QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

	Note	Three months ended March 31 2011	2010
Revenues	2		
Telecommunications		**$ 578.0**	$ 528.3
News Media		**245.3**	248.1
Broadcasting		**107.1**	109.6
Leisure and Entertainment		**61.4**	61.3
Interactive Technologies and Communications		**26.8**	23.8
Inter-segment		**(28.1)**	(23.0)
		990.5	948.1
Cost of sales, selling and administrative expenses	3	**696.2**	657.7
Operating income	4	**294.3**	290.4
Amortization		**121.5**	89.6
Financial expenses	5	**81.4**	82.3
(Gain) loss on valuation and translation of financial instruments	6	**(10.5)**	4.7
Restructuring of operations, impairment of assets and other special items	7	**9.5**	2.4
Loss on debt refinancing	9	**9.3**	10.4
Income before income taxes		**83.1**	101.0
Income taxes:			
Current		**0.4**	20.8
Deferred		**19.4**	2.4
		19.8	23.2
Net income		**$ 63.3**	$ 77.8
Net income attributable to:			
Shareholders		**$ 34.3**	$ 34.9
Non-controlling interests		**29.0**	42.9
Earnings per share attributable to shareholders	11		
Basic			
Net income		**$ 0.53**	$ 0.54
Diluted			
Net income		**0.52**	0.53
Number of shares outstanding (in millions)		**64.3**	64.3
Number of diluted shares (in millions)		**65.0**	64.8

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of Canadian dollars)
(unaudited)

	Three months ended March 31	
	2011	2010
Net income	**$ 63.3**	$ 77.8
Other comprehensive income :		
Gain (loss) on translation of net investments in foreign operations	**0.5**	(3.5)
Cash flow hedges:		
Gain on valuation of derivative financial instruments	**0.8**	26.8
Deferred income taxes	**2.2**	(1.4)
Defined benefit plans:		
Net change in asset limit or in minimum funding liability	**(0.1)**	(1.4)
Deferred income taxes	**-**	0.4
Reclassification to income of other comprehensive loss related to cash flow hedges, net of income taxes of $2.0 million	**-**	4.5
	3.4	25.4
Comprehensive income	**$ 66.7**	$ 103.2
Attributable to:		
Shareholders	**$ 36.2**	$ 49.0
Non-controlling interests	**30.5**	54.2

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES
SEGMENTED INFORMATION

(in millions of Canadian dollars)
(unaudited)

	Three months ended March 31	
	2011	2010
Operating income		
Telecommunications	**$ 251.0**	$ 252.5
News Media	**31.8**	41.3
Broadcasting	**4.6**	5.7
Leisure and Entertainment	**1.2**	(0.2)
Interactive Technologies and Communications	**0.9**	1.0
Head Office	**4.8**	(9.9)
	$ 294.3	$ 290.4
Amortization		
Telecommunications	**$ 100.3**	$ 67.2
News Media	**13.0**	14.6
Broadcasting	**4.1**	3.7
Leisure and Entertainment	**2.3**	2.3
Interactive Technologies and Communications	**0.8**	0.9
Head Office	**1.0**	0.9
	$ 121.5	$ 89.6
Additions to property, plant and equipment		
Telecommunications	**$ 178.6**	$ 126.2
News Media	**5.9**	2.3
Broadcasting	**8.9**	3.6
Leisure and Entertainment	**0.4**	0.8
Interactive Technologies and Communications	**1.0**	0.5
Head Office	**0.4**	0.4
	$ 195.2	$ 133.8
Additions to intangible assets		
Telecommunications	**$ 15.5**	$ 15.7
News Media	**2.1**	2.7
Broadcasting	**0.8**	0.4
Leisure and Entertainment	**1.2**	1.4
	$ 19.6	$ 20.2
Externally acquired intangible assets	**6.4**	5.5
Internally generated intangible assets	**13.2**	14.7
	$ 19.6	$ 20.2

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

(in millions of Canadian dollars)
(unaudited)

	Equity attributable to shareholders				Equity attributable to non-controlling interests	Total equity
	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss		
	(note 12)			(note 14)		
Balance as of December 31, 2009 as previously reported under Canadian GAAP	$ 346.6	$ 4.7	$ 830.1	$ (11.0)	$ -	$ 1,170.4
IFRS adjustments (note 16)	-	(2.7)	(73.5)	1.0	1,162.6	1,087.4
Balance as of January 1, 2010	346.6	2.0	756.6	(10.0)	1,162.6	2,257.8
Net income	-	-	34.9	-	42.9	77.8
Other comprehensive income	-	-	-	14.1	11.3	25.4
Dividends	-	-	(3.2)	-	(9.1)	(12.3)
Balance as of March 31, 2010	346.6	2.0	788.3	4.1	1,207.7	2,348.7
Net income	-	-	190.4	-	188.4	378.8
Other comprehensive loss	-	-	-	(15.8)	(14.4)	(30.2)
Acquisition of non-controlling interest	-	(1.1)	-	-	(1.9)	(3.0)
Dividends	-	-	(9.7)	-	(32.9)	(42.6)
Balance as of December 31, 2010	346.6	0.9	969.0	(11.7)	1,346.9	2,651.7
Net income	-	-	34.3	-	29.0	63.3
Other comprehensive income	-	-	-	1.9	1.5	3.4
Dividends	-	-	(3.2)	-	(11.9)	(15.1)
Balance as of March 31, 2011	**$ 346.6**	**$ 0.9**	**$ 1,000.1**	**$ (9.8)**	**$ 1,365.5**	**$ 2,703.3**

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars)
(unaudited)

	Note	Three months ended March 31 2011	2010
Cash flows related to operating activities			
Net income		**$ 63.3**	$ 77.8
Adjustments for:			
Amortization of property, plant and equipment		**93.0**	76.9
Amortization of intangible assets		**28.5**	12.7
(Gain) loss on valuation and translation of financial instruments	6	**(10.5)**	4.7
Loss on debt refinancing	9	**9.3**	10.4
Amortization of financing costs and long-term debt discount	5	**3.0**	3.0
Deferred income taxes		**19.4**	2.4
Other		**0.3**	1.2
		206.3	189.1
Net change in non-cash balances related to operating activities		**(35.6)**	(33.5)
Cash flows provided by operating activities		**170.7**	155.6
Cash flows related to investing activities			
Business acquisitions, net of cash and cash equivalents	8	**(45.1)**	(1.0)
Additions to property, plant and equipment		**(195.2)**	(133.8)
Additions to intangible assets		**(19.6)**	(20.2)
Net change in temporary investments		**-**	30.0
Net change in cash and cash equivalents in trust		**2.9**	-
Other		**0.2**	2.4
Cash flows used in investing activities		**(256.8)**	(122.6)
Cash flows related to financing activities			
Net change in bank indebtedness		**(3.2)**	(0.5)
Net change under revolving facilities		**(8.3)**	10.1
Issuance of long-term debt, net of financing fees	9	**319.9**	293.9
Repayment of long-term debt	9	**(224.9)**	(188.7)
Settlement of hedging contracts	9	**(105.4)**	(30.9)
Dividends		**(11.3)**	(8.5)
Cash flows (used in) provided by financing activities		**(33.2)**	75.4
Net change in cash and cash equivalents		**(119.3)**	108.4
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		**0.2**	(0.7)
Cash and cash equivalents at beginning of period		**242.7**	300.0
Cash and cash equivalents at end of period		**$ 123.6**	$ 407.7
Cash and cash equivalents consist of			
Cash		**$ 25.3**	$ 126.6
Cash equivalents		**98.3**	281.1
		$ 123.6	$ 407.7
Non-cash investing activities			
Net change in additions to property, plant and equipment and intangible assets financed with accounts payable		**$ 37.8**	$ **17.6**
Interest and taxes reflected as operating activities			
Cash interest payments		**$ 36.1**	$ **37.3**
Cash income tax payments (net of refunds)		**13.9**	**17.7**

See accompanying notes to consolidated financial statements.

QUEBECOR INC. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)
(unaudited)

	Note	March 31 2011	December 31 2010	January 1 2010
Assets				
Current assets				
Cash and cash equivalents		**$ 123.6**	$ 242.7	$ 300.0
Cash and cash equivalents in trust		**2.4**	5.3	5.3
Temporary investments		**-**	-	30.0
Accounts receivable		**496.8**	588.5	519.8
Income taxes		**7.6**	6.4	1.3
Inventories		**238.6**	245.2	176.1
Prepaid expenses		**50.1**	38.0	29.1
		919.1	1,126.1	1,061.6
Non-current assets				
Property, plant and equipment		**2,883.0**	2,812.9	2,469.5
Intangible assets		**1,027.1**	1,029.1	1,022.2
Goodwill		**3,536.9**	3,505.2	3,506.1
Derivative financial instruments		**9.2**	28.7	49.0
Deferred income taxes		**22.6**	20.3	38.1
Other assets		**94.4**	93.8	93.7
		7,573.2	7,490.0	7,178.6
Total assets		**$ 8,492.3**	$ 8,616.1	$ 8,240.2
Liabilities and equity				
Current liabilities				
Bank indebtedness		**$ 2.5**	$ 5.7	$ 1.8
Accounts payable and accrued charges		**677.7**	753.6	751.2
Provisions		**55.9**	72.2	72.6
Deferred revenue		**246.0**	275.1	234.7
Income taxes		**7.9**	33.6	16.3
Current portion of long-term debt	9	**15.2**	30.8	68.6
		1,005.2	1,171.0	1,145.2
Non-current liabilities				
Long-term debt	9	**3,605.5**	3,587.3	3,811.9
Derivative financial instruments		**440.1**	479.9	422.4
Other liabilities	10	**266.3**	274.0	218.3
Deferred income taxes		**471.9**	452.2	384.6
		4,783.8	4,793.4	4,837.2
Equity				
Capital stock	12	**346.6**	346.6	346.6
Contributed surplus		**0.9**	0.9	2.0
Retained earnings		**1,000.1**	969.0	756.6
Accumulated other comprehensive loss	14	**(9.8)**	(11.7)	(10.0)
Equity attributable to shareholders		**1,337.8**	1,304.8	1,095.2
Non-controlling interests		**1,365.5**	1,346.9	1,162.6
		2,703.3	2,651.7	2,257.8
Commitments	15			
Total liabilities and equity		**$ 8,492.3**	$ 8,616.1	$ 8,240.2

See accompanying notes to consolidated financial statements.

