and its French language counterpart *Finance et Investissement*, *Les Affaires*, *Affaires Plus* and others.

With over 6,200 titles in print used in the majority of educational institutions offering courses in the French-language in Canada, we are North America's largest French-language educational publisher covering all grade levels, from kindergarten through university, as well as related sectors such as adult education, vocational training and teacher's professional resources.

The New Media and Digital Solutions Group is responsible for expanding Transcontinental's existing and future brands into new channels of distribution.

3.5.1 Customers and competition

Customers of the Media Sector are typically either large national advertisers or smaller regional and local advertisers. Because of the breadth of our publications, we are able to offer unique platforms and mediums to all companies that are interested in advertising. From local display advertisements in our community newspapers to full page advertisements in our nationally distributed magazines, each of our customers has an opportunity to reach their targeted demographic with a high degree of accuracy.

No single customer of the Media Sector has accounted for more than 15% of the Sector's revenues during the last two years.

The revenues of the Business and Consumer Solutions Group are generated by its advertising revenues as well as through subscription and newsstand sales. We are the second largest publisher of magazines in Canada and the largest publisher of consumer-oriented magazines. Magazines geared to consumers constitute the largest part of our sales. Magazines published by others, whether of general interest or with a special focus, as well as the other medias (television, radio, Internet and other communication or advertising platforms) compete with our magazines for sales of advertising space and subscription and newsstand sales. In particular, the availability in

Canada of several magazines published by American publishers creates significant competition for our magazines. The Canadian magazine market is one of the most competitive; Canadians have access to more magazine titles per capita than in most other countries in the world. Given this environment, new magazines are always entering and exiting the market.

The revenues of the Local Solutions Group are derived primarily from advertising, from subscription and newsstand sales as well as from flyer distribution. We are the second leading publisher of local and regional newspapers in Canada and the first in Eastern Canada. We reach more than 2.4 million households per week with our weekly newspapers, 1.2 million in the Montréal region alone. Because of their level of penetration and strong credibility, our local and regional newspapers are an excellent information tool within their targeted community as well as an ideal vehicle for any advertising campaign. In some markets, other existing local and regional newspapers as well as other media (television, radio, Internet and other communication or advertising platforms) compete with the Local Solutions Group regarding sales of advertising space and subscription, and newsstand sales. Despite this level of competition, the community and regional newspaper segment has been more resilient to the drop in advertising dollars than the national or large metro dailies. Our readers continue to rely on our publications for quality information about their interests and our advertisers realize this.

By distributing approximately three billion printed products per year and other products each week to more than four million homes, the Local Solutions Group is a leader in the distribution market in the Province of Québec. The Local Solutions Group competes for distribution of advertising material and other products with daily and weekly newspapers, direct mail services and some regional distribution companies. We believe that the most significant competitive factors in the distribution business are pricing, quality of service, delivery lead times, targeted distribution and market penetration. It is the reach of our network that differentiates us in the market from our competitors and the convenience of our methods that make us one of the market leaders in this segment.

The revenue base of the Educational Book Publishing Group is diversified by market, customer, subject and title. Its principal customers are departments of education, school boards, elementary and high schools, Cégeps, colleges and vocational schools, community colleges, universities and, in some cases, foreign distributors. This Group operates in all three sectors of the Canadian French language educational publishing industry and its competitors differ in each of these three sectors. Its competitors include Groupe Modulo, Les Éditions du Renouveau Pédagogique Inc. and Les Éditions CEC.

The revenues of the New Media and Digital Solutions Group are derived solely from online advertising. Overall, our properties reach more than six million unique visitors per month across Canada in both French and English. The Group markets more than 120 websites derived from our leading print brands and from specific cyberbrands. In Canada, our properties are amongst the leading destinations for niche communities - women and business owners - and offer online content in growing categories such as food, family, health, home, gardening, décor, TV entertainment, business news and sports. We compete against 'pure-play' websites and the websites of our traditional media competitors. By offering unique content of interest to our readers that complements the material in our printed formats, we seek to differentiate ourselves in this crowded marketplace. Increasingly innovative technologies are being deployed to enhance the user experience on our websites in an attempt to increase the time spent by our visitors, gain market share, and provide better marketing opportunities for our advertisers.

3.5.2 Geographic distribution

For the fiscal years ended October 31, 2009 and 2008 all of the revenues for the Media Sector (which represented \$607.0 million in fiscal 2009 and \$645.3 million in fiscal 2008) were generated in Canada.

3.5.3 Raw materials

Paper is the primary raw material used in our publishing activities. To increase our purchasing power, we combine our purchases of raw materials for our three operating sectors. For more information on this particular topic, see Section 3.3.4 – Raw materials and energy prices.

3.5.4 Seasonal variations

Generally, our Media Sector's revenues are subject to seasonal variations, with increases in both the second and fourth fiscal quarters. In particular, the Educational Publishing Group's revenues are highly seasonal with the majority of the revenues occurring in the months of June to September to correspond with the traditional back-to-school season of educational institutions.

3.5.5 Services

Local Solutions Group

The Local Solutions Group consists of newspaper publishing and distribution operations. Transcontinental publishes local and regional newspapers in the Provinces of Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, Québec, Ontario and Saskatchewan. The Local Solutions Group publishes 11 dailies and 140 weekly, bi-weekly, monthly and bi-monthly newspapers. With a total circulation of approximately 250,000 copies for the dailies and approximately 2.4 million copies for the weeklies, some of Transcontinental's papers have been published for more than 100 years.

The local and regional newspapers are recognized both for the quality of their writing and their production, as indicated by the several prestigious awards which they receive each year. Always attentive to the needs of its readers and advertisers, the Local Solutions Group regularly conducts market studies which enable it to consistently improve the quality of its products. Moreover, this Group publishes a large number of theme inserts, special sections, directories and other publications which respond to the specific needs both of advertisers and readers.

A list of the local and regional newspapers published by us as of June 30, 2009, the most recent date at which information is available, is attached hereto as Schedule A.

We are part of a group that publishes *Métro* in Montréal, a free tabloid that is distributed Monday to Friday in 67 of Montréal's 68 metro stations and in 574 other points, including 74 McDonald's restaurants. We are also part of a group that publishes *Metro* in Halifax, a free daily newspaper that is distributed in the Halifax vicinity.

In 2008, we entered into an agreement with NewspaperDirect to migrate our newspapers to digital editions as part of our ongoing online strategy and our commitment to implement technology that makes life easier for our customers. All of our wholly owned publications, paid dailies and free dailies have been released as full-featured digital editions. The new editions can be accessed from any web browser and will give subscribers instant access to a digital replica of the full printed editions of the newspapers on PCs, Macs, Smartphones, iPhones, and Blackberry and iPod Touch devices, often before they hit the newsstands. For advertisers, it means that their print ads will also be online and will give them the ability to have more options to enhance and make their advertisements more interactive for readers.

Our distribution operations were originally developed for the door-to-door distribution in Québec of newspapers printed mainly by us, as well as flyers and advertising material. The Local Solutions Group has since added new products and services to its distribution activities to become the leader in this industry in Eastern Canada. The Local Solutions Group also has distribution operations in various areas in Newfoundland and Labrador, Nova Scotia, Prince Edward Island, Saskatchewan and Ontario.

We also offer, through our Canadian Media Network division, a Pan-Canadian distribution brokerage service. The Corporation distributes more than 50 million printed products to more than 12 million Canadian households every week. These innovative and popular products, such as the Publisac and Publisac.ca, deliver over three billion pieces of advertising items per year.

We offer our customers innovative products and services such as:

- The Publisac, a plastic bag containing flyers, advertising material and newspapers that is delivered at the consumer's door or mailbox. The Publisac reaches three million households in Québec every week, delivering 97% market penetration. The Publisac has been well received and valued in Québec for years. In fact, over 50 million advertising items are delivered to more than three million households every week;
- The Publisac Media, a Publisac on which advertising messages are printed;
- The Ad-Stand, a display stand located in the lobby of multi-unit residential buildings and in which flyers and newspapers are made available to residents;
- The Marketing and Geomarketing Service which, by directly accessing the Print Measurement Bureau database of Statistics Canada and with the help of the Arc View software cartography program which enables the correlation of data with geography, provide a targeted distribution of advertising material for a given product to specific markets defined by the demographic and geographic factors established by customers, such as age, income, size of family and consumption habits;
- The Themed-Bags, namely Publisacs in which the flyers revolve around a specific theme.

With our computerized systems, we handle the distribution by means of databases that enable us to segment the market and to target customers based on socio-demographic consumer attributes such as household income and purchasing preferences. In addition, by calculating the precise number of copies to be distributed, these systems provide advertisers with a maximum return on their advertising dollar. We rely on a team of contractors operating independently who ensure distribution to households and business establishments. We maintain a rigorous and on-going control over distribution points and provide our customers with services that allow them to measure the effectiveness of particular flyers and to target consumers.

