TRANSCONTINENTAL

Press Release

For Immediate Release

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

Highlights

- Revenues decreased by $1.9 million, or 0.4%, from $503.6 million to $501.7 million. Adjusted revenues, which exclude the accelerated recognition of deferred revenues related to the new agreement with Hearst, decreased by $41.7 million, or 8.3%, to $461.9 million. This decrease is mainly due to the sale of our media assets in Atlantic Canada and local and regional newspapers in Québec.
- Operating earnings increased by $61.1 million, from $62.4 million to $123.5 million. Adjusted operating earnings, which exclude an amount of $33.5 million for the accelerated recognition of deferred revenues net of accelerated depreciation related to the new agreement with Hearst, as well as restructuring and other costs (gains) and impairment of assets, increased by $4.8 million, from $61.3 million to $66.1 million, or 7.8%.
- Net earnings increased by $15.5 million, from $42.7 million to $58.2 million. Adjusted net earnings, which exclude the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related taxes, as well as the impact of the U.S. tax reform (*U.S. Tax Cuts and Jobs Act*) on deferred tax, increased by $7.3 million, from $41.3 million to $48.6 million, or 17.7%.
- Maintained a solid financial position, with a net indebtedness ratio of 0.1x.
- Acquired Les Industries Flexipak Inc., a flexible packaging supplier located in Montréal.
- Concluded a new agreement with Hearst under which the Corporation will transfer to Hearst, effective April 2, 2018, the printing of the *San Francisco Chronicle*.
- Sold the Corporation's stake in CEDROM-SNi Inc.
- Sold 34 local and regional newspapers in Québec as well as their related web properties.
- The Board of Directors approved a 5% increase in the annual dividend, bringing it to $0.84 per share.

Montréal, March 1st, 2018 - Transcontinental Inc. (TSX: TCL.A TCL.B) announces its results for the first quarter of fiscal 2018, which ended January 28, 2018.

"I am satisfied with our first quarter financial results, which show that our profitability has increased while we continue the transformation of our organization," said François Olivier, President and Chief Executive Officer of TC Transcontinental.

"In the printing division, the demand for our retailer-related service offering remained relatively stable. Furthermore, we implemented initiatives aimed at continuously optimizing our printing platform, namely the consolidation of our Québec newspaper printing plants. In addition, we will transfer to Hearst the operations of our California facility as of April 2018. Consequently, we will repatriate state-of-the art equipment to some of our Canadian plants, which will generate synergies mainly starting in 2019.

"In the packaging division, this year's first quarter results were mainly affected by timing differences in purchases at one of our plants, but we anticipate that organic sales growth in 2018 will be similar to 2017. In addition, we pursued in a very active manner a number of promising acquisition opportunities.

"In our Media Sector, we sold 34 local and regional newspapers during the quarter and continued to adjust our costs to our asset base. Overall, the Media Sector's activities performed well.

"Today, with our enviable financial position and significant cash flows, we are, more than ever, well positioned to accelerate the growth of our packaging business."

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Financial Highlights

(in millions of dollars, except per share amounts)	Q1-2018	Q1-2017	Variation in %
Revenues	$ 501.7	$ 503.6	(0.4) %
Adjusted Revenues [(1)]	461.9	503.6	(8.3)
Operating earnings before depreciation and amortization	154.7	89.0	73.8
Adjusted operating earnings before depreciation and amortization [(1)]	91.0	87.9	3.5
Operating earnings	123.5	62.4	97.9
Adjusted operating earnings [(1)]	66.1	61.3	7.8
Net earnings	58.2	42.7	36.3
Net earnings per share	0.75	0.55	36.4
Adjusted net earnings [(1)]	48.6	41.3	17.7
Adjusted net earnings per share [(1)]	0.63	0.53	18.9

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

2018 First Quarter Results

Revenues went from $503.6 million in the first quarter of 2017 to $501.7 million in the first quarter of 2018, a decrease of $1.9 million, or 0.4%. Excluding the $39.8 million favourable effect of the accelerated recognition of deferred revenues related to the new agreement with Hearst, adjusted revenues went from $503.6 million in the first quarter of 2017 to $461.9 million in the corresponding period in 2018, a decrease of 8.3%. In addition, excluding the unfavourable impact of the sales of newspapers and other media assets in 2017 related to the Corporation's strategy, as well as the unfavourable exchange rate effect, adjusted revenues decreased by only $7.8 million, or 1.7%. The increase in demand for our services to Canadian retailers, notably as a result of the additional contribution from the expanded agreement with Lowe's Canada, and the contribution from acquisitions in the packaging division and in the Media Sector partially offset the decline in volume due to the end of the printing of *The Globe and Mail* in the Maritimes and of *La Presse,* the decrease in revenues from unsold newspapers in the local and regional newspaper publishing niche in Québec and Ontario in the Media Sector and the timing differences in purchases at one of the packaging plants.

Operating earnings increased by $61.1 million, or 97.9%, from $62.4 million in the first quarter of 2017 to $123.5 million in the first quarter of 2018. This increase is mostly attributable to the favourable effect of the accelerated recognition of deferred revenues, the decrease in operating expenses resulting from the sale of media assets and cost reduction initiatives and the decrease in restructuring and other costs (gains) as a result of higher gains on the sale of certain activities in the Media Sector. Adjusted operating earnings increased by $4.8 million, or 7.8%, from $61.3 million in the first quarter of 2017 to $66.1 million in the first quarter of 2018. Excluding the $6.8 million favourable effect of the stock-based compensation expense as a result of the change in the share price in the first quarter of 2018 compared to the corresponding period in 2017and the unfavourable impact of the sales of newspapers and other media assets in 2017, adjusted operating earnings remained stable. The contribution from acquisitions and the favourable effect of cost reduction initiatives in the printing division and in the local and regional newspaper publishing activities in Québec and Ontario in the Media Sector were offset by the above-mentioned decrease in volume.

Net earnings increased by $15.5 million, from $42.7 million in the first quarter of 2017 to $58.2 million in the first quarter of 2018. This increase is mostly attributable to the increase in operating earnings, as explained above, partially offset by higher income taxes. On a per share basis, net earnings went from $0.55 to $0.75. Excluding the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related income taxes, as well as the impact of the U.S. tax reform on deferred tax, adjusted net earnings increased by $7.3 million, or 17.7%, from $41.3 million in the first quarter of 2017 to $48.6 million

in the first quarter of 2018. This increase is attributable to the increase in adjusted operating earnings, as explained above. On a per share basis, adjusted net earnings went from $0.53 to $0.63.

For more detailed financial information, please see the *Management's Discussion and Analysis for the first quarter ended January 28, 2018* as well as the financial statements in the "Investors" section of our website at www.tc.tc

Outlook for 2018

In the printing division, we expect revenues from all our services to Canadian retailers to remain relatively stable in fiscal 2018 compared to the same period in 2017. At the end of the second quarter, we will no longer see the additional contribution of the expanded agreement with Lowe's Canada to our results, since it has already contributed for four quarters. As a reminder, this agreement concluded in January 2017 remains in effect until 2022. Also, we have renewed our multi-year agreement with Loblaw Companies Limited. This agreement includes the full range of our retailer-related services as well as additional volume for in-store marketing product printing, premedia services and commercial printing. In all the other printing verticals, we expect that our revenues will continue to be affected by a decline in volume caused by the same trends in the advertising market. We will also stop printing the *San Francisco Chronicle* in April 2018 pursuant to a new agreement with Hearst. However, we will continue to offer them transition services until October 31, 2018. To partially offset the decline in volume, we will continue with our operational efficiency initiatives and will benefit from the closure of our Transcontinental Métropolitain plant starting in the second quarter.

In our packaging division, the acquisition of Les Industries Flexipak Inc., completed in October 2017, will contribute to results in fiscal 2018. We also rely on our sales force to continue developing our sales funnel and we expect other sales to materialize in order to achieve an organic sales growth similar to 2017.

In the Media Sector, our revenues will be affected in 2018 by the sale of our media assets related to local and regional newspapers. We expect that our Business and Education Group will continue to perform well by diversifying its revenues in niches that depend little on advertising. We will continue to adjust our cost structure based on the volume of activity as we sell our local and regional newspapers.

The Corporation also expects that the U.S. tax reform, enacted on December 22, 2017, will have a positive effect on its results for the remainder of fiscal 2018 and for the years to come mainly as a result of the reduction in the U.S. federal statutory corporate income tax rate. The significance of this positive effect will depend on the proportion of the Corporation's earnings generated by its U.S. subsidiaries, which cannot be forecasted with certainty.

To conclude, in fiscal 2018, we expect to continue generating significant cash flows from our operating activities and to maintain our excellent financial position, which should enable us to continue making acquisitions to support our transformation into packaging.