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

Quebecor Inc. ("Quebecor" or the "Corporation") is incorporated under the laws of Québec. The Corporation's head office and registered office is located at 612 rue Saint-Jacques, Montréal (Québec), Canada. Quebecor is a holding corporation with interests in Quebecor Media Inc. ("Quebecor Media") and in subsidiaries controlled by Quebecor Media. The percentages of voting rights and of equity in Quebecor Media and in its major subsidiaries are as follow:

	% voting	% equity
Quebecor Media Inc.	54.7 %	54.7 %
Quebecor Media Inc. interest in its major subsidiaries		
Videotron Ltd.	100.0 %	100.0 %
Sun Media Corporation	100.0 %	100.0 %
Canoe Inc.	100.0 %	100.0 %
Quebecor Media Printing Inc.	100.0 %	100.0 %
TVA Group Inc.	99.9 %	51.4 %
Archambault Group Inc.	100.0 %	100.0 %
Sogides Group Inc.	100.0 %	100.0 %
CEC Publishing Inc.	100.0 %	100.0 %
Nurun Inc.	100.0 %	100.0 %

The Corporation is engaged, through its subsidiaries, in the following industry segments: Telecommunications, News Media, Broadcasting, Leisure and Entertainment, and Interactive Technologies and Communications. The Telecommunications segment offers television distribution, Internet, business solutions, cable and mobile telephony services in Canada and operates in the rental of movies and televisual products through its video-on-demand service and its distribution and rental stores. The News Media segment produces original content in Canada for all of Quebecor Media's platforms. Its operations include the printing, publishing and distribution of daily newspapers, weekly newspapers, directories and commercial inserts in Canada, and the operation of Internet sites in Canada, including French- and English-language portals and specialized sites. The Broadcasting segment operates general-interest television networks, specialized television networks, magazine publishing, and movie distribution businesses in Canada. The Leisure and Entertainment segment combines book publishing and distribution, retail sales of CDs, books, DVD and Blu-ray units, musical instruments and magazines in Canada, online sales of downloadable music and music production and distribution in Canada. The Interactive Technologies and Communications segment offers e-commerce solutions through a combination of strategies, technology integration, IP solutions and creativity on the Internet and is active in Canada, the United States, Europe and Asia.

Some of the Corporation's businesses experience significant seasonality due, among other factors, to seasonal advertising patterns and influences on people's viewing, reading and listening habits. Because the Corporation depends on the sale of advertising for a significant portion of its revenue, operating results are also sensitive to prevailing economic conditions, including changes in local, regional and national economic conditions, particularly as they may affect advertising expenditures. In addition, in some of the Corporation's segments, a component of sales is based on one-time retail transactions rather than subscriptions or long-term agreements, and therefore is influenced by vulnerability to seasonal weather changes. Accordingly, the results of operations for interim periods should not necessarily be considered indicative of full-year results due to the seasonality of certain operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements reflect the first-time adoption of International Financial Reporting Standards ("IFRS"), which replaced Canadian Generally Accepted Accounting Principles ("GAAP") as of January 1, 2011. All disclosures and explanations related to the first-time adoption of IFRS are presented in note 16. This note provides information that is considered material to the understanding of the Corporation's first IFRS financial statements. Note 16 also presents a reconciliation of the 2010 financial figures prepared under Canadian GAAP to the 2010 financial figures prepared under IFRS, including a reconciliation of the consolidated statements of income and cash flows for the three-month period ended March 31, 2010 and for the year ended December 31, 2010, as well as a reconciliation of the consolidated balance sheets and shareholders' equity as of January 1, 2010 and as of December 31, 2010.

The IFRS consolidated financial statements have been prepared based on the following accounting policies:

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). In particular, they were prepared in accordance with IAS 34, *Interim Financial Reporting,* and with IFRS 1, *First-time Adoption of IFRS*. These interim financial statements should be read in conjunction with the Corporation's 2010 annual consolidated financial statements and in consideration of the IFRS transition disclosures included in note 16.

These interim consolidated financial statements were approved for issue by the Board of Directors of Quebecor Inc. on May 25, 2011.

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments (note 1(k)) and the liability related to stock-based compensation (note 1(u)), which have been measured at fair value, and are presented in Canadian dollars, which is the currency of the primary economic environment in which the Corporation and its subsidiaries operate ("functional currency").

Comparative figures for the three-month period ended March 31, 2010, and the year ended December 31, 2010, have been restated to conform to the presentation adopted for the three-month period ended March 31, 2011 under IFRS.

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Intercompany transactions and balances are eliminated on consolidation.

(b) Consolidation

A subsidiary is an entity controlled by the Corporation. Control is achieved where the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interests in the net assets and results of consolidated subsidiaries are identified separately from the parent's ownership interest in them. Non-controlling interests in the equity of a subsidiary consist of the amount of non-controlling interests calculated at the date of the original business combination and their share of changes in equity since that date. Changes in non-controlling interests in a subsidiary that do not result in a loss of control by the Corporation are accounted for as equity transactions.

(c) Business acquisitions

A business combination is accounted for by the acquisition method. The cost of an acquisition is measured at the fair value of the consideration given in exchange for control of the business acquired at the acquisition date. This consideration can be comprised of cash, assets transferred, financial instruments issued, or future contingent payments. The identifiable assets and liabilities of the business acquired are recognized at their fair values at the acquisition date. Results of operations of a business acquired are included in the Corporation's consolidated financial statements from the date of the business acquisition. Business acquisition and integration costs are expensed as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business acquisitions (continued)

Non-controlling interests in an entity acquired are presented in the consolidated balance sheet within equity, separately from the equity attributable to shareholders and is initially measured at fair value.

(d) Foreign currency translation

Financial statements of foreign operations are translated using the rate in effect at the balance sheet date for assets and liabilities, and using the average exchange rates during the period for revenues and expenses. Adjustments arising from foreign currency translation since January 1, 2010 are recorded in other comprehensive income.

Foreign currency transactions are translated to the functional currency by applying the exchange rate prevailing at the date of the transactions. Translation gains and losses on assets and liabilities denominated in a foreign currency are included in financial expenses, or in gain or loss on valuation and translation of financial instruments, unless hedge accounting is used.

(e) Use of estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Although these estimates are based on management's best judgment, actual results could differ from these estimates. The following significant areas require management to use assumptions and to make estimates:

- revenue recognition;
- impairment of assets;
- business purchase price allocation;
- fair value of financial instruments;
- cost and liabilities related to pension and postretirement benefit plans;
- allowance for doubtful accounts, provision for obsolescence and allowance for sales returns;
- net realizable value of inventories;
- provisions such as legal contingency and restructuring of operations;
- residual value and useful life of assets subject to amortization;
- deferred income taxes;
- government assistance and income tax credits;
- stock-based compensation.

(f) Revenue recognition

The Corporation recognizes operating revenues when the following criteria are met:

- the amount of revenue can be measured reliably;
- the receipt of economic benefits associated with the transaction is probable;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably;
- the stage of completion can be measured reliably where services have been rendered; and
- significant risks and rewards of ownership, including effective control, have been transferred to the buyer where goods have been sold.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition (continued)

The portion of revenue that is unearned is recorded under "Deferred revenue" when customers are invoiced.

Revenue recognition policies for each of the Corporation's main segments are as follows:

<u>Telecommunications</u>

The Telecommunications segment provides services under arrangements with multiple deliverables, for which there are two separate accounting units: one for subscriber services (cable television, Internet, cable telephony or mobile telephony, including connection costs and rental of equipment); the other for equipment sales to subscribers. Components of multiple deliverable arrangements are separately accounted for, provided the delivered elements have stand-alone value to the customer and the fair value of any undelivered elements can be objectively and reliably determined.

Cable connection revenues are deferred and recognized as revenues over the estimated average period that subscribers are expected to remain connected to the network. The incremental and direct costs related to cable connection costs, in an amount not exceeding the revenue, are deferred and recognized as an operating expense over the same period. The excess of those costs over the related revenues is recognized immediately in income. Operating revenues from cable and other services, such as Internet access, cable and mobile telephony, are recognized when services are rendered. Revenues from equipment sales to subscribers and their costs are recognized in income when the equipment is delivered and, in the case of mobile devices, revenues from equipment sales are recognized in income when the mobile device is delivered and activated. Revenues from DVD and Blu-ray rentals are recorded as revenue when services are provided. Promotional offers related to subscriber services are accounted for as a reduction in the related service revenue over the period of performance of the service contract. Promotional offers related to equipment, including mobile devices, are accounted for as a reduction in the related equipment sales when the equipment is delivered. Operating revenues related to service contracts are recognized in income over the life of the specific contracts on a straight-line basis over the period in which the services are provided.

<u>News Media</u>

Revenues derived from circulation are recognized when the publication is delivered, net of provisions for estimated returns based on the segment's historical rate of returns. Advertising revenues are also recognized when the publication is delivered. Website advertising is recognized when advertisements are placed on websites. Revenues from the distribution of publications and products are recognized upon delivery, net of provisions for estimated returns.