In early 2008, we began using a biodegradable plastic bag for our Publisac. The plastic is engineered to degrade and totally fragment in 90 to 120 days and to biodegrade in further 12 to 24 months after disposal.

Information is increasingly being distributed on a digital platform and creating interactive communities of interest has become a major trend. The share of the Internet in advertising has also grown significantly in recent years. As an example, the Local Solutions Group operates more than 80 local and regional websites that are the local reference with respect to virtual community information.

In addition, Transcontinental operates the weblocal.ca portal. Weblocal.ca, launched in October 2008, now attracts close to 2.5 million unique visitors every month. Weblocal.ca is an online search and social media site for finding and reviewing local businesses, products or services in communities across Canada. Highly interactive, weblocal.ca is driven by content shared by users such as recommendations, ratings and reviews, as well as pictures and videos. Weblocal.ca fits well in Transcontinental's strategy of generating key growth opportunities by providing local community content and solutions.

Business and Consumer Solutions Group

The Business and Consumer Solutions Group publishes approximately 30 regular titles. These titles include 25 consumer publication titles and five business publication titles, including one weekly title. Through these

magazines, the Group serves Canadian readers from coast to coast in both official languages and gives advertisers access to a readership that is not only national, but one that also offers significant added value that arises from the prestige of the related brands. Transcontinental is the largest publisher of consumer-oriented magazines and the second largest publisher of magazines in Canada.

Moreover, we operate more than 30 websites leveraging content from our magazines and also create original digital content to better serve digital communities of interests. We aim to increase revenues derived from our digital platform and launch new products and services that complement our print-based activities. We are leveraging our existing brands such as *Coup de Pouce* and *Canadian Living*.

We consider the brand names of the Business and Consumer Solutions Group as major assets, such brand names being associated to magazines with a large circulation and recognized for the quality and pertinence of their content.

The following table provides a list of our various titles published by the Business and Consumer Solutions Group, the number of issues per year and their circulation as of June 30, 2009, the most recent date at which information is available.

| <i>Magazines</i> | <i>Number of issues by year</i> | <i>Circulation</i> |
|---|---|---------------------------|
| <i>Consumer Publications</i> | | |
| Canadian Gardening | 7 | 142,912 ⁽¹⁾ |
| Canadian Home & Country | 6 | 124,546 ⁽¹⁾⁽⁴⁾ |
| Canadian Home Workshop ⁽⁵⁾ | 9 | 100,077 ⁽¹⁾ |
| Canadian Living | 12 | 516,698 ⁽¹⁾ |
| Condo Direct | 16 | 31,000 ⁽³⁾ |
| Coup de Pouce | 12 | 205,801 ⁽¹⁾ |
| Décormag | 10 | 82,437 ⁽¹⁾ |
| Elle Canada (Les Publications Transcontinental-Hachette inc.) | 12 | 130,640 ⁽¹⁾ |
| Elle Québec (Les Publications Transcontinental-Hachette inc.) | 12 | 80,526 ⁽¹⁾ |
| Fleurs, Plantes et Jardins | 7 | 67,728 ⁽¹⁾ |
| Good Times | 11 | 148,059 ⁽¹⁾ |
| Guide de l'Acheteur | 1 | 5,000 ⁽³⁾ |
| Hockey Business News | 2 | 5,500 ⁽³⁾⁽⁶⁾ |
| Homemakers | 9 | 376,471 ⁽²⁾ |
| Le Bel Âge Magazine (Les Publications Senior inc.) | 11 | 135,980 ⁽¹⁾ |
| Le Journal du Bel Âge (Les Publications Senior inc.) | 10 | 70,000 ⁽³⁾ |
| Madame | 9 | 99,845 ⁽²⁾ |
| Maison d'aujourd'hui | 2 | 18,000 ⁽³⁾ |
| Maison Direct | 26 | 35,000 ⁽³⁾ |
| MaisonsNeuves.com | 11 | 23,000 ⁽³⁾ |
| More | 6 | 140,768 ⁽³⁾ |
| Ottawa at Home | 4 | 30,000 ⁽³⁾ |

| <i>Magazines</i> | <i>Number of issues by year</i> | <i>Circulation</i> |
|-------------------------------------|---|------------------------|
| Outdoor Canada ⁽⁵⁾ | 8 | 140,418 ⁽¹⁾ |
| Québec Vert | 8 | 6,173 ⁽³⁾ |
| Style at Home | 12 | 230,215 ⁽¹⁾ |
| The Hockey News | 30 | 105,731 ⁽¹⁾ |
| Vancouver Magazine | 10 | 187,373 ⁽²⁾ |
| Vita | 8 | 90,375 ⁽³⁾ |
| Western Living | 10 | 47,223 ⁽²⁾ |
| <i><u>Economic Publications</u></i> | | |
| Affaires Plus | 12 | 80,626 ⁽¹⁾ |
| Commerce ⁽⁷⁾ | 10 | 37,276 ⁽¹⁾ |
| Finance et Investissement | 15 | 14,075 ⁽²⁾ |
| Investment Executive | 16 | 48,475 ⁽³⁾ |
| Les Affaires | 50 | 80,034 ⁽¹⁾ |

(1) Latest statistics from the Audit Bureau of Circulation (A.B.C.) as of June 30, 2009.

(2) Latest statistics from Canadian Circulation Audit Board (C.C.A.B.) as of March 30, 2009.

(3) Internal statistics for year 2009.

(4) As *Canadian Home & Country* was closed as of February 17, 2009, the information is provided as of such date.

(5) *Canadian Home Workshop* and *Outdoor Canada* were sold as of September 19, 2009.

(6) As *Hockey Business News* was closed as of June 5, 2009, the information is provided as of such date.

(7) *Commerce's* last publication was issued in December 2009.

Transcontinental Media, through its subsidiary Les Éditions Transcontinental Inc., also publishes books in French and English destined to Canadian consumers. In addition to publishing management and personal finance books, Les Éditions Transcontinental Inc.'s original specialty, it also publishes more than 35 practical books in several niches: psychology, self-help, work and career, cooking, consumption, health, leisure and sports. Its catalogue contains almost 300 titles.

We are also involved in the creation of conferences aimed at giving business people and financial players information and knowledge relevant to their business needs.

Educational Book Publishing Group

The Educational Book Publishing Group specializes in the creation, development, adaptation, translation, publishing, commercialization and distribution of French-language educational resources, including textbooks, teachers' guides, activity books, digital resources and other related materials and resources. Its product lines cover all grade levels, from kindergarten through university, as well as related sectors such as adult education, vocational training and teachers' professional resources. The Educational Book Publishing Group's strong brands include Beauchemin, Chenelière Éducation, Gaëtan Morin Éditeur and Graficor.

We are a preferred collaborator of the ministries of education of all Canadian provinces and territories and are the only educational publisher that has published French-language materials for all departments of education across Canada. This Group's mission is to publish quality materials and resources required for teaching and learning to support Canadian educators and students in the implementation of learning programs and course planning.

Our operations are divided into three divisions which serve the three main school markets (the school market in Canada outside Québec, the school market in Québec and the higher education market). We are the leading publisher in the French school market in Canada outside Québec and in the French higher education publishing market in Canada and we are one of the leading publishers in the French school market in Québec. This Group benefits from a revenue base that is diversified by market, customer, subject and title. In addition to its catalogue of over 6,200 existing or previously published titles (commonly referred to as the backlist), the Educational Book Publishing Group has over 300 titles currently being developed for the current or future school years (commonly known as the frontlist). On average, the vast majority of its publishing revenue has been derived from its backlist and the balance from its frontlist demonstrating the quality of titles selected and validating investments historically made.

New Media and Digital Solutions Group

The New Media and Digital Solutions Group is responsible for expanding Transcontinental's existing and future brands into new channels of distribution. As one of the fastest growing market segments of Transcontinental, this Group is responsible for not only the use of the brands in the new channels, but also the strategic direction the brands will take. As well as managing this for internal media brands such as *Canadian Living* and *Publisac*, this expertise is being extended to external clients of Transcontinental through extensive integrated platform, branding, promotions and database work.

3.6 Reorganizations

We regularly proceed with legal reorganizations of some of our subsidiaries and affiliated entities in order, among other considerations, to improve our organizational structure or our products and services offering, none of which have had a material effect on our activities, operations or financial results except for the changes figuring in Section 2.7 – Changes to the Organizational Structure.

3.7 Environmental Regulations

We are subject to laws and regulations regarding the environment. These laws and regulations relate to the production, storage, transportation, disposal and emission into the environment of various substances. Permits are required for the operation of our business. We are also subject to and comply with various laws and regulations, which allow regulatory authorities to require us to proceed with the cleanup of any environmental contamination of our own sites and at facilities where our waste is or has been disposed of. In addition, we ensure compliance with environmental standards by means of an audit program carried out with the help of a firm specializing in environmental issues.