Reconciliation of Non-IFRS Financial Measures

The financial information has been prepared in accordance with IFRS. However, financial measures used, namely the adjusted revenues, the adjusted operating earnings, the adjusted operating earnings before depreciation and amortization, the adjusted net earnings, the adjusted net earnings per share, the net indebtedness and the net indebtedness ratio, for which a complete definition is presented in the *Management's Discussion and Analysis for the first quarter ended January 28, 2018*, and for which a reconciliation is presented in the following table, do not have any standardized meaning under IFRS and could be calculated differently by other companies. We believe that many of our readers analyze the financial performance of the Corporation's activities based on these non-IFRS financial measures as such measures may allow for easier comparisons between periods. These measures should be considered as a complement to financial performance measures in accordance with IFRS. They do not substitute and are not superior to them.

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

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

Reconciliation of revenues - First quarter

	Three months ended	
(in millions of dollars)	**January 28, 2018**	January 29, 2017
Revenues	**$ 501.7**	$ 503.6
Accelerated recognition of deferred revenues [1]	**(39.8)**	—
Adjusted revenues	**$ 461.9**	$ 503.6

Reconciliation of operating earnings - First quarter

	Three months ended	
(in millions of dollars)	**January 28, 2018**	January 29, 2017
Operating earnings	**$ 123.5**	$ 62.4
Accelerated recognition of deferred revenues [1]	**(39.8)**	—
Accelerated depreciation [1]	**6.3**	—
Restructuring and other costs (gains)	**(25.9)**	(2.3)
Impairment of assets	**2.0**	1.2
Adjusted operating earnings	**$ 66.1**	$ 61.3
Depreciation and amortization	**31.2**	26.6
Accelerated depreciation [1]	**(6.3)**	—
Adjusted operating earnings before depreciation and amortization	**$ 91.0**	$ 87.9

Reconciliation of net earnings - First quarter

	Three months ended			
	January 28, 2018		January 29, 2017	
(in millions of dollars, except per share amounts)	**Total**	**Per share**	Total	Per share
Net earnings	**$ 58.2**	**$ 0.75**	$ 42.7	$ 0.55
Accelerated recognition of deferred revenues [1], net of related taxes	**(29.4)**	**(0.38)**	—	—
Accelerated depreciation [1], net of related taxes	**4.6**	**0.06**	—	—
Restructuring and other costs (gains), net of related taxes	**(22.8)**	**(0.29)**	(2.3)	(0.03)
Impairment of assets, net of related taxes	**1.4**	**0.02**	0.9	0.01
Impact of the U.S. tax reform on deferred tax	**36.6**	**0.47**	—	—
Adjusted net earnings	**$ 48.6**	**$ 0.63**	$ 41.3	$ 0.53

Reconciliation of net indebtedness

(in millions of dollars, except ratios)	As at January 28, 2018	As at October 29, 2017
Long-term debt	**$ 348.2**	$ 348.3
Current portion of long-term debt	**—**	—
Cash	**(313.7)**	(247.1)
Net indebtedness	**$ 34.5**	$ 101.2
Adjusted operating earnings before depreciation and amortization (last 12 months)	**$ 399.8**	$ 396.7
Net indebtedness ratio	**0.1 x**	0.3 x

(1) Related to the new agreement with Hearst. Please refer to note 18, « New agreement with Hearst », in the unaudited condensed interim consolidated financial statements for the first quarter ended January 28, 2018

Dividend

The Corporation's Board of Directors declared a quarterly dividend of $0.21 per share on Class A Subordinate Voting Shares and Class B Shares. This dividend is payable on April 11, 2018 to shareholders of record at the close of business on March 26, 2018. The Corporation thus increased the dividend per participating share by 5.0%, or $0.04, raising the annual dividend from $0.80 to $0.84 per share. This increase reflects TC Transcontinental's solid cash flow position.

Conference Call

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

Profile

TC Transcontinental is Canada's largest printer and a key supplier of flexible packaging in North America. The Corporation is also a leader in its specialty media segments. TC Transcontinental's mission is to create products and services that allow businesses to attract, reach and retain their target customers.

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

Transcontinental Inc. (TSX: TCL.A TCL.B), known as TC Transcontinental, has close to 6,500 employees in Canada and the United States, and revenues of C$2.0 billion in 2017. Website www.tc.tc

Forward-looking Statements

Our public communications often contain oral or written forward-looking statements which are based on the expectations of management and inherently subject to a certain number of risks and uncertainties, known and unknown. By their very nature, forward-looking statements are derived from both general and specific assumptions. The Corporation cautions against undue reliance on such statements since actual results or events may differ materially from the expectations expressed or implied in them. Forward-looking statements may include

observations concerning the Corporation's objectives, strategy, anticipated financial results and business outlook. The Corporation's future performance may also be affected by a number of factors, many of which are beyond the Corporation's will or control. These factors include, but are not limited to, the economic situation in the world and particularly in Canada and the United States, structural changes in the industries in which the Corporation operates, the exchange rate, availability of capital, energy costs, competition, the Corporation's capacity to engage in strategic transactions and integrate acquisitions into its activities, the regulatory environment, the safety of its packaging products used in the food industry, innovation of its offering, concentration of its sales in certain segments, cybersecurity and data protection, recruiting and retaining qualified personnel in certain geographic areas, taxation and interest rate. The main risks, uncertainties and factors that could influence actual results are described in the *Management's Discussion and Analysis (MD&A) for the fiscal year ended October 29, 2017* and in the latest *Annual Information Form*, and have been updated in the *MD&A for the first quarter ended January 28, 2018*.

Unless otherwise indicated by the Corporation, forward-looking statements do not take into account the potential impact of nonrecurring or other unusual items, nor of divestitures, business combinations, mergers or acquisitions which may be announced after the date of March 1st, 2018.

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

The forward-looking statements in this release are based on current expectations and information available as at March 1st, 2018. Such forward-looking information may also be found in other documents filed with Canadian securities regulators or in other communications. The Corporation's management disclaims any intention or obligation to update or revise these statements unless otherwise required by the securities authorities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the first quarter ended January 28, 2018

The purpose of this Management's Discussion and Analysis is to help the reader better understand the business, development strategy and future outlook of Transcontinental Inc., how we manage risk, as well as to analyze the Corporation's results and financial position for the first quarter ended January 28, 2018. It should be read in conjunction with the information in the unaudited condensed interim consolidated financial statements and the accompanying notes included in this report. Additional information relating to the Corporation, including its Annual Report and Annual Information Form, may also be obtained on SEDAR at www.sedar.com.

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

In addition, in this Management's Discussion and Analysis we also use non-IFRS financial measures for which a complete definition is presented below and for which a reconciliation to financial information in accordance with IFRS is presented in Table #2 in the section entitled "Reconciliation of Non-IFRS Financial Measures" and in Note #3 "Segmented Information" in the unaudited condensed interim consolidated financial statements for the first quarter ended January 28, 2018. These measures should be considered as a complement to financial performance measures in accordance with IFRS. They do not substitute and are not superior to them.

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

(1) Related to the new agreement with Hearst. Please refer to note 18, "New agreement with Hearst", in the unaudited condensed interim consolidated financial statements for the first quarter ended January 28, 2018.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Our public communications often contain oral or written forward-looking statements which are based on the expectations of Management and inherently subject to a certain number of risks and uncertainties, known and unknown. By their very nature, forward-looking statements are derived from both general and specific assumptions. The Corporation cautions against undue reliance on such statements since actual results or events may differ materially from the expectations expressed or implied in them. These forward-looking statements include, among others, statements with respect to our medium-term objectives, our outlook, our strategies to achieve these objectives, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. The words "may", "could", "should", "would", "assumptions", "strategy", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", "objective", the use of the future and conditional tenses, and words and expressions of similar nature are intended to identify forward-looking statements. Such forward-looking statements may also include observations concerning the Corporation's anticipated financial results and business outlooks and the economies in which it operates. The Corporation's future performance may also be affected by a number of factors, many of which are beyond the Corporation's will or control. The main risks, uncertainties and factors that could influence actual results are described in the Management's Discussion and Analysis for the fiscal year ended October 29, 2017 and in the latest Annual Information Form.

Unless otherwise indicated by the Corporation, forward-looking statements do not take into account the potential impact of non-recurring or other unusual items, nor of disposals, business combinations, mergers or acquisitions which may be announced or concluded after the date of March 1st, 2018.

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

The forward-looking statements in this Management's Discussion and Analysis are based on current expectations and information available as at March 1st, 2018. Such forward-looking statements may also be found in other documents filed with Canadian securities regulators or in other communications. The Corporation's Management disclaims any intention or obligation to update or revise these statements unless otherwise required by the securities authorities.