<u>Broadcasting</u>

Revenues derived from the sale of advertising airtime are recognized when the advertisement has been broadcast on television. Revenues derived from subscriptions to specialty television channels are recognized on a monthly basis at the time service is rendered. Revenues derived from circulation from publishing activities are recognized when the publication is delivered, net of provisions for estimated returns based on the segment's historical rate of returns. Revenues from advertising related to publishing activities are also recognized when the publication is delivered. Website advertising is recognized when advertisements are placed on websites.

Revenues derived from the distribution of televisual products and movies and from television program rights are recognized over the period of broadcasting or over the period of viewing in theatres based on a percentage of revenues generated, when exploitation, exhibition or sale can commence, and the licence period of the arrangement has begun.

Revenues generated from the distribution of DVD and Blu-ray units are recognized at the time of their delivery, less a provision for estimated returns, or are accounted for based on a percentage of retail sales.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition (continued)

Leisure and Entertainment

Revenues derived from retail stores, book publishing and distribution activities are recognized on delivery of the products, net of provisions for estimated returns based on the segment's historical rate of returns.

(g) Impairment of assets

For the purposes of assessing impairment, assets are grouped in cash-generating units ("CGUs"), which represent the lowest levels for which there are separately identifiable cash inflows generated by those assets. The Corporation reviews at each balance sheet date whether events or circumstances have occurred to indicate that the carrying amounts of its long-lived assets with finite useful lives may be less than their recoverable amounts. Goodwill, other intangible assets having an indefinite useful life, and intangible assets not yet available for use are tested for impairment on April 1 of each financial year, as well as whenever there is an indication that the carrying amount of the asset, or the CGU to which an asset has been allocated, exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use of the asset or the CGU. Fair value less costs to sell represents the amount an entity could obtain at the valuation date from the asset's disposal in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The value in use represents the present value of the future cash flows expected to be derived from the asset or the CGU.

An impairment loss is recognized in the amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount. When the recoverable amount of a CGU to which goodwill has been allocated is lower than the CGU's carrying amount, the related goodwill is first impaired. Any excess amount of impairment is recognized and attributed to assets in the CGU, pro rated to the carrying amount of each asset in the CGU.

An impairment loss recognized in prior periods for long-lived assets with finite useful lives and intangible assets having an indefinite useful life, other than goodwill, can be reversed through the statement of income up to the excess of the recoverable amount of the asset or the CGU over its carrying value.

(h) Barter transactions

In the normal course of operations, the News Media and the Broadcasting segments offer advertising in exchange for goods and services. Revenues thus earned and expenses incurred are accounted for on the basis of the fair value of the goods and services provided.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income taxes

Current income taxes are recognized with respect to amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the consolidated financial statements and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in income in the period that includes the substantive enactment date. A deferred tax asset is recognized initially when it is probable that future taxable income will be sufficient to use the related tax benefits and may be subsequently reduced, if necessary, to an amount that is more likely than not to be realized. A deferred tax expense or benefit is recognized in other comprehensive income or otherwise directly in equity to the extent that it relates to items that are recognized in other comprehensive income or directly in equity in the same or a different period.

In the course of the Corporation’s operations, there are a number of uncertain tax positions due to the complexity of certain transactions and due to the fact that related tax interpretations and legislation are continually changing. When a tax position is uncertain, the Corporation recognizes an income tax benefit or reduces an income tax liability only when it is probable that the tax benefit will be realized in the future or that the income tax liability is no longer probable.

(j) Leases

Assets under leasing agreements are classified at the inception of the lease as (i) finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee, or as (ii) operating leases for all other leases. All of the Corporation’s current leases are classified as operating leases.

Operating lease rentals are recognized in the statement of income on a straight-line basis over the period of the lease. Any lessee incentives are deferred and then recognized evenly over the lease term.

(k) Financial instruments

Classification, recognition and measurement

Financial instruments are classified as held for trading, available for sale, held to maturity, loans and receivables, or as other financial liabilities, and measurement in subsequent periods depends on their classification. The Corporation has classified its financial instruments (except derivative financial instruments) as follows:

Held for trading	Loans and receivables	Available for sale	Other liabilities
• Cash and cash equivalents • Cash and cash equivalents in trust • Temporary investments • Bank indebtedness • Exchangeable debentures (designated at fair value through profit and loss)	• Accounts receivable • Loans and other long-term receivables included in “Other assets”	• Other portfolio investments included in “Other assets”	• Accounts payable and accrued charges • Provisions • Long-term debt • Other long-term financial liabilities included in “Other liabilities”

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Classification, recognition and measurement (continued)

Financial instruments held for trading are measured at fair value with changes recognized in income as a gain or loss on valuation and translation of financial instruments. Available-for-sale portfolio investments are measured at fair value or at cost in the case of equity investments that do not have a quoted market price in an active market; if applicable, changes in fair value are recorded in other comprehensive income. Financial assets classified as loans and receivables and financial liabilities classified as other liabilities are initially measured at fair value and subsequently measured at amortized cost, using the effective interest rate method of amortization.

Derivative financial instruments and hedge accounting

The Corporation uses various derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. The Corporation does not hold or use any derivative financial instruments for speculative purposes. Under hedge accounting, the Corporation documents all hedging relationships between hedging items and hedged items, as well as its strategy for using hedges and its risk-management objective. It also designates its derivative financial instruments as either fair value hedges or cash flow hedges. The Corporation assesses the effectiveness of derivative financial instruments when the hedge is put in place and on an ongoing basis.

The Corporation enters into the following types of derivative financial instruments:

- The Corporation uses foreign exchange forward contracts to hedge foreign currency rate exposure on (i) anticipated equipment or inventory purchases in a foreign currency, and (ii) principal payments on long-term debt in a foreign currency. These foreign exchange forward contracts are designated as cash flow hedges.
- The Corporation uses cross-currency interest rate swaps to hedge (i) foreign currency rate exposure on interest and principal payments on foreign currency denominated debt, and/or (ii) fair value exposure on certain debt resulting from changes in interest rates. The cross-currency interest rate swaps that set all future interest and principal payments on U.S.-denominated debt in fixed Canadian dollars are designated as cash flow hedges. The Corporation's cross-currency interest rate swaps that set all future interest and principal payments on U.S.-denominated debt in fixed Canadian dollars, in addition to converting the interest rate from a fixed rate to a floating rate, or converting a floating rate index to another floating rate index, are designated as fair value hedges.
- The Corporation uses interest rate swaps to manage fair value exposure on certain debt resulting from changes in interest rates. These swap agreements require a periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. These interest rate swaps are designated as fair value hedges when they convert the interest rate from a fixed rate to a floating rate, or as cash flow hedges when they convert the interest rate from a floating rate to a fixed rate.

Under hedge accounting, the Corporation applies the following accounting policies:

- For derivative financial instruments designated as fair value hedges, changes in the fair value of the hedging derivative recorded in income are substantially offset by changes in the fair value of the hedged item to the extent that the hedging relationship is effective. When a fair value hedge is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged item are amortized to income over the remaining term of the original hedging relationship.
- For derivative financial instruments designated as cash flow hedges, the effective portion of a hedge is reported in other comprehensive income until it is recognized in income during the same period in which the hedged item affects income, while the ineffective portion is immediately recognized in income. When a cash flow hedge is discontinued, the amounts previously recognized in accumulated other comprehensive income are reclassified to income when the variability in the cash flows of the hedged item affects income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

Any change in the fair value of these derivative financial instruments recorded in income is included in gain or loss on valuation and translation of financial instruments. Interest expense on hedged long-term debt is reported at the hedged interest and foreign currency rates.

Derivative financial instruments that are ineffective or that are not designated as hedges, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, are reported on a mark-to-market basis in the consolidated balance sheets. Any change in the fair value of these derivative financial instruments is recorded in income as a gain or loss on valuation and translation of financial instruments.

(l) Financing fees

Financing fees related to long-term debt are capitalized in reduction of long-term debt and amortized using the effective interest rate method.

(m) Tax credits and government assistance

The Corporation has access to several government programs designed to support production and distribution of televisual products and movies, as well as music products, magazine and book publishing in Canada. In addition, the Corporation receives tax credits mainly related to its research and development activities, publishing activities and digital activities. Government financial assistance is accounted for as revenue or as a reduction in related costs, whether capitalized and amortized or expensed, in the year the costs are incurred and when management has reasonable assurance that the conditions of the government programs are met.

(n) Cash, cash equivalents and temporary investments

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are recorded at fair value. These highly liquid investments consisted mainly of Bankers’ acceptances and term deposits.

Temporary investments consisted of high-quality money market instruments as of January 1, 2010. These temporary investments, classified as held for trading, are recorded at fair value.

(o) Trade receivables

Trade receivables are stated at their nominal value, less an allowance for doubtful accounts and an allowance for sales returns. The Corporation establishes an allowance for doubtful accounts based on the specific credit risk of its customers and historical trends. Individual trade receivables are written off when management deems them not collectible.

(p) Inventories

Inventories are valued at the lower of cost, determined by the first-in, first-out method, or the weighted-average cost method, and net realizable value. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. When the circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed. Work in progress is valued at the pro rata billing value of the work completed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Inventories (continued)

In particular, Broadcasting segment inventories, which are primarily comprised of programs and broadcast and distribution rights, are accounted for as follows:

(i) Programs produced and productions in progress

Programs produced and productions in progress related to broadcasting activities are accounted for at the lesser of cost and net realizable value. Cost includes direct charges for goods and services and the share of labour and general expenses related to each production. The cost of each program is charged to operating expenses when the program is broadcast.