The Board of Directors of the Corporation adopted an environmental policy with respect to the entire Corporation. In connection with this policy, an environment handbook was prepared and information and continuous training sessions are held for the benefit of the employees concerned. We also have staff members working to ensure compliance with applicable environmental standards. Our environmental policy is founded on the following guiding principles: protect the environment for present and future generations; reduce risks and improve efficiencies; and introduce improved technology and processes.

Our commitment with respect to the environment is reflected, among other things, by the use of short cut-off presses for the printing of flyers, which allows for substantial savings in paper. In addition, paper waste is recycled and specialized firms are retained to process or eliminate used inks, solvents, plates and films in accordance with applicable laws and regulations. We promote the use of environmentally friendly paper and all of our plants are triple chain of custody approved.

3.8 Human Resources

As of October 31, 2009, we had approximately 12,500 employees. The following table presents the approximate breakdown of our employees of our operating sectors as of October 31, 2009. Employees at head office and at administrative services center are excluded.

| Description | Number of employees |
|--|----------------------------|
| Printing Sector ⁽¹⁾ | 7,867 |
| Marketing Communications Sector ⁽¹⁾ | 845 |
| Media Sector | 3,114 |

(1) Numbers as of November 1, 2009 pursuant to the transfer of the Marketing Products Group from the Marketing Communications Sector to the Printing Sector which included the transfer of 1,530 employees.

As at January 15, 2010, 2,515 of our employees were represented by certified associations under 28 active and separate collective agreements. These agreements expire at different dates up to February 2013. Four collective agreements were renewed during the last year. There are presently five collective agreements covering 218 of our employees under negotiation and seven collective agreements covering 506 employees will expire before December 31, 2010.

With respect to our non-unionized employees, the working conditions, which are periodically revised, are governed by agreements between the various business units involved and their employees.

3.9 Properties

We believe that our owned and leased facilities are adequately equipped and maintained regarding existing and planned operations. Substantially all of our properties and equipment are free and clear of any security interests in favour of third party lenders.

3.10 Risk Factors

The risk factors related to the Corporation and our activities are described on pages 37 to 43 and 45 of our Management's Discussion and Analysis for the year ended October 31, 2009. Among other things, the important factors which may affect the results of the Corporation include, but are not limited to, availability of capital and increase in cost of capital derived therefrom; the effects of interest-rates' fluctuations; credit risk with respect to trade receivables; funding of pension plans; economic cycles; the effects of competition in the markets in which we operate; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar and the Mexican peso; the impact of new media such as the Internet on our industry; availability and cost of qualified personnel; the utilization of impairment tests that could lead to reductions in asset values; the utilization and manipulation of our customers' confidential information; business development; our ability to integrate our acquisitions successfully; losing our good reputation would have an important impact on our affairs and valuation on the stock market; fluctuation of participating shares and preferred shares; market pressure to be environmentally friendly; availability and cost of raw materials and energy; Canadian and U.S. postal systems' future policies; other factors which may affect future results including, risks associated with our operations outside the United States and Canada, timely development and introduction of new products and services, changes in tax laws, changes in environmental laws, changes in occupational health and safety requirements, technological changes and the resulting need for additional capital expenditures, new regulations; possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks.

The heading "Risks and Uncertainties" under our Management's Discussion and Analysis for the year ended October 31, 2009 is therefore incorporated herein by reference and will be updated on a quarterly basis under the heading "Risks and Uncertainties" of the Management's Discussion and Analysis quarterly report.

Item 4 - Selected Consolidated Financial Information

4.1 Dividends

Each holder of Class A Subordinate Voting Shares and Class B Shares of Transcontinental is entitled to receive the dividends that the Board of Directors can declare at its discretion. However, in the past, our policy has been to pay a quarterly dividend in cash. It should be noted however that our policy has been to retain the major portion of our cash flows in order to finance our growth. Currently, there are no restrictions preventing us from paying dividends.

Subject to being declared by the Board of Directors, Transcontinental pays dividends on its Preferred Shares, Series D every quarter. As these shares were issued on October 2, 2009, no dividend has been declared or paid as of October 31, 2009.

The following table presents a summary of the cash dividends per share declared and paid by the Corporation to all holders of its Class A Subordinate Voting Shares and Class B Shares over the last three fiscal years:

| Fiscal Years Ended October 31 | |
|--------------------------------------|---------|
| 2007 | \$0.275 |
| 2008 | \$0.31 |
| 2009 | \$0.32 |

4.2 Subsequent Events

On December 15, 2009, the Board of Directors of Transcontinental declared a quarterly dividend of \$0.08 per share to all holders of Transcontinental's Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on January 28, 2010 to all shareholders of record as of the close of business on January 8, 2010.

On December 15, 2009, the Board of Directors declared a quarterly dividend of \$0.4854 per share to all holders of Preferred Shares, Series D. This dividend is payable on January 15, 2010 to all shareholders of record on January 15, 2010.

Item 5 - Capital Structure of the Corporation

5.1 General Description of the Capital Structure

The Corporation is authorized to issue an unlimited number of Class A Subordinate Voting Shares, an unlimited number of Class B Shares and an unlimited number of Preferred Shares, all without par value.

The following table sets forth the principal rights of the shares that the Corporation is authorized to issue:

| Class of Shares | Rights |
|------------------------------------|---|
| Class A Subordinate Voting Shares: | <p><i>Voting Rights</i> The Class A Subordinate Voting Shares entitle the holders thereof to one vote per share.</p> <p><i>Dividends:</i> The Class A Subordinate Voting Shares entitle the holders thereof to receive, <i>pari passu</i> with the holders of Class B Shares, any and all dividends declared by the Corporation.</p> <p><i>Conversion:</i> The Class A Subordinate Voting Shares can be converted into Class B Shares on the basis of one for one when a takeover bid is made directly or indirectly to the Majority Group (as defined in the Articles). Moreover, they confer the same privilege when the majority group makes a takeover bid.</p> <p><i>Dissolution:</i> The holders of Class A Subordinate Voting Shares are entitled, <i>pari passu</i> with the holders of Class B Shares, to share the remaining assets of the Corporation following its dissolution.</p> |
| Class B Shares: | <p><i>Voting Rights:</i> The Class B Shares entitle the holders thereof to 20 votes per share.</p> <p><i>Dividends:</i> The Class B Shares entitle the holders thereof to receive, <i>pari passu</i> with the holders of Class A Subordinate Voting Shares, any and all dividends declared by the Corporation.</p> <p><i>Conversion:</i> The Class B Shares can, at any time, be converted into Class A Subordinate Voting Shares on the basis of one for one.</p> <p><i>Dissolution:</i> The holders of Class B Shares are entitled, <i>pari passu</i> with the holders of Class A Subordinate Voting Shares, to share the remaining assets of the Corporation following its dissolution.</p> |
| Preferred Shares: | <p><i>Issuance in Series:</i> First Preferred Shares and Second Preferred Shares can be issued in series.</p> <p><i>Voting Rights:</i> The Preferred Shares do not entitle the holders thereof to vote or assist at any meeting of shareholders unless required pursuant to the <i>Canada Business Corporations Act</i>.</p> <p><i>Dividends:</i> The Preferred Shares entitle the holders thereof to receive preferential cumulative dividends.</p> |

| Class of Shares | Rights |
|------------------------------------|---|
| <i>Preferred Shares, Series D:</i> | <p><i>Dissolution:</i> In the event of the liquidation or dissolution of the Corporation, holders of Preferred Shares are entitled to receive, for each such share held by them, a sum equal to the consideration received by the Corporation upon the issuance of such shares.</p> <p><i>Dividends:</i> Cumulative 5-Year Rate Reset First Preferred Shares, Series D entitle holders to fixed cumulative preferential cash dividends, as and when declared by the board of directors of the Corporation, payable quarterly on the 15th day of each January, April, July and October at an annual rate of \$1.6875 par share for the initial five-year period ending on and including October 15, 2014. The dividend rate will be reset on October 15, 2014 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 4.16%. These shares will be redeemable by Transcontinental on October 15, 2014 and on October 15 every five years thereafter in accordance with their terms.</p> <p><i>Conversion:</i> Holders of these shares will have the right, at their option, to convert their shares into cumulative floating rate preferred shares series E subject to certain conditions, on October 15, 2014 and on October 15 every five years thereafter.</p> |
| <i>Preferred Shares, Series E:</i> | <p><i>Dividends:</i> Cumulative Floating Rate Preferred Shares, Series E will entitle holders to cumulative quarterly floating dividends at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.16%.</p> |

5.2 Ratings

We have received the following credit ratings from Standard & Poors Ratings Services ("S&P") and DBRS Limited ("DBRS").

| | S&P | DBRS |
|----------------------------|-------------|-----------------------|
| Corporate Rating | BBB-/Stable | BBB (High) / Stable |
| Preferred Shares, Series D | P-3 | Pfd-3 (High) / Stable |

5.2.1 Corporate rating

Standard & Poors Ratings Services

A S&P Issuer Corporate Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they become due. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor.