PROFILE OF TC TRANSCONTINENTAL

TC Transcontinental is Canada’s largest printer and a key supplier of flexible packaging in North America. The Corporation is also a leader in its specialty media segments. TC Transcontinental's mission is to create products and services that allow businesses to attract, reach and retain their target customers.

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

Transcontinental Inc. (TSX: TCL.A, TCL.B), known as TC Transcontinental, has close to 6,500 employees in Canada and the United States, and revenues of C$2.0 billion in 2017. Website www.tc.tc.

HIGHLIGHTS - FIRST QUARTER

Table #1:

(in millions of dollars, except per share amounts)	**Q1-2018**	Q1-2017	Variation in $	Variation in %
Revenues	**$ 501.7**	$ 503.6	$ (1.9)	(0.4) %
Adjusted revenues (1)	**461.9**	503.6	(41.7)	(8.3)
Operating earnings	**123.5**	62.4	61.1	97.9
Adjusted operating earnings (1)	**66.1**	61.3	4.8	7.8
Net earnings	**58.2**	42.7	15.5	36.3
Net earnings per share	**0.75**	0.55	0.20	36.4
Adjusted net earnings (1)	**48.6**	41.3	7.3	17.7
Adjusted net earnings per share (1)	**0.63**	0.53	0.10	18.9

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

- Revenues decreased by $1.9 million, or 0.4%, from $503.6 million to $501.7 million. Adjusted revenues, which exclude the accelerated recognition of deferred revenues related to the new agreement with Hearst, decreased by $41.7 million, or 8.3%, to $461.9 million. This decrease is mainly due to the sale of our media assets in Atlantic Canada and local and regional newspapers in Québec.
- Operating earnings increased by $61.1 million, from $62.4 million to $123.5 million. Adjusted operating earnings, which exclude an amount of $33.5 million for the accelerated recognition of deferred revenues net of accelerated depreciation related to the new agreement with Hearst, as well as restructuring and other costs (gains) and impairment of assets, increased by $4.8 million, from $61.3 million to $66.1 million, or 7.8%.
- Net earnings increased by $15.5 million, from $42.7 million to $58.2 million. Adjusted net earnings, which exclude the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related taxes, as well as the impact of the U.S. tax reform (*U.S. Tax Cuts and Jobs Act*) on deferred tax, increased by $7.3 million, from $41.3 million to $48.6 million, or 17.7%.
- On October 31, 2017, the Corporation acquired Les Industries Flexipak Inc., a flexible packaging supplier located in Montréal, Québec.
- On December 20, 2017, the Corporation sold its stake in CEDROM-SNi Inc. to CNW Group Ltd., a Cision company.

- On December 21, 2017, the Corporation announced a new agreement with Hearst under which it will transfer to Hearst, effective April 2, 2018, the printing of the *San Francisco Chronicle*.
- During the first quarter of 2018, the Corporation sold 34 local and regional newspapers in Québec as well as their related web properties.
- On March 1, 2018, the Board of Directors approved a 5% increase in the annual dividend per share to $0.84 per year.

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

(unaudited)

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

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

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

Table #2:

Reconciliation of revenues - First quarter

	Three months ended	
(in millions of dollars)	**January 28, 2018**	January 29, 2017
Revenues	**$ 501.7**	$ 503.6
Accelerated recognition of deferred revenues (1)	**(39.8)**	—
Adjusted revenues	**$ 461.9**	$ 503.6

Reconciliation of operating earnings - First quarter

	Three months ended	
(in millions of dollars)	**January 28, 2018**	January 29, 2017
Operating earnings	**$ 123.5**	$ 62.4
Accelerated recognition of deferred revenues (1)	**(39.8)**	—
Accelerated depreciation (1)	**6.3**	—
Restructuring and other costs (gains)	**(25.9)**	(2.3)
Impairment of assets	**2.0**	1.2
Adjusted operating earnings	**$ 66.1**	$ 61.3
Depreciation and amortization	**31.2**	26.6
Accelerated depreciation (1)	**(6.3)**	—
Adjusted operating earnings before depreciation and amortization	**$ 91.0**	$ 87.9

Reconciliation of net earnings - First quarter

	Three months ended			
	January 28, 2018		January 29, 2017	
(in millions of dollars, except per share amounts)	**Total**	**Per share**	Total	Per share
Net earnings	**$ 58.2**	**$ 0.75**	$ 42.7	$ 0.55
Accelerated recognition of deferred revenues [1], net of related taxes	**(29.4)**	**(0.38)**	—	—
Accelerated depreciation [1], net of related taxes	**4.6**	**0.06**	—	—
Restructuring and other costs (gains), net of related taxes	**(22.8)**	**(0.29)**	(2.3)	(0.03)
Impairment of assets, net of related taxes	**1.4**	**0.02**	0.9	0.01
Impact of the U.S. tax reform on deferred tax	**36.6**	**0.47**	—	—
Adjusted net earnings	**$ 48.6**	**$ 0.63**	$ 41.3	$ 0.53

Reconciliation of net indebtedness

(in millions of dollars, except ratios)	**As at January 28, 2018**	As at October 29, 2017
Long-term debt	**$ 348.2**	$ 348.3
Current portion of long-term debt	**—**	—
Cash	**(313.7)**	(247.1)
Net indebtedness	**$ 34.5**	$ 101.2
Adjusted operating earnings before depreciation and amortization (last 12 months)	**$ 399.8**	$ 396.7
Net indebtedness ratio	**0.1 x**	0.3 x

(1) Related to the new agreement with Hearst. Please refer to note 18, « New agreement with Hearst », in the unaudited condensed interim consolidated financial statements for the first quarter ended January 28, 2018.

ANALYSIS OF CONSOLIDATED RESULTS - FIRST QUARTER

Revenues

Revenues decreased by $1.9 million, or 0.4%, from $503.6 million in the first quarter of 2017 to $501.7 million in the corresponding period in 2018. This decrease is mainly due to the effect of disposals and closures, the decline in revenues in certain verticals in the Printing and Packaging Sector and from unsold newspapers in the local and regional newspaper publishing niche in Québec and Ontario in the Media Sector, as well as the unfavourable exchange rate effect, partially offset by the favourable impact of the accelerated recognition of deferred revenues related to the new agreement with Hearst and the contribution from acquisitions. Excluding the $39.8 million impact of the accelerated recognition of deferred revenues, adjusted revenues decreased by $41.7 million, or 8.3%. A more detailed analysis of adjusted revenues is presented in the "Analysis of Sector Results - First quarter" section.

Operating and Other Expenses

Operating expenses decreased by $44.8 million, or 10.8%, in the first quarter of 2018 compared to the corresponding period in 2017. Excluding the stock-based compensation expense, which decreased by $6.8 million as a result of the change in the share price in the first quarter of 2018 compared to the first quarter of 2017, operating expenses decreased by $38.0 million, or 9.1%. The decline in operating expenses is mostly attributable to the effect of disposals and closures and to the favourable effect of Corporation-wide cost reduction initiatives, partially offset by new operating expenses related to acquisitions.

Restructuring and other costs (gains) decreased by $23.6 million, from a gain of $2.3 million in the first quarter of 2017 to a gain of $25.9 million in the first quarter of 2018. The favourable effect is mostly attributable to the gains on the sale of local and regional newspapers in the Media Sector and the sale of our stake in CEDROM-SNi Inc. in the first quarter of 2018.

The asset impairment charge increased by $0.8 million, from $1.2 million in the first quarter of 2017 to $2.0 million in the first quarter of 2018. This increase is mostly due to the recording of an asset impairment charge on intangible assets in the local and regional newspaper publishing activities in the Media Sector.

Depreciation and amortization increased by $4.6 million, from $26.6 million in the first quarter of 2017 to $31.2 million in the first quarter of 2018, mostly as a result of the accelerated depreciation related to the new agreement with Hearst. Excluding this item, depreciation and amortization decreased by $1.7 million mostly as a result of fully depreciated assets in the printing division.

Operating Earnings

Operating earnings increased by $61.1 million, from $62.4 million in the first quarter of 2017 to $123.5 million in the first quarter of 2018. This increase is mostly attributable to the favourable effect of the accelerated recognition of deferred revenues, the effect of accelerated depreciation, as well as the decline in operating expenses and restructuring and other costs (gains). Adjusted operating earnings increased by $4.8 million, or 7.8%, from $61.3 million to $66.1 million. Excluding the $6.8 million favourable effect of the stock-based compensation expense as a result of the change in the share price in the first quarter of 2018 compared to the corresponding period in 2017, adjusted operating earnings decreased by $2.0 million, or 2.9%. A more detailed analysis of adjusted operating earnings is presented in the "Analysis of Sector Results - First Quarter" section.