(ii) Broadcast rights

Broadcast rights are essentially contractual rights allowing the limited or unlimited broadcast of televisual products or movies. The Broadcasting segment records the broadcast rights acquired as inventory and the obligations incurred under a licence agreement as a liability when the broadcast period begins and all of the following conditions have been met: (a) the cost of each program, movies or series is known or can be reasonably determined; (b) the programs, movies or series have been accepted in accordance with the conditions of the broadcast licence agreement; (c) the programs, movies or series are available for first showing or telecast.

Amounts paid for broadcast rights before all of the above conditions are met are recorded as prepaid broadcast rights.

Broadcast rights are classified as short or long term, based on management's estimate of the broadcast period. These rights are charged to operating expenses when televisual products and movies are broadcast over the contract period, using a method based on future revenues and the estimated number of showings. Broadcast rights payable are classified as current or long-term liabilities based on the payment terms included in the licence.

(iii) Distribution rights

Distribution rights include costs to acquire distribution rights for televisual products and movies and other operating costs incurred that generate future economic benefits. The Broadcasting segment records an inventory and a liability for the distribution rights and obligations incurred under a licence agreement when (a) the cost of the licence is known or can be reasonably estimated, (b) the televisual product and movie has been accepted in accordance with the conditions of the licence agreement, and (c) the televisual product or movie is available for distribution.

Amounts paid for distribution rights before all of the above conditions are met are recorded as prepaid distribution rights. Distribution rights are charged to operating expenses using the individual film forecast computation method based on actual revenues realized over total revenues expected.

Estimates of future revenue used to determine net realizable values of inventories related to the distribution or broadcasting of television products and movies, are examined periodically by Broadcasting segment management and revised as necessary. The carrying value of programs produced and productions in progress, broadcast rights and distribution rights is reduced to net realizable value, as necessary, based on this assessment.

(q) Long-term investments

Investments in companies subject to significant influence are accounted for using the equity method. Under the equity method, the share of the results of operations of the associated corporation is recorded in the statement of income. Investments in joint ventures are accounted for using the proportionate consolidation method. Carrying values of investments are reduced to estimated fair values if there is other than a temporary decline in the value of the investment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Property, plant and equipment

Property, plant and equipment are stated at cost. Cost represents the acquisition costs, net of government grants and investment tax credits, or construction costs, including preparation, installation and testing costs. In the case of projects to construct cable and mobile networks, the cost includes equipment, direct labour and direct overhead costs. Projects under development may also be comprised of advance payments made to suppliers for equipment under construction.

Borrowing costs are also included in the cost of self-constructed property, plant and equipment when the development of the asset commenced after January 1, 2010. Future expenditures, such as maintenance and repairs, are expensed as incurred.

Amortization is calculated on a straight-line basis over the following estimated useful lives:

Assets	Estimated useful life
Buildings and their components	10 to 40 years
Machinery and equipment	3 to 20 years
Receiving, distribution and telecommunication networks	3 to 20 years

Amortization methods, residual values, and the useful lives of significant property, plant and equipment are reviewed at each financial year-end. Any change is accounted for prospectively as a change in accounting estimate.

Leasehold improvements are amortized over the shorter of the term of the lease and economic life.

The Corporation does not record any decommissioning obligations in connection with its cable distribution networks. The Corporation expects to renew all of its agreements with utility companies to access their support structures in the future, making the retirement date so far into the future that the present value of the restoration costs is insignificant for these assets. A decommissioning obligation is however recorded for the rental of sites related to the advanced mobile network.

(s) Goodwill and intangible assets

Goodwill

For all business acquisitions entered into since January 1, 2010, goodwill initially arising from a business acquisition is measured and recognized as the excess of the fair value of the consideration paid over the fair value of the recognized identifiable assets acquired and liabilities assumed. When the Corporation acquires less than 100% of the equity interests in the business acquired at the acquisition date, goodwill attributable to the non-controlling interest is also recognized at fair value.

For business acquisitions that occurred prior to January 1, 2010, goodwill represented the excess of the cost of acquisition over the Corporation's interest in the fair value of the identifiable assets and liabilities of the business acquired at the date of acquisition. No goodwill attributable to non-controlling interests was recognized.

Goodwill is allocated as at the date of a business acquisition to a CGU for purposes of impairment testing (note 1(g)). The allocation is made to the CGU or group of CGUs expected to benefit from the synergies of the business acquisition.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Goodwill and intangible assets (continued)

Intangible assets

Broadcasting licences and mastheads have indefinite useful lives. In particular, given the low cost of renewal of broadcasting licences, management believes it is economically compelling to renew the licences and to comply with all rules and conditions attached to those licences.

Internally generated intangible assets are mainly comprised of internal costs in connection with the development of software to be used internally or for providing services to customers. These costs are capitalized when the development stage of the software application begins and costs incurred prior to that stage are recognized as expenses.

Borrowing costs directly attributable to the acquisition, construction or production of an intangible asset that commenced after January 1, 2010 are also included as part of the cost of that asset during the development phase.

Intangible assets with finite useful lives are amortized over their useful lives using the straight-line method over the following periods:

Assets	Estimated useful life
Advanced mobile services spectrum licences[1]	10 years
Software	3 to 7 years
Customer relationships	3 to 10 years
Non-competition agreements and other	3 to 5 years

1 The useful life represents the initial term of the licences issued by Industry Canada.

Amortization methods, residual values, and the useful lives of significant intangible assets are reviewed at each financial year-end. Any change is accounted for prospectively as a change in accounting estimate.

(t) Provisions

Provisions are recognized when (i) the Corporation has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and when (ii) the amount of the obligation can be reliably estimated. Restructuring costs, comprised primarily of termination benefits, are recognized when a detailed plan for the restructuring exists and a valid expectation has been raised in those affected that the plan will be carried out.

Provisions are reviewed at each balance sheet date and changes in estimates are reflected in the consolidated statement of income in the reporting period in which changes occur.

(u) Stock-based compensation

Stock-based awards to employees that call for settlement in cash or other assets at the option of the employee are classified as a liability at fair value and the compensation cost is recognized in expenses over the vesting period. Changes in the fair value of stock-based awards between the grant date and the measurement date result in a change in the liability and compensation cost.

Estimates of the fair value of stock–based awards are determined by applying an option-pricing model, taking into account the terms and conditions of the grant.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Pension plans and postretirement benefits

The Corporation offers defined contribution pension plans and defined benefit pension plans to some of its employees.

(i) Defined contribution pension plans

Under its defined contribution pension plans, the Corporation pays fixed contributions to participating employees' pension plans and it has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as employee benefits in the consolidated statements of income when the contributions become due.

(ii) Defined benefit pension plans and postretirement plans

Defined benefit pension plan costs are determined using actuarial methods and are accounted for using the projected unit credit method, which incorporates management's best estimates of future salary levels, other cost escalations, retirement ages of employees and other actuarial factors. Defined benefit pension costs recognized in the consolidated statements of income include the following:

- cost of pension plan benefits provided in exchange for employee services rendered during the year;
- interest cost of pension plan obligations;
- expected return on pension fund assets;
- recognition of prior service costs on a straight-line basis over the vesting period.

When an event gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement.

Actuarial gains and losses are recognized through other comprehensive income or loss. Actuarial gains and losses arise from the difference between the actual rate of return on plan assets for a given period and the expected rate of return on plan assets for that period, experience adjustments on liabilities, or changes in actuarial assumptions used to determine the defined benefit obligation.

The recognition of the net benefit asset under certain circumstances is limited to the amount recoverable, which is primarily based on the extent to which the Corporation can unilaterally reduce future contributions to the plan. In addition, an adjustment to the net benefit asset or the net benefit obligation can be recorded to reflect a minimum funding liability in a certain number of the Corporation's pension plans. Changes in the net benefit asset limit or in the minimum funding adjustment are recognized in other comprehensive income.

The Corporation also offers health, life and dental insurance plans to some of its retired employees. The cost of postretirement benefits is determined using an accounting methodology similar to that for defined benefit pension plans. The benefits related to these plans are funded by the Corporation as they become due.

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Recent accounting pronouncements

The Corporation has not early adopted the following new standards and adoption impacts on the consolidated financial statements have not yet been determined:

New standards	Expected changes to existing standards
IFRS 9 – Financial instruments *(Effective from periods beginning January 1, 2013 with early adoption permitted)*	IFRS 9 simplifies the measurement and classification for financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement.
IFRS 10 – Consolidated Financial Statements *(Effective from periods beginning January 1, 2013 with early adoption permitted)*	IFRS 10 replaces SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements* and provides additional guidance regarding the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.
IFRS 11 – Joint Arrangements *(Effective from periods beginning January 1, 2013 with early adoption permitted)*	IFRS 11 replaces IAS 31, *Interests in Joint Ventures*, with guidance that focuses on the rights and obligations of the arrangement, rather than its legal form. It also withdraws the option to proportionately consolidate an entity's interests in joint ventures. The new standard requires that such interests be recognized using the equity method.
IFRS 12 – Disclosure of Interests in Other Entities *(Effective from periods beginning January 1, 2013 with early adoption permitted)*	IFRS 2 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose entities and other off balance sheet vehicles.