S&P credit ratings range from AAA to D, which represent the range from the highest to lowest quality. According to S&P, the BBB rating is the fourth highest of 10 major rating categories. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. An obligor rated "BBB" has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

A credit rating outlook notation indicates the possible direction in which a rating may move over the next six months to two years. "Positive" means it may be raised; "Negative" means it may be lowered; and "Stable" means it is unlikely to change.

DBRS Limited

According to DBRS, corporate credit ratings are forward-looking measures that assess an issuer's ability and willingness to make timely payments of principal and interest. Credit ratings are not buy, hold, or sell recommendations, but rather the result of qualitative and quantitative analysis focusing solely on the credit quality of the issuer and its underlying obligations.

DBRS credit ratings range from AAA to D, which represent the range from the highest to lowest quality. According to DBRS, the BBB rating is the fourth highest of 10 major rating categories.

Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. The AAA and D categories do not utilize "high", "middle" and "low" as differential grades. Long-term debt rated BBB is of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

Each DBRS rating category is appended with one of three rating trends - "Positive", "Stable", or "Negative". The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

5.2.2 Preferred Shares, Series D

Standard & Poors Ratings Services

S&P's preferred share rating is a current assessment of the creditworthiness of a company in meeting a specific preferred share obligation issued in the market, compared to preferred shares issued by other issuers in the Canadian market.

S&P's preferred share credit ratings range from P-1 (high) to D, which represent the range from the highest to lowest quality of securities rated. Such P-3 rating is the eighth highest of eighteen ratings used by S&P in its Canadian preferred share rating scale. According to S&P, such a P-3 rating indicates that although the obligation is considered to be less vulnerable to non-payment than other speculative issues, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

DBRS Limited

The DBRS preferred share rating scale indicates their assessment of the risk that an issuing entity may not be able to meet its full obligation to pay dividends and principal in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the issuing entity.

DBRS' preferred share credit ratings range from Pdf-1 (high) to D, which represent the range from the highest to lowest quality. Pdf-3 (high) is the seventh highest of sixteen ratings used by DBRS for preferred shares. According to DBRS, preferred shares rated Pdf-3 are of adequate credit quality and, while protection of dividends and principal is still considered acceptable for such preferred shares, the issuing entity of preferred shares with a Pdf-3 rating is considered to be more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection.

Ratings are intended to provide investors with an independent assessment of the credit quality of an issue or issuer of securities and do not speak to the suitability of particular securities for any particular investor. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be withdrawn or revised entirely by a rating agency at any time if in its judgment circumstances so warrant.

5.3 Normal Course Issuer Bid

We have been authorized to purchase for cancellation on the open market between December 20, 2007 and December 19, 2008, up to 3,333,994 of our Class A Subordinate Voting Shares, representing 5% of our 66,679,889 issued and outstanding Class A Subordinate Voting Shares as of December 10, 2007, and up to 845,271 of our Class B Shares, representing 5% of our 16,905,432 issued and outstanding Class B Shares as of December 10, 2007.

Item 6 - Management's Discussion and Analysis of the Financial Condition and Results of Operations

A discussion and analysis by management of the financial condition and results of operations for the fiscal year ended October 31, 2009 is presented in our Management's Discussion and Analysis for the year ended October 31, 2009, which is incorporated herein by reference. To complement such management's discussion and analysis, reference is made to the Consolidated Financial Statements for the years ended October 31, 2009, and 2008 and the Notes to Consolidated Financial Statements, which Consolidated Financial Statements and Notes are incorporated herein by reference.

Item 7 - Market for Securities

Our Class A Subordinate Voting Shares, our Class B Shares and our Preferred Shares, Series D are listed for trading on the Toronto Stock Exchange under ticker symbols TCL.A, TCL.B and TCL.PR.D respectively.

The following tables present the monthly price variations as well as the volume of operations with respect to the Class A Subordinate Voting Shares, the Class B Shares and the Class D Preferred Shares on the Canadian market for the fiscal year ended October 31, 2009.

Class A Subordinate Voting Shares - TCL.A

| Month | High (\$) | Low (\$) | Volume |
|---------------|-----------|----------|-----------|
| November 2008 | 13.00 | 9.11 | 2,306,904 |
| December 2008 | 11.95 | 7.06 | 4,608,017 |
| January 2009 | 10.10 | 8.30 | 1,958,205 |
| February 2009 | 9.99 | 7.16 | 2,057,942 |
| March 2009 | 7.44 | 5.42 | 4,376,626 |
| April 2009 | 7.99 | 5.72 | 2,886,542 |
| May 2009 | 8.79 | 7.11 | 3,606,352 |

| Month | High (\$) | Low (\$) | Volume |
|----------------|------------------|-----------------|---------------|
| June 2009 | 9.41 | 7.68 | 3,402,584 |
| July 2009 | 8.99 | 7.74 | 1,777,260 |
| August 2009 | 9.66 | 8.12 | 1,231,234 |
| September 2009 | 12.60 | 9.20 | 2,286,448 |
| October 2009 | 14.12 | 10.99 | 5,012,706 |
| Total | | | 35,510,820 |

Class B Shares - TCL.B

| Month | High (\$) | Low (\$) | Volume |
|----------------|------------------|-----------------|---------------|
| November 2008 | 13.00 | 9.76 | 219,250 |
| December 2008 | 11.25 | 7.80 | 323,354 |
| January 2009 | 9.50 | 8.38 | 31,870 |
| February 2009 | 9.60 | 7.55 | 51,626 |
| March 2009 | 7.00 | 5.47 | 8,366 |
| April 2009 | 7.62 | 6.01 | 13,010 |
| May 2009 | 8.25 | 7.50 | 26,309 |
| June 2009 | 9.00 | 7.20 | 14,178 |
| July 2009 | 8.25 | 8.00 | 8,013 |
| August 2009 | 9.17 | 8.08 | 6,700 |
| September 2009 | 12.40 | 9.06 | 13,700 |
| October 2009 | 13.75 | 11.34 | 71,209 |
| Total | | | 787,585 |

Preferred Shares, Series D - TCL.PR.D

| Month | High (\$) | Low (\$) | Volume |
|--------------|------------------|-----------------|---------------|
| October 2009 | 24.90 | 24.45 | 709,870 |
| Total | | | 709,870 |

Item 8 - Directors and Officers

The names of our directors, their city of residence, their principal occupation, the year since each has exercised their mandate, the number of voting Shares (Class A Subordinate Voting Shares and Class B Shares) of the Corporation that the directors owned beneficially or over which they exercised control or direction, as well as the number of share units held by the directors pursuant to the Deferred Share Unit Plan of the Corporation (or in the case of directors who are also employees of the Corporation, the number of vested deferred share units granted pursuant to the Share Unit Plan of Transcontinental Inc. for executives), as of October 31, 2009 are indicated below.

| Name | Principal Occupation | Director Since | Number of Class A Subordinate Voting Shares | Number of Class B Shares | Number of Deferred Share Units |
|---|---|-----------------------|--|---------------------------------|---------------------------------------|
| Lucien Bouchard, G.O.Q. Montréal, Québec | □ Partner, Davies Ward Phillips & Vineberg LLP (law firm) | 2001 | 1,128 | – | 22,370 |
| Claude Dubois Montréal, Québec | □ President, Gestion Phila Inc. (holding company) | 1978 | 142,572 ⁽¹⁾ | 4,000 ⁽¹⁾ | 21,233 |
| Pierre Fitzgibbon Québec, Québec | ○ President and Chief Executive Officer, Atrium Innovations Inc. (development, manufacturing and marketing of added-value products for the health and nutrition industry) | 2009 | 2,000 | – | 102 |
| Richard Fortin Longueuil, Québec | ○ ◇ Chairman of the Board, Alimentation Couche-Tard Inc. (distribution - convenience stores) | 2004 | 6,000 | – | 20,303 |
| Harold "Sonny" Gordon, Q.C. Sunny Isles, Florida United States | ▽ Chairman of the Board, Dundee Corporation (financial services - corporations and investment funds) | 1993 | – | 1,000 | 21,920 |
| Monique Lefebvre Montréal, Québec | ▽ Psychologist, Executive Coaching, Consultant in Strategic Management and Governance and Chair of Héma-Québec Foundation | 2000 | 1,000 | – | 13,250 |
| Isabelle Marcoux ⁽²⁾ Montréal, Québec | Vice Chair of the Board and Vice President, Corporate Development, Transcontinental Inc. | 2005 | 4,000 | 1,000 | – |
| Pierre Marcoux ⁽²⁾ North York, Ontario | Senior Vice President, Business and Consumer Solutions Group, Transcontinental Media G.P. | 2005 | 5,000 | 1,000 | – |
| Rémi Marcoux C.M., O.Q., F.C.A. Montréal, Québec | Executive Chairman of the Board, Transcontinental Inc. | 1978 | – | 13,209,840 ⁽²⁾ | – |
| François Olivier ⁽²⁾ Montréal, Québec | President and Chief Executive Officer, Transcontinental Inc. | 2008 | 2,740 | – | 31,950 ⁽³⁾ |