Net Financial Expenses

Net financial expenses decreased by $2.5 million, from $5.1 million in the first quarter of 2017 to $2.6 million in the first quarter of 2018. This decrease is mainly attributable to higher interest income in the first quarter of 2018 compared to the first quarter of 2017 as well as net foreign exchange gains.

Income Taxes

Income taxes increased by $48.3 million, from $14.5 million in the first quarter of 2017 to $62.8 million in the first quarter of 2018 as a result of the increase in operating earnings and the impact of the U.S. tax reform on deferred tax. On December 22, 2017, the *Tax Cuts and Jobs Act,* which reforms income taxes in the United States, was enacted. This reform lowers the federal statutory tax rate for U.S. corporations from a progressive tax rate of up to 35% to a fixed rate of 21% effective January 1, 2018. During the first quarter of 2018, this decrease reduced previously recognized deferred tax assets by $36.6 million. Excluding income taxes on the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, as well as the impact of the U.S. tax reform on deferred tax, adjusted income taxes amounted to $14.8 million in the first quarter of 2017, for an effective tax rate of 26.3%, compared to $15.0 million in the first quarter of 2018, for an effective tax rate of 23.5%. This decrease in the effective tax rate is mostly attributable to the geographic distribution of earnings before taxes.

Net Earnings

Net earnings increased by $15.5 million, from $42.7 million in the first quarter of 2017 to $58.2 million in the first quarter of 2018. This increase is mostly attributable to the increase in operating earnings, partially offset by higher income taxes. On a per share basis, net earnings went from $0.55 to $0.75. Excluding the accelerated recognition of deferred revenues, accelerated depreciation, restructuring and other costs (gains) and impairment of assets, net of related income taxes, as well as the impact of the U.S. tax reform on deferred tax, adjusted net earnings increased by $7.3 million, or 17.7%, from $41.3 million in the first quarter of 2017 to $48.6 million in the first quarter of 2018. On a per share basis, adjusted net earnings went from $0.53 to $0.63.

ANALYSIS OF SECTOR RESULTS - FIRST QUARTER

(unaudited)

Table #3:

(in millions of dollars)	Printing & Packaging Sector	Media Sector	Head office and Inter-Segment Eliminations	Consolidated results
Adjusted revenues (1) - First quarter of 2017	**$ 450.1**	**$ 63.1**	**$ (9.6)**	**$ 503.6**
Acquisitions/disposals and closures	2.9	(27.7)	—	(24.8)
Existing operations				
Exchange rate effect	(4.9)	—	—	(4.9)
Organic growth (decline)	(11.9)	(5.8)	5.7	(12.0)
Adjusted revenues (1) - First quarter of 2018	**$ 436.2**	**$ 29.6**	**$ (3.9)**	**$ 461.9**
Adjusted operating earnings (1) - First quarter of 2017	**$ 71.0**	**$ (1.3)**	**$ (8.4)**	**$ 61.3**
Acquisitions/disposals and closures	0.3	(1.4)	—	(1.1)
Existing operations				
Exchange rate effect	—	—	—	—
Organic growth (decline)	(4.5)	4.3	6.1	5.9
Adjusted operating earnings (1) - First quarter of 2018	**$ 66.8**	**$ 1.6**	**$ (2.3)**	**$ 66.1**

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

Printing & Packaging Sector

Printing & Packaging Sector adjusted revenues decreased by $13.9 million, or 3.1%, from $450.1 million in the first quarter of 2017 to $436.2 million in the first quarter of 2018. In the printing division, demand for our services to Canadian retailers increased, notably as a result of the additional contribution from the expanded agreement with Lowe's Canada, despite the unfavourable impact of the bankruptcy of a retail customer on the volume of our distribution activities. Revenues from the other printing division verticals declined as a result of the continuation of the same trends in the advertising market and the end of the printing of *The Globe and Mail* in the Maritimes and of *La Presse*. Our packaging division also experienced an organic decline in revenues mainly caused by timing differences in purchases at one of our plants. However, the acquisition of Les Industries Flexipak Inc. partially offset this decline. The decline in revenue is also due to the unfavourable exchange rate effect for the Sector.

Adjusted operating earnings decreased by $4.2 million, or 5.9%, from $71.0 million in the first quarter of 2017 to $66.8 million in the first quarter of 2018. This decrease is mainly due to the above-mentioned organic decline in revenues, partially offset by the favourable effect of cost reduction initiatives in the printing division and the contribution from our acquisition in the packaging division. The Sector's adjusted operating earnings margin went from 15.8% in the first quarter of 2017 to 15.3% in the first quarter of 2018.

Media Sector

Media Sector revenues decreased by $33.5 million, or 53.1%, from $63.1 million in the first quarter of 2017 to $29.6 million in the first quarter of 2018. This decrease is mainly due to the impact of the sale of our media assets in Atlantic Canada and local and regional newspapers in Québec, partially offset by the contribution from our acquisition of specialty financial brands. The decline in revenues from the local and regional newspaper publishing niche in Québec and Ontario caused by the reduction in advertising revenues also explains the decrease. Revenues from our Business and Education Group remained relatively stable.

Adjusted operating earnings went from a loss of $1.3 million in the first quarter of 2017 to a gain of $1.6 million in the first quarter of 2018. This increase is attributable to the contribution from our cost reduction initiatives related to our local and regional newspaper publishing activities as well as our acquisition of specialty financial brands, partially offset by the unfavourable impact of the sale of our media assets in Atlantic Canada and of local and regional newspapers in Québec.

Head Office and Inter-Segment Eliminations

Inter-segment revenue eliminations went from -$9.6 million in the first quarter of 2017 to -$3.9 million in the first quarter of 2018. This change is mostly attributable to the decrease in inter-segment transactions caused by the disposals and closures of newspapers in our Media Sector that we were printing. Adjusted operating earnings improved by $6.1 million, from -$8.4 million in the first quarter of 2017 to -$2.3 million in the first

quarter of 2018. This change is mainly attributable to the decrease of $6.8 million in the stock-based compensation expense as a result of the change in the share price in the first quarter of 2018 compared to the first quarter of 2017.

SUMMARY OF QUARTERLY RESULTS

(unaudited)

Table #4 summarizes selected consolidated financial information derived from the Corporation's unaudited condensed interim consolidated financial statements and some non-IFRS financial measures for each of the last eight quarters.

Table #4:

	2018	2017				2016		
(in millions of dollars, except per share amounts)	**Q1**	Q4	Q3	Q2	**Q1**	Q4	Q3	Q2
Revenues	**$ 501.7**	$ 527.2	$ 477.7	$ 498.7	**$ 503.6**	$ 555.6	$ 467.8	$ 497.2
Adjusted revenues (1)	**461.9**	527.2	477.7	498.7	**503.6**	555.6	467.8	497.2
Operating earnings before depreciation and amortization	**154.7**	128.5	93.7	94.2	**89.0**	107.8	90.1	43.2
Adjusted operating earnings before depreciation and amortization (1)	**91.0**	123.3	95.4	90.1	**87.9**	133.9	89.2	83.1
Adjusted operating earnings margin before depreciation and amortization (1)	**19.7 %**	23.4 %	20.0 %	18.1 %	**17.5 %**	24.1 %	19.1 %	16.7 %
Operating earnings	**123.5**	103.6	68.2	67.8	**62.4**	81.3	63.6	16.3
Adjusted operating earnings (1)	**66.1**	98.4	69.9	63.7	**61.3**	107.4	62.7	56.2
Adjusted operating earnings margin (1)	**14.3 %**	18.7 %	14.6 %	12.8 %	**12.2 %**	19.3 %	13.4 %	11.3 %
Net earnings	**$ 58.2**	$ 73.4	$ 49.0	$ 46.4	**$ 42.7**	$ 57.7	$ 45.9	$ 5.4
Net earnings per share	**0.75**	0.94	0.64	0.60	**0.55**	0.75	0.59	0.07
Adjusted net earnings (1)	**48.6**	68.3	50.1	42.5	**41.3**	76.6	44.1	34.2
Adjusted net earnings per share (1)	**0.63**	0.88	0.65	0.55	**0.53**	0.99	0.57	0.44
% of fiscal year	**_ %**	34 %	25 %	21 %	**20 %**	39 %	23 %	17 %

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

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

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

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

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

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL STRUCTURE
(unaudited)
Table #5:

	Three months ended	
(in millions of dollars)	**January 28, 2018**	January 29, 2017
Operating activities		
Cash flows generated by operating activities before changes in non-cash operating items and income taxes paid	**$ 133.6**	$ 93.1
Changes in non-cash operating items	**(31.3)**	(0.5)
Income taxes paid	**(12.3)**	(11.6)
Cash flows from operating activities	**$ 90.0**	$ 81.0
Investing activities		
Business combinations, net of acquired cash	**$ (11.4)**	$ (8.2)
Business disposals	**30.3**	0.1
Acquisitions of property, plant and equipment	**(9.1)**	(10.5)
Disposals of property, plant and equipment	**0.1**	6.7
Increase in intangible assets	**(3.7)**	(4.1)
Dividends received from equity investments	**3.4**	—
Cash flows from investing activities	**$ 9.6**	$ (16.0)
Financing activities		
Reimbursement of long-term debt	**$ (3.7)**	$ (0.1)
Financial expenses on long-term debt	**(5.5)**	(5.5)
Exercise of stock options	**—**	5.2
Dividends	**(15.5)**	(14.3)
Share redemptions	**(6.9)**	—
Cash flows from financing activities	**$ (31.6)**	$ (14.7)
Effect of exchange rate changes on cash denominated in foreign currencies	**$ (1.4)**	$ —
Net change in cash	**$ 66.6**	$ 50.3

Financial position	**As at January 28, 2018**	As at October 29, 2017
Net indebtedness [(1)]	**$ 34.5**	$ 101.2
Net indebtedness ratio [(1)]	**0.1 x**	0.3 x
Credit rating		
DBRS	**BBB (low)**	BBB (low)
Outlook	**Stable**	Stable
Standard and Poor's	**BBB-**	BBB-
Outlook	**Stable**	Stable

Balance sheet	**As at January 28, 2018**	As at October 29, 2017
Current assets	**$ 782.6**	$ 780.2
Current liabilities	**331.0**	365.3
Total assets	**2,059.4**	2,136.7
Total liabilities	**823.0**	918.0

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

Cash Flows from Operating Activities

Cash flows from operating activities increased from $81.0 million in the first quarter of 2017 to $90.0 million in the first quarter of 2018. This increase is explained by higher cash flows generated by operating activities before changes in non-cash operating items and income taxes paid and by the decrease in the stock-based compensation expense as a result of the change in the share price in the first quarter of 2018 compared to the first quarter of 2017. This increase is partially offset by the unfavourable timing differences for accounts payable and the stock-based compensation to be paid.

Cash Flows from Investing Activities

Cash flows from investing activities went from a cash outflow of $16.0 million in the first quarter of 2017 to a cash inflow of $9.6 million in the first quarter of 2018, mostly as a result of the sale of our stake in CEDROM-SNi Inc. and local and regional newspapers in Québec. This inflow was partially offset by a higher cash outflow related to the acquisitions of Les Industries Flexipak Inc. and Contech in the first quarter of 2018.

Cash Flows from Financing Activities

Cash flows from financing activities went from a cash outflow of $14.7 million in the first quarter of 2017 to a cash outflow of $31.6 million in the first quarter of 2018. This increase is mostly due to share repurchases in the first quarter of 2018.

Debt Instruments

Net indebtedness went from $101.2 million as at October 29, 2017 to $34.5 million as at January 28, 2018 as a result of our excess cash flows from operations and the cash inflow from business disposals, in particular the sale of local and regional newspapers in Québec and the sale of our stake in CEDROM-SNi Inc. Consequently, our net indebtedness ratio stood at 0.1x as at January 28, 2018 compared to 0.3x as at October 29, 2017.

Share Capital

Table #6:

Shares Issued and Outstanding	As at January 28, 2018	As at October 29, 2017
Class A (Subordinate Voting Shares)	**63,288,134**	**63,567,144**
Class B (Multiple Voting Shares)	**13,984,926**	**13,985,526**

The Corporation has been authorized to repurchase for cancellation on the open market or, subject to the approval of securities regulators, by private agreements, between April 17, 2017 and April 16, 2018, or at an earlier date if the Corporation concludes or cancels the bid, up to 2,000,000 of its Class A Subordinate Voting Shares and up to 442,349 of its Class B Shares. During the first quarter of 2018, 279,610 Class A Subordinate Voting Shares were repurchased at a weighted average price of $24.59, for a total cash consideration of $6.9 million.

The change in Class B Shares during the first quarter of 2018 is explained by the conversion of 600 Class B Shares into Class A Subordinate Voting Shares.

CHANGES IN ACCOUNTING STANDARDS

New or amended accounting standards not yet adopted

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

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"

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

- IFRS 16 "Leases"
- Amendments to IAS 7 "Statement of Cash Flow"
- Amendments to IFRS 2 "Share-based Payment Transactions"

Please see Note 2 to the consolidated financial statements in order to obtain more information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

During the first quarter ended January 28, 2018, no change that has materially affected or is reasonably likely to materially affect the ICFR was brought to the attention of Management, including the President and Chief Executive Officer, and the Chief Financial and Development Officer of the Corporation.

OUTLOOK FOR 2018

In the printing division, we expect revenues from all our services to Canadian retailers to remain relatively stable in fiscal 2018 compared to the same period in 2017. At the end of the second quarter, we will no longer see the additional contribution of the expanded agreement with Lowe's Canada to our results, since it has already contributed for four quarters. As a reminder, this agreement concluded in January 2017 remains in effect until 2022. Also, we have renewed our multi-year agreement with Loblaw Companies Limited. This agreement includes the full range of our retailer-related services as well as additional volume for in-store marketing product printing, premedia services and commercial printing. In all the other printing verticals, we expect that our revenues will continue to be affected by a decline in volume caused by the same trends in the advertising market. We will also stop printing the *San Francisco Chronicle* in April 2018 pursuant to a new agreement with Hearst. However, we will continue to offer them transition services until October 31, 2018. To partially offset the decline in volume, we will continue with our operational efficiency initiatives and will benefit from the closure of our Transcontinental Métropolitain plant starting in the second quarter.

In our packaging division, the acquisition of Les Industries Flexipak Inc., completed in October 2017, will contribute to results in fiscal 2018. We also rely on our sales force to continue developing our sales funnel and we expect other sales to materialize in order to achieve an organic sales growth similar to 2017.

In the Media Sector, our revenues will be affected in 2018 by the sale of our media assets related to local and regional newspapers. We expect that our Business and Education Group will continue to perform well by diversifying its revenues in niches that depend little on advertising. We will continue to adjust our cost structure based on the volume of activity as we sell our local and regional newspapers.

The Corporation also expects that the U.S. tax reform, enacted on December 22, 2017, will have a positive effect on its results for the remainder of fiscal 2018 and for the years to come mainly as a result of the reduction in the U.S. federal statutory corporate income tax rate. The significance of this positive effect will depend on the proportion of the Corporation's earnings generated by its U.S. subsidiaries, which cannot be forecasted with certainty.

To conclude, in fiscal 2018, we expect to continue generating significant cash flows from our operating activities and to maintain our excellent financial position, which should enable us to continue making acquisitions to support our transformation into packaging.

On behalf of Management,

(s) Nelson Gentiletti
Chief Financial and Development Officer

March 1st, 2018

CONSOLIDATED STATEMENTS OF EARNINGS

Unaudited

(in millions of Canadian dollars, unless otherwise indicated and per share data)	Notes	Three months ended January 28, 2018	January 29, 2017
Revenues	18	**$ 501.7**	$ 503.6
Operating expenses	5 & 18	**370.9**	415.7
Restructuring and other costs (gains)	6	**(25.9)**	(2.3)
Impairment of assets	7	**2.0**	1.2
Operating earnings before depreciation and amortization		**154.7**	89.0
Depreciation and amortization	8	**31.2**	26.6
Operating earnings		**123.5**	62.4
Net financial expenses	9	**2.6**	5.1
Earnings before share of net earnings in interests in joint ventures and income taxes		**120.9**	57.3
Share of net earnings in interests in joint ventures, net of related taxes		**0.1**	(0.1)
Income taxes	10	**62.8**	14.5
Net earnings		**$ 58.2**	$ 42.7
Net earnings per share - basic		**$ 0.75**	$ 0.55
Net earnings per share - diluted		**$ 0.75**	$ 0.55
Weighted average number of shares outstanding - basic (in millions)	14	**77.5**	77.2
Weighted average number of shares - diluted (in millions)	14	**77.6**	77.4

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited

(in millions of Canadian dollars)	Notes	Three months ended January 28, 2018	Three months ended January 29, 2017
Net earnings		**$ 58.2**	$ 42.7
Other comprehensive income (loss)			
Items that will be reclassified to net earnings			
Net change related to cash flow hedges			
Net change in the fair value of derivatives designated as cash flow hedges		**1.4**	1.4
Reclassification of the net change in the fair value of derivatives designated as cash flow hedges in prior periods, recognized in net earnings during the period		**(0.7)**	0.4
Related income taxes		**0.2**	0.5
		0.5	1.3
Cumulative translation differences			
Net unrealized exchange losses on the translation of the financial statements of foreign operations		**(23.4)**	(9.4)
Net change in the fair value of derivatives designated as hedges of net investments in foreign operations		**1.5**	1.2
Related income taxes		**0.4**	0.3
		(22.3)	(8.5)
Items that will not be reclassified to net earnings			
Changes in actuarial gains and losses in respect of defined benefit plans			
Actuarial gains in respect of defined benefit plans	16	**5.4**	19.8
Related income taxes		**1.7**	5.4
		3.7	14.4
Other comprehensive income (loss)	16	**(18.1)**	7.2
Comprehensive income		**$ 40.1**	$ 49.9