2. REVENUES

The breakdown of revenues between services rendered and product sales is as follows:

	Three months ended March 31	
	2011	2010
Services rendered	**$ 842.9**	$ 797.7
Product sales	**147.6**	150.4
	$ 990.5	$ 948.1

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

3. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components are as follows:

	Three months ended March 31	
	2011	2010
Employee costs	**$ 268.8**	$ 274.2
Royalties, rights and creation costs	**152.5**	155.2
Cost of retail products	**92.2**	55.3
Marketing, circulation and distribution expenses	**52.9**	51.7
Service and printing contracts	**43.6**	35.6
Paper, ink and printing supplies	**25.2**	21.6
Other	**89.5**	91.1
	724.7	684.7
Employee costs capitalized to property, plant and equipment and intangible assets	**(28.5)**	(27.0)
	$ 696.2	$ 657.7

4. OPERATING INCOME

In its analysis of operating results, the Corporation uses operating income, as presented in the consolidated statement of income, to assess its financial performance. The Corporation's management and Board of Directors use this measure in evaluating the Corporation's consolidated results as well as the results of its operating segments. As such, this measure is unaffected by the capital structure or investment activities of the Corporation and its segments. Operating income is also a significant component of the Corporation's annual incentive compensation programs. Operating income is referred to as an additional IFRS measure.

5. FINANCIAL EXPENSES

	Three months ended March 31	
	2011	2010
Interest on long-term debt and exchangeable debentures	**$ 80.1**	$ 76.4
Amortization of financing costs and long-term debt discount	**3.0**	3.0
(Gain) loss on foreign currency translation on short-term monetary items	**(1.0)**	2.9
Other	**(0.7)**	–
	$ 81.4	$ 82.3

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

6. (GAIN) LOSS ON VALUATION AND TRANSLATION OF FINANCIAL INSTRUMENTS

	Three months ended March 31	
	2011	2010
(Gain) loss on embedded derivatives and derivative financial instruments for which hedge accounting is not used	**$ (10.1)**	$ 5.4
Gain on foreign currency translation of financial instruments for which hedge accounting is not used	**–**	(3.6)
(Gain) loss on the ineffective portion of fair value hedges	**(0.4)**	2.9
	$ (10.5)	$ 4.7

7. RESTRUCTURING OF OPERATIONS, IMPAIRMENT OF ASSETS AND OTHER SPECIAL ITEMS

Telecommunications

In 2010, Videotron Ltd. ("Videotron") launched its new advanced mobile network. Since then, Videotron has been incurring costs for the migration of its pre-existing Mobile Virtual Network Operator subscribers to its new mobile network. A charge of $8.6 million was recorded in the first quarter of 2011 (none in 2010). Videotron expects to incur migration costs until the conversion process is completed.

News Media

In the three-month period ended March 31, 2011, an impairment charge of $0.9 million related to intangible assets was recorded. In 2010, an amount of $2.4 million was recorded for severance payments related to the elimination of positions.

8. BUSINESS ACQUISITIONS

In February 2011, the News Media segment acquired 15 community publications in the Province of Québec. The assets acquired are mainly comprised of goodwill and intangible assets.

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

9. LONG-TERM DEBT

On January 5, 2011, Quebecor Media issued $325.0 million in aggregate principal amount of Senior Notes for net proceeds of $319.9 million, net of financing fees of $5.1 million. The Senior Notes bear interest at 7.375%, payable every six months on June 15 and December 15, and will mature on January 15, 2021. These notes contain certain restrictions on Quebecor Media, including limitations on its ability to incur additional indebtedness, pay dividends, or make other distributions, and are unsecured. These notes are redeemable at the option of Quebecor Media, in whole or in part, at any time prior to January 15, 2016 at a price based on a make-whole formula and at a decreasing premium from January 15, 2016 and thereafter.

On February 15, 2011, Sun Media Corporation paid an amount of $202.8 million for the redemption and retirement of all of its 7.625% Senior Notes in an aggregate principal amount of US$205.0 million and settled its related hedging contracts for an amount of $105.4 million, representing a total cash consideration of $308.2 million. This transaction resulted in a total loss of $9.3 million (before income taxes).

Components of the long-term debt are as follows:

	March 31, 2011	December 31, 2010
Long-term debt	**$ 3,719.5**	$ 3,701.0
Change in fair value related to hedged interest rate risks	**22.2**	26.8
Adjustment related to embedded derivatives	**(77.3)**	(67.5)
Financing fees, net of amortization	**(43.7)**	(42.2)
	3,620.7	3,618.1
Less current portion	**15.2**	30.8
	$ 3,605.5	$ 3,587.3

10. OTHER LIABILITIES

In February 2011, the conditions of exchangeable debentures, Series 2001, were amended to reduce the interest rate from 1.50% to 0.10% on the total principal amount of $425.0 million. Other related conditions have not changed and remain applicable.

11. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share are calculated by dividing net income attributable to shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by taking into account the potentially dilutive effect of all stock options of the Corporation and its subsidiaries.

The following table sets forth the computation of basic and diluted earnings per share attributable to shareholders:

	Three months ended March 31	
	2011	2010
Net income, attributable to shareholders	**$ 34.3**	$ 34.9
Impact of assumed conversion of stock options of subsidiaries	**(0.1)**	(0.2)
Net income attributable to shareholders, adjusted for dilution effect	**$ 34.2**	$ 34.7
Number of shares outstanding (in millions)	**64.3**	64.3
Effect of dilutive stock options of the Corporation (in millions)	**0.7**	0.5
Number of diluted shares outstanding (in millions)	**65.0**	64.8

The diluted earnings per share calculation does not take into consideration the potential dilutive effect of certain stock options of the Corporation and its subsidiaries since their impact is anti-dilutive. During the three-month period ended March 31, 2011, 114,148 options of the Corporation's plan (669,148 in 2010), 8,000 of the options of Quebecor Media's plan (8,000 in 2010), and 833,610 options of TVA Group Inc.'s ("TVA Group") plan (878,809 in 2010) were excluded from the diluted earnings per share calculation.

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

12. CAPITAL STOCK

(a) Authorized capital stock

An unlimited number of Class A Multiple Voting Shares (“A shares”) with voting rights of 10 votes per share convertible at any time into Class B Subordinate Voting Shares on a one-for-one basis.

An unlimited number of Class B Voting Shares (“B shares”) convertible into A shares on a one-for-one basis, only if a takeover bid for A shares is made to holders of A shares without being made concurrently and under the same terms to holders of B shares, for the sole purpose of allowing the holders of B shares to accept the offer and subject to certain other stated conditions provided in the articles, including acceptance of the offer by the majority holder.

Holders of B shares are entitled to elect 25% of the Board of Directors of Quebecor. Holders of A shares may elect the other members of the Board of Directors.

(b) Issued and outstanding capital stock

	A shares		B shares	
	Number	Amount	Number	Amount
Balance as of December 31, 2010	19,826,342	$ 8.8	44,490,680	$ 337.8
A shares converted into B shares	(115,889)	–	115,889	–
Balance as of March 31, 2011	**19,710,453**	**$ 8.8**	**44,606,569**	**$ 337.8**

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

13. STOCK-BASED COMPENSATION PLANS

Outstanding options

The following table provides details of changes to outstanding options in the principal stock-based compensation plans of the Corporation and its subsidiaries for the three-month period ended March 31, 2011:

	Outstanding options	
	Number	Weighted average exercise price
Quebecor		
As of December 31, 2010:	2,314,938	$ 24.47
Granted	96,296	35.09
Exercised	(121,000)	25.87
As of March 31, 2011	**2,290,234**	**$ 24.84**
Vested options as of March 31, 2011	**1,496,484**	**$ 25.34**
Quebecor Media		
As of December 31, 2010:	3,515,668	$ 42.69
Granted	19,000	50.10
Exercised	(235,093)	41.73
Cancelled	(92,500)	45.97
As of March 31, 2011	**3,207,075**	**$ 42.72**
Vested options as of March 31, 2011	**634,420**	**$ 41.21**
TVA Group		
As of December 31, 2010 and March 31, 2011	**833,610**	**$ 16.35**
Vested options as of March 31, 2011	**583,743**	**$ 17.01**

Under the mid-term stock-based compensation plan, participants are entitled to receive a cash payment at the end of a three-year period based on the appreciation of the Quebecor Class B share price, and subject to the achievement of certain non-market performance criteria. As of March 31, 2011, 577,298 units were outstanding under this plan at an average exercise price of $31.33.

During the three-month period ended March 31, 2011, 121,000 of the Corporation's stock options were exercised for a cash consideration of $1.3 million (none in 2010) and 235,093 stock options of Quebecor Media were exercised for a cash consideration of $2.0 million (95,935 stock options for $1.0 million in 2010).

For the three-month period ended March 31, 2011, a net reversal of the consolidated charge related to all stock-based compensation plans was recorded in the amount of $3.8 million (net charge of $18.3 million in 2010).

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

	Translation of net investments in foreign operations	Cash flow hedges	Defined benefit plans	Total
Balance as of December 31, 2009, as previously reported under Canadian GAAP	$ (1.0)	$ (10.0)	$ –	$ (11.0)
IFRS adjustments (note 16)	1.0	–	–	1.0
Balance as of January 1, 2010	–	(10.0)	–	(10.0)
Other comprehensive income	(1.9)	16.3	(0.3)	14.1
Balance as of March 31, 2010	(1.9)	6.3	(0.3)	4.1
Other comprehensive loss	0.3	9.0	(25.1)	(15.8)
Balance as of December 31, 2010	(1.6)	15.3	(25.4)	(11.7)
Other comprehensive income	0.3	1.6	–	1.9
Balance as of March 31, 2011	**$ (1.3)**	**$ 16.9**	**$ (25.4)**	**$ (9.8)**

No significant amount is expected to be reclassified in income over the next 12 months in connection with derivatives designated as cash flow hedges. The balance is expected to reverse over a seven-year period.