| Name | | Principal Occupation | Director Since | Number of Class A Subordinate Voting Shares | Number of Class B Shares | Number of Deferred Share Units |
|---|---|--|-----------------------|--|---------------------------------|---------------------------------------|
| François R. Roy Montréal, Québec | ○ | Vice Principal (Administration and Finance), McGill University | 2008 | – | – | 4,705 |
| Lino A. Saputo, Jr. Montréal, Québec | □ | President and Chief Executive Officer, Saputo Inc. (consumer products-food processing) | 2008 | – | – | 9,145 |
| André Tremblay Montréal, Québec | ▽ | Managing Partner, Trio Capital inc. (private equity fund) | 2007 | – | – | 13,672 |

◇ Lead Director as of November 12, 2009.

○ Member of the Audit Committee of the Board of Directors.

▽ Member of the Human Resources and Compensation Committee of the Board of Directors.

□ Member of the Corporate Governance Committee of the Board of Directors.

(1) Of which 137,572 Class A Subordinate Voting Shares and 4,000 Class B Shares are held by Gestion Phila Inc., a holding company controlled by Mr. Claude Dubois.

(2) The 13,209,840 Class B Shares are held by Capinabel Inc. The shares of Capinabel Inc. are held in direct and indirect ownership by Mr. Rémi Marcoux and members of his immediate family. Mr. Rémi Marcoux has control over Capinabel Inc. The shares of Capinabel Inc. represent 68.5% of the voting rights attached to the outstanding participating shares of the Corporation. Ms. Isabelle Marcoux and Mr. Pierre Marcoux are members of Mr. Rémi Marcoux's immediate family. Mr. Olivier is the husband of Ms. Isabelle Marcoux.

(3) These deferred share units were granted pursuant to the Share Unit Plan of Transcontinental Inc. for executives.

Each director remains in office until the following annual shareholders' meeting or until the election or appointment of his successor, unless he resigns or his office becomes vacant as a result of his death, removal or other cause.

The following table sets forth the names, city of residence and position held with the Corporation of each officer of the Corporation as of the date hereof.

| Name and city of residence | Position held with the Corporation |
|--|--|
| André Bolduc Montréal, Québec | Director of Internal Audit |
| Jean Denault Saint-Mathias-sur-Richelieu, Québec | Corporate Vice President, Procurement and Technology |
| Christine Desaulniers Town of Mount-Royal, Québec | Vice President, Chief Legal Officer, and Corporate Secretary |
| David Galarneau Lachine, Québec | Assistant Corporate Controller |
| Julien Houle Kirkland, Québec | Corporate Vice President, Human Resources |
| Benoît Huard Lorraine, Québec | Vice President and Chief Financial Officer |
| Isabelle Lamarre Montréal, Québec | Director, Legal Affairs and Assistant Corporate Secretary |
| Natalie Larivière Montréal, Québec | President, Media Sector |

| Name and city of residence | Position held with the Corporation |
|--|---|
| Donald LeCavalier Montréal, Québec | Vice President, Finance |
| Isabelle Marcoux Montréal, Québec | Vice Chair of the Board and Vice President, Corporate Development |
| Rémi Marcoux Montréal, Québec | Executive Chairman of the Board |
| Jennifer F. McCaughey Candiac, Québec | Director, Investor Relations |
| Sylvain Morissette Bromont, Québec | Vice President, Corporate Communications |
| François Olivier Montréal, Québec | President and Chief Executive Officer |
| Brian Reid Annan, Ontario | President, Printing Sector |
| Christian Trudeau Carignan, Québec | President, Marketing Communications Sector |

The directors and officers of the Corporation who have not held their principal occupation with the Corporation for more than five years have had the following principal occupations during the last five years (except where a director or officer has occupied more than one position in the same company or an affiliate thereof, only the date of his appointment to his current position is indicated):

- Mrs. Christine Desaulniers is Vice President, Chief Legal Officer and Corporate Secretary since November 21, 2005. From 1987 to November 2005, she had been partner at the Montréal office of the law firm Stikeman Elliott LLP;
- Mr. Pierre Fitzgibbon is President and Chief Executive Officer of Atrium Innovations Inc. since July 2007. Prior to July 2007, he was Senior Vice President, Finance, Technology and Corporate Affairs of National Bank of Canada and prior to July 2005, he was Vice Chairman of National Bank Financial since 2002;
- Mr. David Galarneau is Assistant Corporate Controller. Prior to joining the Corporation, he was Corporate Director, tax and financing accounting of Maax Corporation (a manufacturer and distributor of bath and spa products) from March 2004 until September 2007;
- Mrs. Isabelle Lamarre is Director, Legal Affairs and Assistant Corporate Secretary since May 22, 2007. From 2001 until 2007 she had been a partner at the Montréal office of the law firm Lavery, de Billy LLP;
- Mrs. Natalie Larivière is President, Media Sector since August 7, 2006. Previously, she was President and General Manager of Archambault Group Inc. (a media company member of the Quebecor Media group of companies);
- Mr. Donald LeCavalier is Vice President, Finance. Prior to joining the Corporation, he was Treasurer of Transat A.T. Inc. (a tourism company) from August 2000 until April 2006;
- Mr. Sylvain Morissette became Vice President, Corporate Communications on February 2, 2009. Before such date, he was President and General Manager of the Association of Quebec Advertising Agencies from 2006 until 2009 and National Director, Corporate Communications and Public Relations of RONA Inc. (a hardware retailer) from 1998 until 2006;

- Mr. François R. Roy is Vice Principal (Administration and Finance) of McGill University since June 2007. From March 2000 until May 2003 he was Chief Financial Officer of Telemedia (a portfolio company);
- Mr. Christian Trudeau became President, Marketing Communications Sector on March 12, 2009. Since 2004, Mr. Trudeau was President and Chief Operating Officer of Centria Commerce and prior thereto he was President and Chief Operating Officer of BCE Emergis Inc (an information technology company now an integral part of Telus).

As of October 31, 2009, the directors and officers of the Corporation (other than Mr. Rémi Marcoux), as a Group, beneficially owned, directly or indirectly, 211,048 Class A Subordinate Voting Shares and 7,000 Class B Shares of the Corporation, then representing approximately 0.33% and 0.04% respectively of the outstanding shares of each such class.

To the best knowledge of the Corporation, no proposed director, as at January 7, 2010, or within 10 years before January 7, 2010; (a) is or has been subject to a cease trade order, an order similar to a cease trade order or an order that denied a company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer of that company; (b) is or has been subject to a cease trade order, an order similar to a cease trade order or an order that denied a company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer of that company and which resulted from an event that occurred while that person was acting in such capacity; (c) is or has been a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (d) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets, with the exception of

- (i) Mr. Gordon, who was a director of Great Northern Paper, Inc., a private U.S. corporation, until June 3, 2002, approximately seven months before such corporation filed for an arrangement under Chapter II of the U.S. Bankruptcy Code on January 9, 2003, followed by liquidation on May 22, 2003 pursuant to Chapter 7 of said Act. Mr. Gordon is no longer a director of Great Northern Paper, Inc.;
- (ii) Mr. Roy who was a director of Komunik Corporation until April 1, 2008, approximately eight months before such corporation voluntarily filed for protection under the *Companies' Creditors Arrangement Act* ("CCAA") on November 18, 2008. Mr. Roy is no longer director of Komunik Corporation; and
- (iii) Mr. Tremblay who was a director and President and Chief Executive Officer of Microcell Telecommunications Inc., when it asked for and was granted protection under the CCAA on January 3, 2003. On May 1, 2003, Microcell Telecommunications Inc. successfully emerged from the CCAA proceedings. Mr. Tremblay is no longer a director of Microcell Telecommunications Inc.

Furthermore, to the best knowledge of the Corporation, no proposed director of the Corporation has been as at January 7, 2010 subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable shareholder in deciding whether to vote for a proposed director.