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Unaudited

(in millions of Canadian dollars)	Notes	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
Balance as at October 29, 2017		**$ 371.6**	**$ 1.1**	**$ 851.5**	**$ (5.5)**	**$ 1,218.7**
Net earnings		**—**	**—**	**58.2**	**—**	**58.2**
Other comprehensive loss		**—**	**—**	**—**	**(18.1)**	**(18.1)**
Shareholders' contributions and distributions to shareholders						
Share redemptions	13	**(1.6)**	**—**	**(5.3)**	**—**	**(6.9)**
Dividends	13	**—**	**—**	**(15.5)**	**—**	**(15.5)**
Balance as at January 28, 2018		**$ 370.0**	**$ 1.1**	**$ 888.9**	**$ (23.6)**	**$ 1,236.4**
Balance as at October 30, 2016		$ 361.9	$ 3.2	$ 700.9	$ 2.7	$ 1,068.7
Net earnings		—	—	42.7	—	42.7
Other comprehensive income		—	—	—	7.2	7.2
Shareholders' contributions and distributions to shareholders						
Exercise of stock options	13	6.5	(1.3)	—	—	5.2
Dividends	13	—	—	(14.3)	—	(14.3)
Balance as at January 29, 2017		$ 368.4	$ 1.9	$ 729.3	$ 9.9	$ 1,109.5

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(in millions of Canadian dollars)	Notes	**As at January 28, 2018**	As at October 29, 2017
Current assets			
Cash		**$ 313.7**	$ 247.1
Accounts receivable		**311.4**	380.6
Income taxes receivable		**22.4**	17.2
Inventories		**118.1**	116.9
Prepaid expenses and other current assets		**17.0**	18.4
		782.6	780.2
Property, plant and equipment		**478.5**	500.8
Intangible assets		**162.5**	171.1
Goodwill		**505.8**	505.0
Investments in joint ventures		**—**	2.3
Deferred taxes		**84.3**	139.0
Other assets		**45.7**	38.3
		$ 2,059.4	$ 2,136.7
Current liabilities			
Accounts payable and accrued liabilities		**$ 224.9**	$ 304.7
Provisions	12	**5.0**	6.4
Income taxes payable		**12.5**	9.5
Deferred revenues and deposits	18	**88.6**	44.7
Current portion of long-term debt		**—**	—
		331.0	365.3
Long-term debt	11	**348.2**	348.3
Deferred taxes	10	**49.2**	44.1
Provisions	12	**2.5**	1.3
Other liabilities	18	**92.1**	159.0
		823.0	918.0
Equity			
Share capital	13	**370.0**	371.6
Contributed surplus		**1.1**	1.1
Retained earnings		**888.9**	851.5
Accumulated other comprehensive income (loss)	16	**(23.6)**	(5.5)
		1,236.4	1,218.7
		$ 2,059.4	$ 2,136.7

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

		Three months ended	
(in millions of Canadian dollars)	Notes	**January 28, 2018**	January 29, 2017 [1]
Operating activities			
Net earnings		**$ 58.2**	$ 42.7
Adjustments to reconcile net earnings and cash flows from operating activities:			
Impairment of assets	7	**2.0**	1.2
Depreciation and amortization	8	**37.8**	33.0
Financial expenses on long-term debt	9	**4.4**	4.4
Net losses (gains) on disposal of assets		**0.5**	(3.0)
Net gains on business disposals	4 & 6	**(33.2)**	(1.6)
Income taxes	10	**62.8**	14.5
Net foreign exchange differences and other		**1.1**	1.9
Cash flows generated by operating activities before changes in non-cash operating items and income taxes paid		**133.6**	93.1
Changes in non-cash operating items [2]		**(31.3)**	(0.5)
Income taxes paid		**(12.3)**	(11.6)
Cash flows from operating activities		**90.0**	81.0
Investing activities			
Business combinations, net of acquired cash	4	**(11.4)**	(8.2)
Business disposals	4	**30.3**	0.1
Acquisitions of property, plant and equipment		**(9.1)**	(10.5)
Disposals of property, plant and equipment		**0.1**	6.7
Increase in intangible assets		**(3.7)**	(4.1)
Dividends received from equity investments		**3.4**	—
Cash flows from investing activities		**9.6**	(16.0)
Financing activities			
Reimbursement of long-term debt		**(3.7)**	(0.1)
Financial expenses on long-term debt		**(5.5)**	(5.5)
Exercise of stock options	13	**—**	5.2
Dividends	13	**(15.5)**	(14.3)
Share redemptions	13	**(6.9)**	—
Cash flows from financing activities		**(31.6)**	(14.7)
Effect of exchange rate changes on cash denominated in foreign currencies		**(1.4)**	—
Net change in cash		**66.6**	50.3
Cash at beginning of period		**247.1**	16.7
Cash at end of period		**$ 313.7**	$ 67.0
Non-cash investing activities			
Net change in capital asset acquisitions financed by accounts payable		**$ (0.4)**	$ —

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

[2] Includes an amount of $41.2 million received as part of the transaction with Hearst (Note 18).

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

1 GENERAL INFORMATION

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

The Corporation is Canada's largest printer and a key supplier of flexible packaging in North America. The Corporation is also a leader in its specialty media segments. The Corporation conducts business in Canada and the United States in two separate sectors: the Printing and Packaging Sector and the Media Sector. The Corporation's main activities are described in Note 3 "Segmented Information".

The Corporation changed its fiscal year end date from a calendar year end to a floating year end, thus the end of the quarter will always be the last Sunday of the month. This change was effective at the beginning of the previous fiscal year.

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

The Corporation's Board of Directors approved these condensed interim consolidated financial statements on March 1, 2018.

2 SIGNIFICANT ACCOUNTING POLICIES

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

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

New or amended accounting standards not yet adopted

Other than what is disclosed in the Corporation's annual consolidated financial statements for the year ended October 29, 2017, no new accounting standard of interpretation was published and not adopted.

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

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

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

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

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

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

3 SEGMENTED INFORMATION

The operating segments were determined and grouped by management in two separate sectors, according to the type of activity, which are manufacturing and publishing activities. The Printing and Packaging Sector includes the manufacturing activities of the Corporation and generates revenues from activities such as the printing of retail flyers, magazines, newspapers, color books, personalized and mass marketing products, premedia and geotargeted door-to-door distribution services and the production of flexible packaging solutions in Canada and the United States. The Media Sector generates revenues through print and digital publishing products, in French and English, of the following type: newspapers, educational books and specialized publications for professionals. Inter-segment sales of the Corporation are recognized at agreed transfer price, which approximates fair value. Transactions other than sales are recognized at carrying amount.

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

For the three-month period ended January 28, 2018	Printing and Packaging Sector	Media Sector	Head office and inter-segment eliminations	Consolidated Results
Revenues	$ **476.0**	$ **29.6**	$ **(3.9)**	$ **501.7**
Operating expenses	**347.2**	**26.9**	**(3.2)**	**370.9**
Restructuring and other costs (gains)	**2.8**	**(15.0)**	**(13.7)**	**(25.9)**
Impairment of assets	**0.2**	**1.8**	**—**	**2.0**
Operating earnings before depreciation and amortization	**125.8**	**15.9**	**13.0**	**154.7**
Depreciation and amortization	**28.5**	**1.1**	**1.6**	**31.2**
Operating earnings	$ **97.3**	$ **14.8**	$ **11.4**	$ **123.5**
Adjusted operating earnings before depreciation and amortization (1)	$ **89.0**	$ **2.7**	$ **(0.7)**	$ **91.0**
Adjusted operating earnings (1)	**66.8**	**1.6**	**(2.3)**	**66.1**
Acquisitions of non-current assets (2)	$ **8.7**	$ **3.0**	$ **0.7**	$ **12.4**