15. COMMITMENTS

On March 1, 2011, Quebecor Media announced that it has entered into an agreement with Québec City under which it obtained the management and naming rights for a 25-year period related to the arena to be constructed in Québec City. The agreement includes, among other terms, a commitment from Quebecor Media to pay $33.0 million in 2015 for the naming rights to the site of the future facility, a lease for an initial period of 25 years with annual rental payments of approximately $3.0 million, as well as other conditions. The financial commitment from Quebecor Media could potentially increase in the event that an agreement to operate a National Hockey League franchise occurs in the future.

16. TRANSITION TO IFRS

These consolidated financial statements are the first financial statements the Corporation has prepared in accordance with IFRS, as described under accounting policies (note 1). The date of the opening balance sheet under IFRS and the Corporation's date of transition to IFRS is January 1, 2010.

Prior to the adoption of IFRS, for all periods up to and including the year ended December 31, 2010, the Corporation's consolidated financial statements were prepared in accordance with Canadian GAAP. The principal adjustments made by the Corporation in preparing its IFRS opening consolidated balance sheet as of January 1, 2010, and in restating its Canadian GAAP consolidated financial statements for the year ended December 31, 2010 and the three-month period ended March 31, 2010, are as follows:

IFRS 1 exemptions and exceptions

The Corporation has applied IFRS 1 in preparing these consolidated financial statements. The Corporation is required to establish IFRS accounting policies as of the transition date and, in general, to apply these retrospectively to determine the IFRS opening balance sheet at January 1, 2010. This Standard provides a number of mandatory exceptions and optional exemptions to this general principle of retrospective application. Descriptions of applicable exemptions and exceptions are set out below, together with the Corporation's elections:

16. TRANSITION TO IFRS (continued)

IFRS 1 exemptions and exceptions (continued)

Optional exemptions

(1) Business combinations

IFRS 1 provides the option to apply IFRS 3R (revised), *Business Combinations*, retrospectively or prospectively from the transition date. A retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Corporation has elected not to apply IFRS 3R retrospectively to business combinations that occurred prior to January 1, 2010. Accordingly, IAS 27, *Consolidated and Separate Financial Statements*, is also applied prospectively. Any goodwill arising on acquisitions before January 1, 2010 has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying this exemption.

(2) Defined benefit plans

IFRS 1 provides the option to recognize all cumulative actuarial gains and losses on defined benefit plans deferred under Canadian GAAP in opening retained earnings as of the transition date. The Corporation elected to recognize all cumulative actuarial gains and losses that existed as of January 1, 2010 in opening retained earnings for all of its defined benefit plans.

(3) Cumulative translation adjustment

IFRS permits cumulative translation gains and losses related to net investments in foreign operations to be reset to zero as of the date of transition, rather than applying IAS 21, *The Effect of Changes in Foreign Exchange Rates*, retrospectively from the date a subsidiary was formed or acquired. The Corporation elected to reset all cumulative translation adjustments to zero in its opening retained earnings as of January 1, 2010.

(4) Borrowing costs

IFRS 1 allows that the transitional provisions of IAS 23R (revised), *Borrowing Costs*, be applied as at the transition date. As a result, IAS 23R has been adopted prospectively for projects that commenced on or after January 1, 2010 and all pre-transition capitalized interest costs recorded under Canadian GAAP have been reclassified to opening retained earnings on transition.

Mandatory exceptions

(5) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS as of the transition date to IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The estimates previously made by the Corporation under Canadian GAAP were not revised on the application of IFRS.

(6) Hedge accounting

An entity shall not reflect in its opening IFRS balance sheet a hedging relationship of a type that does not qualify for hedge accounting in accordance with IFRS. IFRS 1 also does not permit transactions entered into before the date of transition to IFRS to be retrospectively designated as hedges. As a result, hedge accounting was applied on transition only to hedge relationships previously designated under Canadian GAAP that continue to meet the conditions for hedge accounting under IFRS.

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS

The following tables set forth the impact of the adjustments from Canadian GAAP to IFRS on the Corporation's consolidated statements of income, comprehensive income, and cash flows for the three-month period ended March 31, 2010 and the year ended December 31, 2010, as well as on its consolidated balance sheets as of January 1, 2010 and December 31, 2010.

(a) Consolidated statement of income and comprehensive income for the three-month period ended March 31, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS
Revenues		$ 948.1	$ –	$ 948.1
Cost of sales, selling and administrative expenses	(i), (ii)	659.6	(1.9)	657.7
Amortization	(iv)	89.7	(0.1)	89.6
Financial expenses	(iii)	71.9	10.4	82.3
Loss on valuation and translation of financial instruments		4.7	–	4.7
Restructuring of operations and other special items		2.4	–	2.4
Loss on debt refinancing		10.4	–	10.4
Income before income taxes and non-controlling interests		109.4	(8.4)	101.0
Income taxes	(ix)	24.3	(1.1)	23.2
		85.1	(7.3)	77.8
Non-controlling interests	(x)	(46.8)	46.8	–
Net income		$ 38.3	$ 39.5	$ 77.8
Other comprehensive income	(i), (ix), (x)	14.4	11.0	25.4
Comprehensive income		$ 52.7	$ 50.5	$ 103.2
Net income attributable to:				
Shareholders		$ 38.3	$ (3.4)	$ 34.9
Non-controlling interests	(x)		42.9	42.9
Income per share attributable to shareholders:				
Basic		$ 0.60	$ (0.06)	$ 0.54
Diluted		0.59	(0.06)	0.53
Comprehensive income attributable to:				
Shareholders		$ 52.7	$ (3.7)	$ 49.0
Non-controlling interests	(x)		54.2	54.2

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

(b) Consolidated statement of income and comprehensive income for the year ended December 31, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS
Revenues		$ 4,000.1	$ –	$ 4,000.1
Cost of sales, selling and administrative expenses	(i), (ii)	2,671.1	(4.4)	2,666.7
Amortization	(iii), (iv)	402.2	(3.0)	399.2
Financial expenses	(iii)	287.3	35.3	322.6
Gain on valuation and translation of financial instruments		(46.1)	–	(46.1)
Restructuring of operations, impairment of assets and other special items	(v), (vii)	50.3	(13.2)	37.1
Loss on debt refinancing		12.3	–	12.3
Income before income taxes and non-controlling interests		623.0	(14.7)	608.3
Income taxes	(ix)	156.4	(4.7)	151.7
		466.6	(10.0)	456.6
Non-controlling interests	(x)	(236.5)	236.5	–
Net income		$ 230.1	$ 226.5	$ 456.6
Other comprehensive income	(i), (ix), (x)	23.7	(28.5)	(4.8)
Comprehensive income		$ 253.8	$ 198.0	$ 451.8
Net income attributable to:				
Shareholders		$ 230.1	$ (4.8)	$ 225.3
Non-controlling interests	(x)		231.3	231.3
Income per share attributable to shareholders:				
Basic		$ 3.58	$ (0.08)	$ 3.50
Diluted		3.52	(0.08)	3.44
Comprehensive income attributable to:				
Shareholders		$ 253.8	$ (30.2)	$ 223.6
Non-controlling interests	(x)		228.2	228.2

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

(c) Summary consolidated statement of cash flows for the three-month period ended March 31, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS
Cash flows provided by operating activities	(iii)	$ 166.0	$ (10.4)	$ 155.6
Cash flows used in investing activities	(iii)	(133.0)	10.4	(122.6)
Cash flows provided by financing activities		75.4	–	75.4
Net change in cash and cash equivalents		108.4	–	108.4
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(0.7)	–	(0.7)
Cash and cash equivalents at beginning of period		300.0	–	300.0
Cash and cash equivalents at end of period		$ 407.7	$ –	$ 407.7

(d) Summary consolidated statement of cash flows for the year ended December 31, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS
Cash flows provided by operating activities	(iii)	$ 845.2	$ (35.3)	$ 809.9
Cash flows used in investing activities	(iii)	(739.4)	35.3	(704.1)
Cash flows used in financing activities		(162.1)	–	(162.1)
Net change in cash and cash equivalents		(56.3)	–	(56.3)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		(1.0)	–	(1.0)
Cash and cash equivalents at beginning of year		300.0	–	300.0
Cash and cash equivalents at end of year		$ 242.7	$ –	$ 242.7

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

(e) Consolidated balance sheet as of January 1, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS
Assets				
Current assets	(ix)	$ 1,111.4	$ (49.8)	$ 1,061.6
Non-current assets				
Property, plant and equipment	(iii), (iv)	2,498.6	(29.1)	2,469.5
Intangible assets	(iii), (vi)	1,052.7	(30.5)	1,022.2
Goodwill		3,506.1	–	3,506.1
Derivative financial instruments		49.0	–	49.0
Deferred income taxes	(ix)	12.5	25.6	38.1
Other assets	(i)	122.5	(28.8)	93.7
		7,241.4	(62.8)	7,178.6
Total assets		$ 8,352.8	$ (112.6)	$ 8,240.2
Liabilities and equity				
Current liabilities	(ii), (v)	$ 1,113.6	$ 31.6	$ 1,145.2
Non-current liabilities				
Long-term debt		3,811.9	–	3,811.9
Derivative financial instruments		422.4	–	422.4
Other liabilities	(i), (ii)	131.8	86.5	218.3
Deferred income taxes	(ix)	485.9	(101.3)	384.6
Non-controlling interests	(x)	1,216.8	(1,216.8)	–
		6,068.8	(1,231.6)	4,837.2
Equity				
Capital stock		346.6	–	346.6
Contributed surplus	(vii)	4.7	(2.7)	2.0
Retained earnings	(i) to (x)	830.1	(73.5)	756.6
Accumulated other comprehensive loss	(viii)	(11.0)	1.0	(10.0)
Equity attributable to shareholders		1,170.4	(75.2)	1,095.2
Non-controlling interests	(x)		1,162.6	1,162.6
		1,170.4	1,087.4	2,257.8
Total liabilities and equity		$ 8,352.8	$ (112.6)	$ 8,240.2