Item 9 - Transfer Agent and Registrar

The transfer agent and registrar of our shares is CIBC Mellon Trust Company ("CIBC Mellon"), having a place of business at 2001 University Street, Suite 1600, Montréal, Québec, H3A 1A6. CIBC Mellon also has offices in Toronto.

Item 10 - Proceedings

In the normal course of business, we are involved in various legal proceedings. Legal proceedings resulting from our activities in the Printing or Media Sectors could have adverse effects both with respect to costs and to our reputation. In order to manage this risk, we, in addition to having a civil liability insurance policy, often limit our potential responsibility with respect to damages under the contracts which we sign regarding our printing activities, and with respect to our media activities, we provide our journalists with information sessions and continuous training in addition to signing specific contracts with freelancers.

Item 11 - Material Contracts

No material contract outside the ordinary course of business was entered into by the Corporation during the last two years.

Item 12 - Information Regarding the Audit Committee

12.1 Charter of the Corporation's Audit Committee

The charter of the Corporation's audit committee is included in Schedule B.

12.2 Composition of the Audit Committee

The Corporation's Audit Committee is composed of the three following persons:

| Name of the Director | Independent | Financially Literate |
|---|--------------------|-----------------------------|
| Pierre Fitzgibbon | x | x |
| Richard Fortin, acting as Audit Committee Chair | x | x |
| François R. Roy | x | x |

12.3 Background and Related Experience

Mr. Pierre Fitzgibbon

Mr. Pierre Fitzgibbon is a member of the Ordre des comptables agréés du Québec, holds a bachelor's degree in business administration from the École des Hautes Études Commerciales of Montréal and a certificate in general management from Harvard Business School. He is President and Chief Executive Officer of Atrium Innovations Inc. since June 2007. Prior to such date, Mr. Fitzgibbon was Senior Vice President, Finance, Technology and Corporate Affairs of National Bank of Canada and, prior to July 2005, he was responsible of advisory services and corporate financing at National Bank Financial, as Vice Chairman. From January 1998 until December 2001, Mr. Fitzgibbon was Chief Executive Officer of New World Mobility. For three years, prior to joining New World Mobility, Mr. Fitzgibbon held various executive positions in Finance, Corporate and Business Development at Chase Capital Partners Hong Kong and Telesystems Wireless International Inc. in Canada and Asia. He also spent five years at Domtar Corporation in various executive positions, namely as Chief Financial Officer.

Mr. Richard Fortin

Mr. Richard Fortin has a Bachelor in Administration with a major in Finance from Laval University. Throughout his career, he has constantly remained on top of any new accounting rules. He worked for more than 13 years in the banking industry, holding various management positions, namely as Vice President, Québec for the Société Générale (Canada). As such, Mr. Fortin was called upon to analyze numerous financial statements and to familiarize himself with generally accepted accounting principles. Mr. Fortin is currently Chairman of the Board of Alimentation Couche-Tard Inc., a publicly traded corporation. Previously, he was Executive Vice President and Chief Financial Officer of Alimentation Couche-Tard Inc. since 1986.

Mr. François Roy

Mr. François R. Roy is Vice-Principal (Administration and Finance) of McGill University since June 2007. From March 2000 until May 2003, he was Chief Financial Officer of Telemedia Corporation, a private portfolio company. From August 1998 until March 2000, he was Executive Vice President and Chief Financial Officer of Quebecor Inc. From August 1997 until July 1998, he was Executive Vice President and Chief Financial Officer of Avenir Inc. Mr. François R. Roy also holds an MBA from the University of Toronto and is a member and chairman of audit committees for several public and private corporations.

12.4 Reliance on Certain Exemptions

We have not at any time during our last fiscal year relied on any exemption set out in Multilateral Instrument 52-110.

12.5 Policies and Procedure Regarding Prior Approval

The Audit Committee has adopted rules regarding the scope of the services provided by the external auditor, which rules have been implemented as of its fiscal year starting on November 1, 2002. Our external auditor provides audit-related services to the Corporation and its subsidiaries, audit-related or connected services, consulting services regarding research and development credits as well as tax-related consulting services. We will not give our external auditor any mandates to provide certain non-audit and non-tax related services to the Corporation and its subsidiaries, such as bookkeeping or other services related to the accounting books or financial statements or regarding the design and implementation of financial disclosure systems, services related to evaluation, actuarial services, internal auditing services, investment banking services and legal services. With respect to all other non-audit and non-tax related consulting services, management must obtain the prior approval of its Audit Committee.

12.6 Fees Relating to the Services of the External Auditor

The following table sets forth, by category, the fees incurred by and payable to the external auditors of the Corporation, KPMG LLP (its auditor for its 2009 fiscal year) and Samson Bélair Deloitte & Touche LLP (its auditor before its 2009 fiscal year).

| Category of Fees (in thousands of dollars) | KPMG LLP | Samson Bélair Deloitte & Touche LLP | Samson Bélair Deloitte & Touche LLP |
|---|-----------|---|---|
| | 2009 (\$) | 2009 (\$) | 2008 (\$) |
| Auditing fees | 801.5 | 395.1 | 1,445.3 |
| Fees for audit-related or connected | 42.1 | 111.4 | 252.1 |
| Compliance with taxation requirements and consulting services thereto | 391.3 | 181.6 | 406.8 |
| Other fees | 11.8 | 85.6 | - |
| Total | 1,246.7 | 773.7 | 2,104.2 |

Auditing fees include total fees paid to the auditors for auditing the annual consolidated financial statements and other regulatory audits and filings.

Fees for audit-related or connected services included the total fees related to auditing services paid to the auditors, in particular for auditing the pension plans and for consulting services with respect to accounting and financial disclosure standards.

Tax-related fees include the total fees related to tax services paid to the auditors, in particular for consulting services regarding our compliance with income tax laws, tax planning in the preparation of our tax returns as well as regarding capital taxes and sales taxes. The auditors also offer consulting services with respect to tax credits for scientific research and experimental development.

Other fees include the total fees related to other services paid to the auditors for all other services rendered to the Corporation that do not fall under any of the above-mentioned categories, in particular services related to financial structuring.

Item 13 - Forward-Looking Statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *Securities Act* (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our medium-term goals, our outlook, objectives under our *Evolution 2010* business project and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may", "could", "should", "would", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "objective", the use of the conditional tense, and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: credit risks, security of data, market dynamics, liquidity, financing and operational risks; the strength of the Canadian, Mexican and United States' economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, more particularly the U.S. dollar, the euro and the Mexican peso; the impact from raw material and energy prices; the seasonal and cyclical nature of certain businesses, notably the book publishing activities, the effects of changes in interest rates; the effects of competition in the markets in which we operate; the effects of new media and the

corresponding shift of advertising revenue to new platforms; judicial judgments and legal proceedings; our ability to develop new opportunities through our strategy; our ability to hire and retain qualified personnel and maintain a good reputation; our ability to complete strategic transactions and joint ventures and to integrate our acquisitions and joint ventures successfully; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies, technological changes and new regulations.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

When relying on forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider the risk factors set forth in this Annual Information Form and other uncertainties and potential events, including those set forth in our Management's Discussion and Analysis for the year ended October 31, 2009, as updated in our interim Management's Discussion and Analysis issued since then.

Item 14 - Additional Information

Additional information, including remuneration of directors and officers, loans to officers, stock options, share units and interest of insiders in material transactions is, where applicable, contained in our Management Proxy Circular for our Annual General Meeting of Shareholders. Additional financial information is provided in the comparative consolidated audited financial statements of the Corporation for the year ended October 31, 2009. A copy of these documents may be obtained, free of charge from our Secretary or our Director, Investor Relations at 1 Place Ville Marie, Suite 3315, Montréal, Québec, H3B 3N2. These documents can also be obtained on SEDAR's website (www.sedar.com) or on our website (www.transcontinental.com).

In addition, when securities of the Corporation are in the course of a distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed, the following documents may be obtained free of charge from our Secretary or our Director, Investor Relations:

- (i) A copy of this Annual Information Form, together with a copy of any document or portion thereof incorporated by reference therein;
- (ii) A copy of the comparative financial statements of the Corporation for its most recently completed financial year together with the report of the auditors thereon and a copy of any interim financial statements of the Corporation subsequent to financial statements for its most recently completed financial year;
- (iii) A copy of the Corporation's Management Proxy Circular for its most recent Annual Meeting of Shareholders; and
- (iv) A copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus.

At any other time, a copy of the documents referred to in subparagraphs (i), (ii) and (iii) above will be provided free of charge from our Secretary or our Director, Investor Relations.

A copy of this Annual Information Form can be obtained, free of charge, from our Secretary or our Director, Investor Relations at 1 Place Ville Marie, Suite 3315, Montréal, Québec, H3B 3N2, on SEDAR's website (www.sedar.com) or on the Corporation's website (www.transcontinental.com).