3 SEGMENTED INFORMATION (CONTINUED)

For the three-month period ended January 29, 2017	Printing and Packaging Sector	Media Sector	Head office and inter-segment eliminations	Consolidated Results
Revenues	$ 450.1	$ 63.1	$ (9.6)	$ 503.6
Operating expenses	356.3	62.4	(3.0)	415.7
Restructuring and other costs (gains)	1.2	(1.1)	(2.4)	(2.3)
Impairment of assets	0.1	1.1	—	1.2
Operating earnings before depreciation and amortization	92.5	0.7	(4.2)	89.0
Depreciation and amortization	22.8	2.0	1.8	26.6
Operating earnings	$ 69.7	$ (1.3)	$ (6.0)	$ 62.4
Adjusted operating earnings before depreciation and amortization [(1)]	$ 93.8	$ 0.7	$ (6.6)	$ 87.9
Adjusted operating earnings [(1)]	$ 71.0	$ (1.3)	$ (8.4)	$ 61.3
Acquisitions of non-current assets [(2)]	$ 10.5	$ 3.1	$ 1.0	$ 14.6

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

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

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

	Three months ended	
	January 28, 2018	January 29, 2017
Printing and packaging products	**$ 423.4**	390.8
Publishing and content products	**44.3**	74.2
Other products and services	**34.0**	38.6
	$ 501.7	$ 503.6

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

	As at January 28, 2018	As at October 29, 2017
Printing and Packaging Sector	**$ 1,554.0**	$ 1,688.4
Media Sector	**276.5**	286.4
Head office and inter-segment eliminations [(1)]	**228.9**	161.9
	$ 2,059.4	$ 2,136.7

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

4 BUSINESS COMBINATIONS AND DISPOSITIONS

Business combinations

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

  The Corporation will finalize the accounting for this acquisition during the current fiscal year, specifically the assessment of the fair value of assets acquired and liabilities assumed and goodwill related to this acquisition.

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

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

	Flexipak and Contech
Assets acquired	
Current assets (including cash of $0.2)	$ 3.4
Property, plant and equipment	3.6
Intangible assets	3.7
Goodwill (no tax value)	7.5
	18.2
Liabilities assumed	
Current liabilities	1.3
Long-term debt (current portion included) (1)	3.7
Deferred taxes	1.4
	6.4
	$ 11.8
Total consideration	
Cash paid	$ 11.6
Short-term contingent consideration payable	0.2
	$ 11.8

(1) As at January 28, 2018, total long-term debt of $3.7 million has been repaid by the Corporation.

The Corporation's Consolidated Statements of Earnings for the three-month period ended January 28, 2018 include the operating results of Flexipak and Contech since their acquisition date, including additional revenues of $2.9 million, operating earnings before depreciation and amortization of $0.5 million, including adjustments related to the accounting of these acquisitions and excluding negligible transaction costs. The fair value of the receivables acquired of $1.6 million, including a negligible amount which was considered uncollectible at the acquisition date, is included in the current assets in the accounting of these business combinations.

Due to the acquisition date, there would have been no material impact on the Corporation's operation results to disclose Flexipak and Contech's operating results at the very beginning of the three-month period ended January 28, 2018.

4 BUSINESS COMBINATIONS AND DISPOSITIONS (CONTINUED)

Business dispositions

- **Sale of local and regional newspapers in Quebec**
  During the three-month period ended January 28, 2018, the Corporation disposed of several groups of local and regional newspapers in the Quebec province, representing a total of 34 newspapers and web-related properties, as well as one website in exchange for cash consideration and an amount receivable. These sales of newspapers are in the context of the sale process of its local and regional newspapers in Quebec and Ontario announced by the Corporation on April 18, 2017.

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

5 OPERATING EXPENSES

Operating expenses by major headings are as follows:

	Three months ended	
	January 28, 2018	January 29, 2017
Employee-related costs	**$ 135.3**	$ 157.5
Supply chain and logistics [1]	**213.5**	224.8
Other goods and services [2]	**22.1**	33.4
	$ 370.9	$ 415.7

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

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

6 RESTRUCTURING AND OTHER COSTS (GAINS)

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

	Three months ended	
	January 28, 2018	January 29, 2017
Workforce reductions	**$ 5.4**	$ 1.8
Gains related to the sale of certain activities (note 4) and other	**(33.0)**	(1.4)
Net gains on sale of buildings	**(0.7)**	(3.8)
Onerous contracts	**2.1**	0.7
Business acquisition costs [1]	**0.3**	0.4
	$ (25.9)	$ (2.3)

[1] Business acquisition costs include transaction costs, primarily legal fees and other professional fees, for potential or realized business combinations.

7 IMPAIRMENT OF ASSETS

Impairment of assets by major headings is as follows:

	Three months ended	
	January 28, 2018	January 29, 2017
Property, plant and equipment	**$ 0.2**	$ 1.2
Intangible assets	**1.8**	—
	$ 2.0	$ 1.2

The Corporation recognized a $1.8 million impairment charge, mainly due to costs relating to technology projects in the Media Sector for the portion following the sale of its Quebec local and regional newspapers (Note 4).

8 DEPRECIATION AND AMORTIZATION

Depreciation and amortization by major headings is as follows:

	Three months ended	
	January 28, 2018	January 29, 2017
Property, plant and equipment	**$ 25.4**	$ 19.8
Intangible assets	**5.8**	6.8
	31.2	26.6
Intangible assets and other assets, recognized in revenues and operating expenses	**6.6**	6.4
	$ 37.8	$ 33.0

9 NET FINANCIAL EXPENSES

Net financial expenses by major headings are as follows:

	Three months ended	
	January 28, 2018	January 29, 2017
Financial expenses on long-term debt	**$ 4.4**	$ 4.4
Net interest on defined benefit plans asset and liability	**0.5**	0.5
Other revenues	**(1.3)**	—
Net foreign exchange gains	**(1.0)**	0.2
	$ 2.6	$ 5.1

10 INCOME TAXES

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

	Three months ended	
	January 28, 2018	January 29, 2017
Earnings before share of net earnings in interests in joint ventures and income taxes	**$ 120.9**	$ 57.3
Canadian statutory tax rate [1]	**26.72 %**	26.82 %
Income taxes at the statutory tax rate	**32.3**	15.4
Effect of differences in tax rates in other jurisdictions	**(0.7)**	0.3
Income taxes on non-deductible expenses and non-taxable portion of capital gains	**(3.4)**	(0.5)
Change in deferred tax assets on tax losses or temporary differences not previously recognized	**(1.8)**	(0.3)
Impact of the U.S. Tax Act [2]	**36.6**	—
Other	**(0.2)**	(0.4)
Income taxes at effective tax rate	**$ 62.8**	$ 14.5
Income taxes before the following items:	**$ 23.7**	$ 14.8
Impact of the U.S. Tax Act [2]	**36.6**	—
Income taxes on restructuring and other costs (gains)	**3.1**	—
Income taxes on impairment of assets	**(0.6)**	(0.3)
Income taxes at effective tax rate	**$ 62.8**	$ 14.5

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

[2] On December 22, 2017, a U.S. tax reform (known as "Tax Cuts and Jobs Act" or U.S. Tax Act) was enacted and the Corporation measured its impacts on its earnings. The reform reduces the federal statutory tax rate for U.S. corporations from a progressive tax rate of up to 35% to a fixed rate of 21% effective January 1, 2018. During the three-month period ended January 28, 2018, this decrease reduced deferred tax assets previously recognized by $36.6 million. This deferred tax expense was calculated considering the estimated enacted tax rate upon reversal of temporary differences.

11 LONG-TERM DEBT

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

12 PROVISIONS

The following table presents changes in provisions for the three-month period ended January 28, 2018:

	Restructuring costs	Onerous contracts	Other [1]	Total
Balance as at October 29, 2017	$ 4.6	$ 2.5	$ 0.6	$ 7.7
Provisions recorded	5.5	2.1	0.1	7.7
Amounts used	(6.8)	(1.0)	—	(7.8)
Provisions reversed	(0.1)	—	—	(0.1)
Balance as at January 28, 2018	$ 3.2	$ 3.6	$ 0.7	$ 7.5
Current portion	$ 3.2	$ 1.4	$ 0.4	$ 5.0
Non-current portion	—	2.2	0.3	2.5
	$ 3.2	$ 3.6	$ 0.7	$ 7.5

[1] Other provisions include provisions for asset retirement obligations and provisions related to claims and litigations.

13 SHARE CAPITAL

The following table presents changes in the Corporation's share capital for the three-month period ended January 28, 2018:

	Number of shares	Amount
Class A Subordinate Voting Shares		
Balance as at October 29, 2017	63,567,144	$ 352.6
Conversion of Class B Shares into Class A Subordinate Voting Shares	600	—
Shares redeemed and cancelled	(279,610)	(1.6)
Balance as at January 28, 2018	63,288,134	351.0
Class B Shares		
Balance as at October 29, 2017	13,985,526	19.0
Conversion of Class B Shares into Class A Subordinate Voting Shares	(600)	—
Balance as at January 28, 2018	13,984,926	19.0
	77,273,060	$ 370.0

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

During the three-month period ended January 28, 2018, the Corporation repurchased and cancelled 279,610 of its Class A Subordinate Voting Shares at a weighted average price of $24.59, for total cash consideration of $6.9 million. The excess of the total consideration paid over the carrying amount of the shares, in the amount of $5.3 million, was applied against retained earnings. The Corporation was under no obligation to repurchase its Class A Subordinate Voting Shares and Class B Shares as at January 28, 2018.