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

(f) Consolidated balance sheet as of December 31, 2010

	Explanation	Canadian GAAP	IFRS adjustments	IFRS
Assets				
Current assets	(ix)	$ 1,170.4	$ (44.3)	$ 1,126.1
Non-current assets				
Property, plant and equipment	(iii), (iv)	2,850.9	(38.0)	2,812.9
Intangible assets	(iii), (vi)	1,081.3	(52.2)	1,029.1
Goodwill		3,508.2	(3.0)	3,505.2
Derivative financial instruments		28.7	–	28.7
Deferred income taxes	(ix)	9.0	11.3	20.3
Other assets	(i)	144.5	(50.7)	93.8
		7,622.6	(132.6)	7,490.0
Total assets		$ 8,793.0	$ (176.9)	$ 8,616.1
Liabilities and equity				
Current liabilities	(ii), (v)	$ 1,158.2	$ 12.8	$ 1,171.0
Non-current liabilities				
Long-term debt		3,587.3	–	3,587.3
Derivative financial instruments		479.9	–	479.9
Other liabilities	(i), (ii)	143.0	131.0	274.0
Deferred income taxes	(ix)	582.5	(130.3)	452.2
Non-controlling interests	(x)	1,430.3	(1,430.3)	–
		6,223.0	(1,429.6)	4,793.4
Equity				
Capital stock		346.6	–	346.6
Contributed surplus	(vii)	5.2	(4.3)	0.9
Retained earnings	(i) to (x)	1,047.3	(78.3)	969.0
Accumulated other comprehensive income (loss)	(i), (viii), (ix)	12.7	(24.4)	(11.7)
Equity attributable to shareholders		1,411.8	(107.0)	1,304.8
Non-controlling interests	(x)		1,346.9	1,346.9
		1,411.8	1,239.9	2,651.7
Total liabilities and equity		$ 8,793.0	$ (176.9)	$ 8,616.1

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

The following table sets forth the detailed impact on equity of the adjustments from Canadian GAAP to IFRS as of January 1, 2010, March 31, 2010, and December 31, 2010.

(g) Equity

	Explanation	December 31, 2010	March 31, 2010	January 1, 2010
Shareholders' equity under Canadian GAAP		$ 1,411.8	$ 1,219.9	$ 1,170.4
IFRS adjustments:				
Defined benefit plans	(i)	(175.5)	(112.6)	(111.5)
Share-based compensation	(ii)	(21.2)	(22.8)	(24.4)
Borrowing costs	(iii)	(98.3)	(75.9)	(65.5)
Capitalized pre-operating losses	(iv)	(9.1)	(9.5)	(9.6)
Provisions	(v)	(1.0)	(11.0)	(11.0)
Intangible assets with indefinite useful lives	(vi)	15.5	15.5	15.5
Income taxes	(ix)	99.0	78.6	77.1
Other		0.2	–	–
		(190.4)	(137.7)	(129.4)
Non-controlling interests	(x)	1,430.3	1,266.5	1,216.8
Equity under IFRS		$ 2,651.7	$ 2,348.7	$ 2,257.8
Equity attributable to:				
Shareholders		$ 1,304.8	$ 1,141.0	$ 1,095.2
Non-controlling interests	(x)	1,346.9	1,207.7	1,162.6

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

The following table sets forth the detailed impact on net income and comprehensive income of the adjustments from Canadian GAAP to IFRS for the three-month period ended March 31, 2010 and for the year ended December 31, 2010.

(h) Comprehensive income

	Explanation	Three-month period ended March 31, 2010	Year ended December 31, 2010
Comprehensive income under Canadian GAAP		$ 52.7	$ 253.8
IFRS adjustments to net income:			
Borrowing costs	(iii)	(10.4)	(32.8)
Provisions	(v)	–	10.0
Other	(i), (ii), (iv), (ix)	3.1	12.8
Non-controlling interests	(x)	46.8	236.5
		39.5	226.5
IFRS adjustments to other comprehensive income:			
Defined benefit plans	(i)	(1.4)	(65.3)
Income taxes	(ix)	0.4	17.2
Non-controlling interests	(x)	12.0	19.6
		11.0	(28.5)
Comprehensive income under IFRS		$ 103.2	$ 451.8

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

The significant differences between the 2010 financial figures prepared under Canadian GAAP and these figures prepared under IFRS are explained as follows:

(i) Defined benefit plans

As stated in the section "IFRS 1 exemptions and exceptions," the Corporation elected to recognize all cumulative actuarial gains and losses under Canadian GAAP that existed as of January 1, 2010 in the opening retained earnings under IFRS for all of its defined benefit plans.

Actuarial gains and losses

Under IFRS, the Corporation elected to immediately recognize all actuarial gains and losses arising after January 1, 2010 as a component of other comprehensive income without recycling those gains or losses to the consolidated statement of income in subsequent periods. As a result, actuarial gains and losses are not amortized to the statement of income but rather are recorded directly to other comprehensive income at the end of each reporting period. Under Canadian GAAP, the Corporation was recording in the consolidated statements of income any cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the defined benefit obligation, or the fair value of plan assets, over the expected average remaining service period of the active employee group covered by the plans.

Past service costs

Under IFRS, past service costs are recognized on a straight-line basis over the vesting period. Under Canadian GAAP, past service costs were amortized over the expected average remaining service period of the active employee group covered by the plans.

Benefit asset limit and minimum funding liability

Under IFRS, recognition of the net benefit asset under certain circumstances is limited to the amount recoverable, which is primarily based on the extent to which the Corporation can unilaterally reduce future contributions to the plan. In addition, an adjustment to the net benefit asset or the net benefit obligation can be recorded to reflect a minimum funding liability. Since the Corporation has elected to recognize actuarial gains or losses arising after January 1, 2010 in other comprehensive income, changes in the net benefit asset limit or in the minimum funding adjustment arising after the transition date are also recognized in other comprehensive income. Under Canadian GAAP, a similar concept to the limit existed, although the calculation of the recoverable amount was different and changes in the valuation allowance were recognized in the consolidated statement of income. As for the minimum funding liability, there was no such concept under Canadian GAAP.

(ii) Share-based compensation

Under IFRS, the liability related to share-based awards that call for settlement in cash or other assets must be measured at its fair value and is to be re-measured at its fair value at the end of each reporting period. Under Canadian GAAP, the liability was measured and re-measured at each reporting date at the intrinsic values of the stock-based awards instead of at their fair values.

Under IFRS, when a share-based payment vests in instalments over a vesting period ("graded vesting"), each instalment is accounted for as a separate arrangement as compared to Canadian GAAP, which gave the choice of treating the instruments as a pool, with the measurement being determined using the average life of the awards granted.

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

(iii) Borrowing costs

As stated above in the section "IFRS 1 exemptions and exceptions," the Corporation elected to adopt IAS 23R prospectively from January 1, 2010. Accordingly, all capitalized interest costs under Canadian GAAP related to projects that began prior to January 1, 2010 were reclassified to opening retained earnings at transition and are expensed in 2010 under IFRS.

(iv) Capitalized pre-operating losses

Under IFRS, certain costs that were capitalized under Canadian GAAP are not permitted to be accounted for as part of the cost of property, plant and equipment. As a result, incidental losses attributable to self-constructed assets capitalized prior to commercial operation were derecognized from the net carrying amount of the assets and reclassified in opening retained earnings on transition under IFRS.

(v) Provisions

IFRS specifically provides for the accrual of an onerous contract when an unavoidable loss from fulfilling the obligations under the contract is probable, including any penalties arising from early termination. Under Canadian GAAP, a liability for costs to terminate a contract before the end of its term would have been recognized only when the contract had been terminated in accordance with the contract terms, or when the use of the right conveyed by the contract had ceased. As a result, certain additional provisions have been recognized under IFRS as of January 1, 2010. In addition, provisions must be presented separately in the balance sheet under IFRS.

(vi) Intangible assets with indefinite useful lives

Under IFRS, indefinite lived assets are not amortized, while under Canadian GAAP, they were amortized until January 1, 2002. Accordingly, the Corporation has reversed amortization previously recognized on its broadcasting licences in opening retained earnings at the transition date.

(vii) Related party transactions

Under IFRS, no particular recognition or measurement requirements for related party transactions exist; accordingly, the recognition and measurement of related party transactions must follow existing IFRS standards that apply to the transaction. Under Canadian GAAP, related party transactions could be recognized at the carrying amount of the assets being transferred or at the exchange amount, depending on certain criteria. As stated in the above section "IFRS 1 exemptions and exceptions," the Corporation elected not to restate any business combinations arising before January 1, 2010, including those entered into between companies under common control. In addition, transfers of assets that had been recognized at the carrying amount under Canadian GAAP were restated to their exchange amounts, as allowed under IFRS.

(viii) Translation gains or losses related to net investments in foreign operations

As stated above in section "IFRS 1 exemptions and exceptions," the Corporation elected to reset all cumulative translation gains and losses related to investments in foreign operations to zero in opening retained earnings as at the transition date.

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Reconciliation of Canadian GAAP to IFRS (continued)

(ix) Income taxes

The expected manner of recovery of intangible assets with indefinite useful lives for purposes of calculating deferred income taxes is different under IFRS than under Canadian GAAP. This difference resulted in a reduction in the deferred income tax liability related to these assets at transition.

Other adjustments to income taxes represent the tax impacts of other IFRS adjustments.

In addition, deferred income tax assets and liabilities are presented as non-current items under IFRS, even if it is anticipated that they will be realized in the short term.