Schedule A
List of the newspapers of Transcontinental

The following table provides a list of the local and regional newspapers published by Transcontinental and their circulation as of June 30, 2009, the most recent date at which information is available.

| <u>Daily Newspapers</u> | <u>Circulation</u> | <u>Weekly Newspapers</u> | <u>Circulation</u> |
|-------------------------------------|------------------------|--|------------------------|
| <u>Prince Edward Island</u> | | | |
| The Journal Pioneer | 8,323 ⁽⁴⁾ | Amherst Citizen | 3,062 ⁽²⁾ |
| The Guardian | 19,608 ⁽⁴⁾ | The Yarmouth County Vanguard | 5,329 ⁽²⁾ |
| <u>Nova Scotia</u> | | | |
| The News | 7,197 ⁽⁴⁾ | The Kings County Advertiser | 4,824 ⁽²⁾ |
| The Truro Daily News | 6,142 ⁽⁴⁾ | Truro Daily News Weekender | 22,000 ⁽⁴⁾ |
| The Cape Breton Post | 24,941 ⁽⁴⁾ | Transaction | 26,000 ⁽²⁾ |
| Amherst Daily News | 3,004 ⁽⁴⁾ | Springhill-Parrsboro Record | 1,695 ⁽²⁾ |
| <u>Newfoundland</u> | | | |
| The St-John's Telegram | 27,536 ⁽⁴⁾ | <u>New Brunswick</u> | |
| The Western Star | 7,381 ⁽⁴⁾ | Sackville Tribune Post | 2,759 ⁽²⁾ |
| <u>Québec</u> | | | |
| Métro | 143,000 ⁽⁴⁾ | <u>Saskatchewan</u> | |
| <u>Saskatchewan</u> | | | |
| The Prince Albert Daily Herald | 7,029 ⁽⁴⁾ | Moose Jaw This Week Sunday Times | 16,174 ⁽²⁾ |
| The Moose Jaw Times Herald | 7,010 ⁽²⁾ | Rural Roots | 30,134 ⁽²⁾ |
| <u>Weekly Newspapers</u> | | | |
| <u>Newfoundland</u> | | The Southwest Booster | 19,475 ⁽³⁾ |
| The Charter | 1,014 ⁽²⁾ | The Triangle News | 905 ⁽²⁾ |
| The Southern Gazette | 3,771 ⁽²⁾ | The Radville Star | 1,097 ⁽²⁾ |
| The Labradorian | 1,962 ⁽²⁾ | The Radville Deep South Star | 1,016 ⁽²⁾ |
| The Aurora | 1,648 ⁽²⁾ | The Grenfell Sun | 1,148 ⁽²⁾ |
| The Compass | 4,526 ⁽²⁾ | The Broadview Express | 510 ⁽²⁾ |
| The Packet | 4,882 ⁽²⁾ | The Oxbow Herald | 1,162 ⁽²⁾ |
| The Beacon | 4,610 ⁽²⁾ | <u>Québec & Ontario</u> | |
| The Pilot | 3,493 ⁽²⁾ | Journal de Rosemont- La Petite Patrie | 59,418 ⁽¹⁾ |
| Coaster | 1,646 ⁽²⁾ | Progrès de Villaray | 24,587 ⁽¹⁾ |
| The Norwester | 3,116 ⁽²⁾ | Journal Le Plateau | 35,826 ⁽¹⁾ |
| The Gulf News | 2,842 ⁽²⁾ | Courrier Ahuntsic | 33,942 ⁽¹⁾ |
| The Georgian | 1,810 ⁽²⁾ | Progrès de St-Léonard | 31,824 ⁽¹⁾ |
| The Northern Pen | 5,054 ⁽²⁾ | Guide Montréal Nord | 37,050 ⁽¹⁾ |
| The Advertiser (Monday's edition) | 2,589 ⁽⁴⁾ | Flambeau Mercier / Anjou | 56,044 ⁽¹⁾ |
| The Advertiser (Thursday's edition) | 3,043 ⁽⁴⁾ | Les Nouvelles Hochelaga | 23,806 ⁽¹⁾ |
| <u>Nova Scotia</u> | | | |
| The Hants Journal | 2,908 ⁽²⁾ | Maisonneuve | 20,412 ⁽¹⁾ |
| The Digby County Courier | 1,778 ⁽²⁾ | L'Informateur de R.D.P. | 28,216 ⁽¹⁾ |
| The King County Register | 5,218 ⁽²⁾ | Avenir PAT / Montréal-Est | 121,803 ⁽¹⁾ |
| The Annapolis County Spectator | 3,119 ⁽²⁾ | Courrier Laval (édition du jeudi) | 121,220 ⁽¹⁾ |
| The Shelburne County Coast Guard | 3,745 ⁽²⁾ | Courrier Laval (édition du dimanche) | 54,500 ⁽¹⁾ |
| The Queens County Advance | 2,279 ⁽²⁾ | Le Trait d'Union (édition du mercredi) | 54,500 ⁽¹⁾ |
| Halifax Clayton Park News | 35,778 ⁽²⁾ | Le Trait d'Union (édition du dimanche) | 55,472 ⁽¹⁾ |
| Dartmouth Cole Harbour News | 34,991 ⁽²⁾ | Journal Le Courrier | 25,540 ⁽¹⁾ |
| The Bedford-Sackville News | 27,036 ⁽²⁾ | Messenger de Verdun | 32,723 ⁽¹⁾ |
| A & G Advertiser | 12,500 ⁽²⁾ | Messenger de Lasalle | 24,343 ⁽¹⁾ |
| | | Messenger de Lachine / Dorval | 31,759 ⁽¹⁾ |
| | | La Voix Pop | 29,347 ⁽¹⁾ |
| | | Nouvelles St-Laurent | 23,574 ⁽¹⁾ |
| | | L'Express d'Outremont | 17,573 ⁽¹⁾ |
| | | Courrier Bordeaux-Cartierville | 10,075 ⁽¹⁾ |
| | | Magazine Iles-des-Sœurs | 48,500 ⁽¹⁾ |
| | | Cités Nouvelles | 48,500 ⁽³⁾ |
| | | The Chronicle | |

| Weekly Newspapers | Circulation |
|------------------------------------|-----------------------|
| Westmount Examiner | 11,000 ⁽³⁾ |
| L'Action du Mercredi | 49,918 ⁽¹⁾ |
| L'Action du Week-end | 49,918 ⁽¹⁾ |
| L'Express Montcalm | 25,500 ⁽¹⁾ |
| L'Action d'Autray | 18,525 ⁽¹⁾ |
| L'Écho de Maskinongé | 14,890 ⁽³⁾ |
| Hebdo Rive-Nord les Méandres | 53,135 ⁽¹⁾ |
| Hebdo Rive-Nord les Riverains | 46,127 ⁽¹⁾ |
| La Nouvelle Union | 40,892 ⁽¹⁾ |
| La Nouvelle Union Édition Week-End | 40,260 ⁽¹⁾ |
| L'Avenir de l'Érable | 9,964 ⁽¹⁾ |
| Le Reflet du Lac | 25,917 ⁽¹⁾ |
| L'Express (édition du mercredi) | 46,585 ⁽¹⁾ |
| L'Express (édition du dimanche) | 47,666 ⁽¹⁾ |
| Le Progrès de Coaticook | 8,568 ⁽¹⁾ |
| La Nouvelle | 15,650 ⁽¹⁾ |
| La Revue (édition du mercredi) | 91,261 ⁽¹⁾ |
| Le Bulletin | 13,235 ⁽¹⁾ |
| La Petite Nation | 9,848 ⁽¹⁾ |
| The Orleans Star | 46,000 ⁽³⁾ |
| L'Express d'Ottawa | 12,000 ⁽¹⁾ |
| Ottawa Business Journal | 20,000 ⁽³⁾ |
| Le Lac St-Jean | 22,813 ⁽¹⁾ |
| L'Étoile du lac | 14,484 ⁽¹⁾ |
| La Voix du Sud | 28,472 ⁽¹⁾ |
| L'Appel | 58,271 ⁽¹⁾ |
| Charlesbourg Express | 28,255 ⁽¹⁾ |
| Beauport Express | 29,154 ⁽¹⁾ |
| L'Actuel | 44,419 ⁽¹⁾ |
| Québec Express | 44,616 ⁽¹⁾ |
| Hebdo Journal mercredi/samedi | 55,020 ⁽¹⁾ |
| Hebdo St-Maurice | 31,051 ⁽¹⁾ |
| Courrier Sud | 21,065 ⁽¹⁾ |
| Hebdo Mékinac des Chenaux | 13,107 ⁽¹⁾ |
| L'Écho de La Tuque Haut-St-Maurice | 6,566 ⁽¹⁾ |
| Seaway News | 37,235 ⁽³⁾ |
| Corriere Italiano | 13,000 ⁽¹⁾ |
| L'Autre Voix | 14,604 ⁽¹⁾ |