During the three-month period ended January 29, 2017, the Corporation repurchased and cancelled 2,663 of its Class A Subordinate Voting Shares at a weighted average price of $17.48, for a total negligible consideration. The excess of the total consideration paid over the carrying amount of the shares, of a negligible amount, was applied against retained earnings. The Corporation was under no obligation to repurchase its Class A Subordinate Voting Shares and Class B Shares as at January 29, 2017.

Dividends
Dividends of $0.20 and $0.185 per share were declared and paid to holders of shares for the three-month periods ended January 28, 2018 and January 29, 2017.

14 NET EARNINGS PER SHARE

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

	Three months ended	
	January 28, 2018	January 29, 2017
Numerator		
Net earnings	**$ 58.2**	$ 42.7
Denominator (in millions)		
Weighted average number of shares outstanding - basic	**77.5**	77.2
Dilutive effect of stock options	**0.1**	0.2
Weighted average number of shares - diluted	**77.6**	77.4

As at January 28, 2018 and January 29, 2017, all the stock options are included in the calculation of the diluted net earnings per share due to their potential dilutive effect.

15 STOCK-BASED COMPENSATION

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

The following table presents the changes in the plan's status for the three-month period ended January 28, 2018:

	Number of units	
	DSU	RSU
Balance as at October 29, 2017	289,786	957,312
Units granted	18,278	293,880
Units cancelled	(4,129)	(15,465)
Units paid	—	(353,927)
Dividends paid in units	2,286	4,740
Balance as at January 28, 2018	306,221	886,540

As at January 28, 2018, the liability related to the share unit plan for certain officers and senior executives was $16.2 million ($25.1 million as at October 29, 2017). The expenses recorded in the Consolidated Statements of Earnings for the three-month periods ended January 28, 2018 and January 29, 2017 were $0.8 million and $5.4 million, respectively. Amounts of $9.7 million and $7.8 million were paid under this plan for the three-month periods ended January 28, 2018 and January 29, 2017.

15 STOCK-BASED COMPENSATION (CONTINUED)

Share unit plan for directors

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

The following table presents the changes in the plan's status for the three-month period ended January 28, 2018:

	Number of units
Balance as at October 29, 2017	268,551
Directors' compensation	5,963
Units paid	—
Dividends paid in units	2,094
Balance as at January 28, 2018	276,608

As at January 28, 2018, the liability related to the share unit plan for directors was $7.3 million ($7.6 million as at October 29, 2017). The expense (the reversal) recorded in the Consolidated Statements of Earnings for the three-month periods ended January 28, 2018 and January 29, 2017 were $(0.2) million and $1.8 million, respectively. Amounts of $0.1 million and $1.5 million were paid under this plan for the three-month periods ended January 28, 2018 and January 29, 2017.

Stock option plan

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

For the three-month period ended January 28, 2018, negligible amounts of stock-based compensation expenses were charged to the Consolidated Statements of Earnings and increased contributed surplus included in equity.

The following table presents the changes in the plan's status for the three-month period ended January 28, 2018 :

	Number of options	Weighted average exercise price
Options outstanding as at January 28, 2018 and October 29, 2017	135,240	$ 11.33
Options exercisable as at January 28, 2018	135,240	$ 11.33

16 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Cash flow hedges	Cumulative translation differences	Actuarial gains and losses related to defined benefit plans	Accumulated other comprehensive income (loss)
Balance as at October 29, 2017	**$ 1.0**	**$ 21.7**	**$ (28.2)**	**$ (5.5)**
Net change in gains (losses), net of income taxes	**0.5**	**(22.3)**	**3.7**	**(18.1)**
Balance as at January 28, 2018	**$ 1.5**	**$ (0.6)**	**$ (24.5)**	**$ (23.6)**
Balance as at October 30, 2016	$ (1.6)	$ 38.7	$ (34.4)	$ 2.7
Net change in gains (losses), net of income taxes	1.3	(8.5)	14.4	7.2
Balance as at January 29, 2017	$ (0.3)	$ 30.2	$ (20.0)	$ 9.9

As at January 28, 2018, the amounts expected to be reclassified to net earnings in future years are as follows:

	2018	2019	Total
Net change in the fair value of derivatives designated as cash flow hedges	$ 0.9	$ 1.2	$ 2.1
Income taxes	0.3	0.3	0.6
	$ 0.6	$ 0.9	$ 1.5

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

	Three months ended	
	January 28, 2018	January 29, 2017
Actuarial gains on obligation - change in discount rate	**$ —**	$ 66.8
Actuarial gains (losses) on plan assets - excluding interest income	**5.2**	(39.7)
Effect of the asset ceiling	**0.2**	(7.3)
	$ 5.4	$ 19.8

The absence of changes in actuarial gains on obligation recognized in Statements of Comprehensive Income for the three-month period ended January 28, 2018 are explained by a nil change in discount rate between October 29, 2017 and January 28, 2018 remaining at 3.6%. Actuarial gains on plan assets are due to actual rates of return on assets that was greater than expected return for the three-month period ended January 28, 2018.

Actuarial losses on obligation recognized in Statements of Comprehensive Income for the three-month period ended January 29, 2017 are explained by the change in the discount rate, which decreased from 3.3% as at October 30, 2016, to 3.9% as at January 29, 2017. Actuarial losses on plan assets are due to actual rate of return on assets that was lower than expected return for three-month period ended January 29, 2017.

17 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The Corporation presents a fair value hierarchy with three levels that reflects the significance of inputs used in determining the fair value assessments. The fair value of financial assets and liabilities classified in these three levels is evaluated as follows:

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

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

	As at January 28, 2018		As at October 29, 2017	
	Fair value	**Carrying amount**	Fair value	Carrying amount
Foreign exchange forward contracts in assets	**$ 5.6**	**$ 5.6**	$ 5.0	$ 5.0
Contingent considerations	**(0.3)**	**(0.3)**	—	—
Long-term debt	**(357.4)**	**(348.2)**	(359.6)	(348.3)
Foreign exchange forward contracts in liabilities	**—**	**—**	(0.1)	(0.1)

These financial instruments are classified in Level 2 of the fair value hierarchy, with the exception of contingent considerations payable with respect to the business combinations which are classified in Level 3. For the three-month period ended January 28, 2018, no financial instruments were transferred between levels 1, 2 and 3.

18 NEW AGREEMENT WITH HEARST

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

- the Corporation will continue to offer its printing services until April 1, 2018,
- on April 2, 2018, the Corporation will sell to Hearst certain of its equipments used to print the San Francisco Chronicle,
- starting on April 2, 2018, the Corporation will lease to Hearst its Fremont facility until 2025, with an option for a three-year renewal period,
- for the period from December 21, 2017 to October 31, 2018, the Corporation will offer transition services to allow Hearst to acquire the necessary skills to operate the Fremont facility.

The initial agreement included a payment by Hearst of an amount of US$25.0 million ($31.9 million) as a compensation for early termination of the printing agreement.

Under the new agreement, the Corporation will also receive a total amount of US$17.8 million ($22.7 million) for the sale of some of its printing equipments and for the transition services to be rendered.

During the three-month period ended January 28, 2018, the Corporation received an amount of US$32.3 million ($41.2 million) for the termination of the previous agreement and the signing of the new one.

18 NEW AGREEMENT WITH HEARST (CONTINUED)

As at December 21, 2017, deferred revenues relating to the printing services agreement totaled US$74.5 million ($95.0 million), to which the termination compensation of US $25.0 millions (31.9 million) was added. This new deferred revenues balance, excluding the portion of US$12.9 million ($16.5 million) to be allocated to rental income, will be recognized in revenues over the remaining period of the printing services agreement, and is classified as Current liabilities as at January 28, 2018.

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

The following table presents the impact of this transaction on the Corporation's operating earnings :

	Three months ended January 28, 2018	
	USD	CAD
Recognition of deferred revenues		
Recognition for the period	$ 6.2	$ 7.9
Accelerated recognition	31.2	39.8
	$ 37.4	$ 47.7
Depreciation of printing equipments sold		
Depreciation for the period	$ (1.1)	$ (1.4)
Accelerated depreciation	(4.9)	(6.3)
	(6.0)	(7.7)
Net impact of the transaction on operating earnings	**$ 31.4**	**$ 40.0**