(x) Non-controlling interests

Under IFRS, non-controlling interests are presented as a separate component of equity in the balance sheet instead of being presented as a separate component between liabilities and equity under Canadian GAAP. In the statements of income and comprehensive income under IFRS, net income and comprehensive income are calculated before non-controlling interests and are then attributed to shareholders and non-controlling interests. Under Canadian GAAP, non-controlling interests were presented as a component of net income and comprehensive income.

Additional annual disclosures under IFRS

Certain additional annual disclosures required under IFRS have been provided below for the year ended December 31, 2010, having taken into consideration the adjustments made from Canadian GAAP to reconcile with IFRS as discussed above. Certain disclosures normally included in a set of annual financial statements have been omitted or condensed as the Corporation does not consider such information material to the understanding of the impact of IFRS on the consolidated financial statements.

(1) Income taxes

The tax effects of significant items comprising the Corporation's net deferred income tax positions as of December 31, 2010 and January 1, 2010 under IFRS were as follows:

	December 31, 2010	January 1, 2010
Loss carryforwards	$ 85.5	$ 72.4
Accounts payable, accrued charges and deferred revenues	28.7	26.8
Defined benefit plans	50.3	38.4
Long-term investments	–	13.0
Property, plant and equipment	(337.5)	(285.6)
Goodwill, intangible assets and other assets	(103.9)	(78.4)
Long-term debt, derivative financial instruments and exchangeable debentures	(157.7)	(143.1)
Other	2.7	10.0
Net deferred income tax liabilities	$ (431.9)	$ (346.5)

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Additional annual disclosures under IFRS (continued)

(2) Pension plans and postretirement benefit

The following tables show a reconciliation of the funded status to the net amount recognized in the consolidated balance sheets under IFRS as at December 31, 2010 and as at January 1, 2010:

	Pension benefits		Postretirement benefits	
	December 31, 2010	January 1, 2010	December 31, 2010	January 1, 2010
Reconciliation of funded status				
Benefit obligation	$ (836.7)	$ (678.8)	$ (47.6)	$ (41.9)
Fair value of plan assets	689.9	623.2	–	–
Plan deficit	$ (146.8)	$ (55.6)	$ (47.6)	$ (41.9)
Past service costs – unvested portion	5.3	6.9	–	–
Asset limit and minimum funding adjustment	(1.8)	(54.8)	–	–
Net amount recognized	$ (143.3)	$ (103.5)	$ (47.6)	$ (41.9)

Components of the net benefit costs are as follows:

		2010
	Pension benefits	Postretirement benefits
Service costs	$ 16.9	$ 1.0
Interest costs	42.5	2.4
Expected return on plan assets	(44.3)	–
Net prior service costs	1.6	–
Special termination benefits, curtailment loss (gain) and other	1.0	(0.6)
Net benefit costs	$ 17.7	$ 2.8

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Additional annual disclosures under IFRS (continued)

(3) Intangible assets

The net carrying amounts of our principal categories of intangible assets under IFRS as of December 31, 2010 and January 1, 2010 were as follows:

			December 31, 2010
	Cost	Accumulated amortization/ impairment	Net carrying value
Advanced mobile services spectrum licences	$ 458.5	$ 14.4	$ 444.1
Software	357.3	157.4	199.9
Customer relationships and other	203.5	86.5	117.0
Broadcasting licences[1]	134.1	31.6	102.5
Mastheads[1]	105.6	48.2	57.4
Projects under development	108.2	–	108.2
	$ 1,367.2	$ 338.1	$ 1,029.1

			January 1, 2010
	Cost	Accumulated amortization/ impairment	Net carrying value
Advanced mobile services spectrum licences	$ 458.5	$ –	$ 458.5
Software	257.5	126.6	130.9
Customer relationships and other	200.8	68.9	131.9
Broadcasting licences[1]	134.1	31.6	102.5
Mastheads[1]	105.6	48.2	57.4
Projects under development	141.0	–	141.0
	$ 1,297.5	$ 275.3	$ 1,022.2

[1] Intangible assets with indefinite useful lives are not subject to amortization.

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Additional annual disclosures under IFRS (continued)

(4) Goodwill

The net carrying amounts of goodwill as of December 31, 2010 and January 1, 2010 were allocated to the following significant groups of CGUs:

Industry segment	Group of CGUs	December 31, 2010	January 1, 2010
Telecommunications	Telecommunications	$ 2,570.1	$ 2,570.1
News Media	News Media	817.6	817.5
Broadcasting	Broadcasting	3.1	3.1
	Publishing	51.8	51.8
Leisure and Entertainment	Book publishing and distribution	16.3	16.3
	Music	20.9	20.9
Interactive Technologies and Communications	Interactive Technologies and Communications	25.4	26.4
Total		$ 3,505.2	$ 3,506.1

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Additional annual disclosures under IFRS (continued)

(4) Goodwill (continued)

Recoverable amounts

The recoverable amounts were determined based on value in use with respect to the impairment tests performed. The Corporation uses the discounted cash flow method to estimate value in use, consisting of future cash flows derived from the most recent budget and three-year strategic plan approved by the Corporation's management and presented to the Board of Directors. These forecasts considered each CGU's past operating performance and market share as well as economic trends, along with specific and market industry trends and corporate strategies. A range of growth rates is used for cash flows beyond this three-year period. The discount rate used by the Corporation is a pre-tax rate derived from the weighted average cost of capital pertaining to each CGU, which reflects the current market assessment of (i) the time value of money, and (ii) the risk specific to the assets for which the future cash flow estimates have not been risk-adjusted. The perpetual growth rate was determined with regard to the specific markets in which the CGUs participate. The following key assumptions were used to determine recoverable amounts in the most recent impairment tests performed as of January 1, 2010:

	As of January 1, 2010	
Group of CGUs	Pre-tax discount rate (WACC)	Perpetual growth rate
Telecommunications	10.19 %	3.00 %
News Media	11.02	1.00
Broadcasting:		
Broadcasting	11.43	1.00
Publishing	14.93	1.00
Leisure and Entertainment:		
Book publishing and distribution	14.14	1.00
Music	13.12	1.00
Interactive Technologies and Communications	14.82	4.00

The next set of impairment tests will be performed as of April 1, 2011.

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Additional annual disclosures under IFRS (continued)

(4) Goodwill (continued)

Sensitivity of recoverable amounts

The following table presents, for each principal group of CGUs, the change in the discount rate and in the perpetual growth rate used in the most recently performed tests that would have been required for the recoverable amount to equal the carrying value as of January 1, 2010:

Group of CGUs	Incremental increase in pre-tax discount rate (WACC)		Incremental decrease in perpetual growth rate	
Telecommunications	4.17	%	4.73	%
News Media	5.65		7.85	
Broadcasting:				
Broadcasting	2.58		3.45	
Publishing	7.38		11.66	
Leisure and Entertainment:				
Book publishing and distribution	8.25		14.45	
Music	1.16		1.69	
Interactive Technologies and Communications	0.86		1.11	

(5) Other assets

		December 31, 2010		January 1, 2010
Programs, broadcast and distribution rights	$	34.0	$	39.0
Deferred connection costs		35.3		28.6
Other		24.5		26.1
	$	93.8	$	93.7

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Additional annual disclosures under IFRS (continued)

(6) Provisions

	December 31, 2010	January 1, 2010
Restructuring provision	$ 37.0	$ 32.9
Legal provision	16.6	16.3
Contractual obligations and other	21.7	23.8
	75.3	73.0
Long-term portion	3.1	0.4
Current portion	$ 72.2	$ 72.6

(7) Other liabilities

	December 31, 2010	January 1, 2010
Accrued pension and postretirement benefit liability	$ 190.9	$ 145.4
Deferred revenue	49.1	43.4
Stock-based compensation[1]	20.7	18.1
Exchangeable debentures and other	13.3	11.4
	$ 274.0	$ 218.3

[1] The current portion of stock-based compensation is included in accounts payable and accrued charges ($52.4 million as of December 31, 2010 and $28.8 million as of January 1, 2010).

(8) Stock-based compensation plans

The fair value of stock-based awards under the stock option plans of the Corporation, Quebecor Media and TVA Group was estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used to estimate the fair value of all outstanding stock options under the stock option plans as of December 31, 2010 and January 1, 2010:

December 31, 2010	Quebecor	Quebecor Media	TVA Group
Risk-free interest rate	2.05 %	2.11 %	1.93 %
Dividend yield	0.53 %	1.61 %	1.44 %
Expected volatility	35.37 %	34.23 %	44.22 %
Expected remaining life	3.1 years	3.3 years	2.7 years

(tabular amounts in millions of Canadian dollars, except for per share data and option data)

16. TRANSITION TO IFRS (continued)

Additional annual disclosures under IFRS (continued)

(8) Stock-based compensation plans (continued)

January 1, 2010	Quebecor	Quebecor Media	TVA Group
Risk-free interest rate	2.43 %	2.37 %	2.38 %
Dividend yield	0.72 %	1.31 %	1.54 %
Expected volatility	38.53 %	36.34 %	47.65 %
Expected remaining life	4.3 years	3.6 years	3.7 years

Except for Quebecor Media, the expected volatility is based on the historical volatility of the underlying share price for a period equivalent to the expected remaining life of the options. Since the common shares of Quebecor Media are not publicly traded on a stock exchange, expected volatility is derived from the implied volatility of Quebecor's stock. The expected remaining life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate over the expected remaining life of the option is based on the Government of Canada's yield curve in effect at the time of the valuation. Dividend yield is based on the current average yield.

As of December 31, 2010, the intrinsic value of liabilities for which options have vested was $24.0 million ($6.1 million as of January 1, 2010). For the year ended December 31, 2010, a net consolidated compensation charge related to all stock-based compensation plans was recorded in the amount of $33.6 million.