Monthly Newspapers **Circulation**

Prince Edward Island

| | |
|---------------------|-----------------------|
| Atlantic Post Calls | 755 ⁽³⁾ |
| PEI Seniors | 23,500 ⁽³⁾ |

Nova Scotia

| | |
|------------------------------|-----------------------|
| Farm Focus | 15,000 ⁽³⁾ |
| Nova Scotia Business Journal | 60,000 ⁽³⁾ |
| The Burnside News | 7,700 ⁽³⁾ |
| The Souwester | 5,400 ⁽³⁾ |

Québec

| | |
|----------------------|-----------------------|
| Mon Toit | 15,000 ⁽³⁾ |
| La Parole d'affaires | 45,500 ⁽³⁾ |
| Le Jacques-Cartier | 10,080 ⁽¹⁾ |
| Le Journal Agricole | 3,700 ⁽³⁾ |
| Le Courrier du Lac | 7,400 ⁽³⁾ |

Bi-Monthly Newspapers **Circulation**

Saskatchewan

| | |
|----------------------|-----------------------|
| The Northern Visitor | 10,844 ⁽³⁾ |
|----------------------|-----------------------|

Québec

| | |
|---|-----------------------|
| Édition de Quartier – Laval des Rapides / Pont-Viau | 25,782 ⁽¹⁾ |
| Édition de Quartier – Duverney / St-Vincent de Paul / St-François | 20,375 ⁽¹⁾ |
| Édition de Quartier – Vimont / Auteuil | 19,969 ⁽¹⁾ |
| Édition de Quartier – Ste-Dorothée / Ouest de Laval | 24,112 ⁽¹⁾ |
| Édition de Quartier – Ste-Rose / Fabreville | 24,224 ⁽¹⁾ |
| Édition de Quartier – Chomedey | 23,923 ⁽³⁾ |
| Journal de l'Habitation | 27,000 ⁽¹⁾ |
| L'Express Montcalm | 25,500 ⁽¹⁾ |

Other Periodicals **Circulation**

Nova Scotia

| | |
|--|-----------------------|
| Annapolis Valley Real Estate Guide | 15,000 ⁽³⁾ |
| Atlantic Construction Journal | 10,000 ⁽³⁾ |
| Maritime Provinces Waste Water Report | 1,500 ⁽³⁾ |
| Yuletide Preparations | 9,000 ⁽³⁾ |
| Atlantic Canada Group Tour Planner | 8,000 ⁽³⁾ |
| New England Group Travel Planner | 8,000 ⁽³⁾ |
| Ontario Group Travel Planner | 8,000 ⁽³⁾ |
| Québec Group Travel Planner | 8,000 ⁽³⁾ |
| Halifax Regional Municipality Business Parks Directory | 5,000 ⁽³⁾ |

Québec

| | |
|--|-----------------------|
| Voir vert | 20,000 ⁽¹⁾ |
| Constructo | 3,342 ⁽³⁾ |
| Constructo Magazine | 20,000 ⁽³⁾ |
| Forum Agricole-Agroalimentaire-Forestier | 11,000 ⁽³⁾ |
| Le Canard de Lachine | 70,639 ⁽³⁾ |
| Le Canard de Lasalle | 70,639 ⁽³⁾ |
| Le Canard de Verdun | 70,639 ⁽³⁾ |
| Tour de l'île | 11,000 ⁽³⁾ |
| Ottawa HR | 20,000 ⁽⁴⁾ |
| Ottawa Technology Magazine | 20,000 ⁽⁴⁾ |
| Ottawa at Home | 30,000 ⁽⁴⁾ |

- (1) Latest statistics of the ODC Certified Distribution Inc.
- (2) Latest statistics of the Canadian Community Newspaper Association (C.C.N.A.).
- (3) Internal statistics.
- (4) Latest statistics of the Canadian Circulation Audit Board (C.C.A.B.).

Schedule B

Mandate of the Audit Committee

The Audit Committee of Transcontinental Inc. (the “Corporation”) is composed exclusively of independent directors who have no direct or indirect material relationship with the Corporation, its subsidiaries or affiliates of the Corporation. A material relationship is defined as any relationship which could, in the view of the Board of Directors, be reasonably expected to interfere with the exercise of a Committee member’s independent judgement. The Board of Directors must appoint a minimum of three of its members to sit on the Committee, one of whom shall serve as Committee Chairman and all of whom shall be financially literate. Two members shall constitute a quorum. The responsibilities of the Committee are established by the Board of Directors and include the following:

- (i) Helping members of the Board of Directors meet their responsibilities, in particular their responsibility for overseeing the financial reporting process;
- (ii) Providing better communication between directors and the external auditor;
- (iii) Ensuring itself of the independence of the external auditor;
- (iv) Satisfying itself of the credibility and objectivity of financial reports;
- (v) Favours the implication of directors and facilitating in-depth discussions among directors, management and the external auditor;
- (vi) Assuming the responsibility, on behalf of the shareholders, for the relationship between the Corporation and the external auditor;
- (vii) Examining and approving the mandate of the external auditor as well as the nature and scope of the audit to be conducted by the external auditor and receiving its official written statement attesting to its independence;
- (viii) Recommending to the Board of Directors the nomination of the external auditor and approving its compensation;
- (ix) Examining and approving the mandate, the organization and the independence of the internal auditor of the Corporation, including the scope of its responsibilities, its objectives and its work programs as well as its staff;
- (x) Overseeing the work of the external auditor engaged for the purpose of preparing or issuing the audit report or performing other audit, exam or attest services for the Corporation, including the resolution of disagreement between management and the external auditor regarding financial information;
- (xi) Discussing with the external auditor any restrictions imposed on the scope of its work and any problems arising in connection with its audit of the Corporation and its subsidiaries;
- (xii) Informing the Board of Directors of the Corporation of any conflict between the external auditor and management of the Corporation which the Committee has not settled within a reasonable timeframe;
- (xiii) Pre-approving all non-auditing services that the external auditor of the Corporation must carry out for the Corporation or its subsidiaries in order to allow the Committee to consider the effect of the services on the independence of the external auditor and examining and authorizing all fees paid to the external

auditor for any service. This responsibility of the Audit Committee cannot be delegated to management of the Corporation in any way whatsoever;

- (xiv) Reviewing and recommending to the Board of Directors for approval, before their release, the annual and quarterly consolidated financial statements of the Corporation, including the notes thereto, the management's discussion and analysis relating thereto and the press releases regarding the annual and quarterly results;
- (xv) Reviewing the impact of a material sale or acquisition on the disclosure of financial information;
- (xvi) Reviewing the accounting principles and practices followed by the Corporation, including any material changes made thereto during a fiscal year and ensuring that they are adequate under the circumstances and in compliance with applicable laws and regulations;
- (xvii) Reviewing, in conjunction with management and the external auditor, any new financial or regulatory requirements that could affect the presentation of the Corporation's financial information;
- (xviii) Monitoring and assessing the efficiency and integrity of the Corporation's internal controls and management information systems taking into account comments from the external auditor, the internal auditor of the Corporation and the Chief Financial Officer of the Corporation;
- (xix) Reviewing the recommendations that the internal auditor and the external auditor bring to the attention of management of the Corporation and which they consider material with a view to improving accounting practices, internal controls and management information systems;
- (xx) Ensuring that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the financial statements and periodically assessing the adequacy of those procedures;
- (xxi) Ensuring that procedures established for the receipt, retention and the treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and regarding the confidential and anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (xxii) Reviewing and approving the Corporation's hiring policies regarding current and former partners and employees of the present and former external auditor of the Corporation;
- (xxiii) Ensuring that a process allowing management to identify the major risks the Corporation is facing is implemented and taking all necessary measures or ensuring that such measures are taken to manage such risks; in this regard, making inquiries with respect to the insurance portfolio, the currency position, any pending and threatened litigation as well as any contingent liabilities of the Corporation and its subsidiaries; reviewing the level of provisions with respect to the Corporation's accounts and evaluating their adequacy; and
- (xxiv) Meeting privately on a regular basis with the internal auditor and the external auditor, without management being present, to discuss management of the Corporation's financial affairs and internal controls.

To allow it to fulfill its obligations mentioned above, the Committee shall have unlimited access, at any time, directly or through duly appointed representatives, to the pertinent books and accounting systems of the Corporation, to its external auditor, to its internal auditor, to its accounting staff and members of management as

well as to any independent legal counsel or other counsel deemed appropriate by the Committee; the Committee shall have the authority to establish remuneration of such consultants. The external auditor as well as the internal auditor of the Corporation and members of management shall also have unlimited access to the Audit Committee.

The Committee reports to the Board of Directors after every Committee meeting.