



# 1<sup>st</sup> Quarter Interim Report 2008

Summary of Financial Results for the  
Three Months Ended March 31

**Notice to Reader**

*The attached financial statements have been prepared by management of McGraw-Hill Ryerson Limited. The financial statements for the three month periods ended March 31, 2007 and 2006 have not been reviewed by the auditors of McGraw-Hill Ryerson Limited.*

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## **To The Shareholders**

### **Management's Discussion and Analysis**

This management's discussion and analysis ("MD&A") provides a detailed analysis of McGraw-Hill Ryerson's business and compares its first quarter of 2008 financial results with those of the previous year's first quarter. In order to better understand the MD&A, it should be read in conjunction with the Financial Statements for the year ended December 31, 2007 and its related notes. The Corporation prepares and files its financial statements and MD&A using Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"). The financial statements and MD&A, as well as additional information regarding McGraw-Hill Ryerson, including the Annual Information Form, are available at [www.sedar.com](http://www.sedar.com). This MD&A is made as of April 10, 2008.

### **Company Profile**

McGraw-Hill Ryerson Limited ["the Company"] was incorporated in 1944 and has been listed on the Toronto Stock Exchange since 1971. The Company is operated independently, in close cooperation with various divisions and international subsidiaries of its majority shareholder, The McGraw-Hill Companies, Inc.

The Company's strategy is to be a Canadian leader in developing and marketing quality information products and services to select educational, professional, and consumer markets through innovation and teamwork.

The Company publishes and distributes educational and professional products in both print and non-print media. These products are designed to fulfill the individual needs of customers by providing effective and innovative educational and learning solutions. Product offerings include text and professional reference books, multimedia tools, and teaching, assessment, support, and monitoring solutions.

The Company is structured on a market-focused basis and operates in three primary market areas. The largest division is the Higher Education Division which serves post-secondary education institutions, including universities, community colleges and career colleges. The second largest division is the School Division which services secondary and elementary schools. The third division is the Professional Division which serves retailers (online and bricks and mortar), wholesalers, libraries and professionals.

### **2008 First Quarter Results**

#### **Summary**

The first quarter is historically the lowest sales quarter of the fiscal year as sales are heavily weighted towards the second half of the year. As expenses are more evenly distributed over the course of the year, the Company generally reports a net loss in the first quarter of each year. For 2008, the net loss is \$2.5 million, compared to a net loss of \$3.0 million in the first quarter last year.

#### **Revenue**

Total revenue for the first quarter decreased by 11.5% to \$8.8 million in 2008 compared to \$10.0 million in 2007, driven by a decline in sales in both the Higher Education Division and the Professional Division.

The Higher Education Division sales decreased 9.6% to \$3.7 million in 2008 compared to \$4.0 million in the first quarter of 2007. This \$0.3 million decrease is expected to be recouped in the second quarter.

The School Division sales are consistent at \$2.8 million in both 2008 and 2007.

In the Professional Division, sales decreased by 28.9% in 2008 to \$1.6 million, from \$2.2 million in the prior year. The Division expects to make up some of this shortfall during the second and third quarters of 2008. A portion of this shortfall is driven by price reductions implemented in late 2007.

	<b>Revenue (\$000's)</b>		
	<b>Q1/08</b>	<b>Q1/07</b>	<b>% Change</b>
Higher Education	\$3,660	\$4,050	(9.6)
School	2,787	2,805	(0.6)
Professional	1,583	2,227	(28.9)
Other	788	883	(10.8)
	<b>\$8,818</b>	<b>\$9,965</b>	<b>(11.5)%</b>

### **Expenses**

Operating expenses have decreased 19.8% to \$3.5 million compared to 2007. These expenses consist of cost of product and royalty expenses and therefore decrease as sales decrease. Operating expenses as a percentage of net sales improved to 42.7% of sales in the first quarter of 2008 compared to 47.1% of sales in the first quarter last year. This improvement is partially a result of changing product mix (increase in sales of Canadian-produced titles which have higher margins than imported titles).

Editorial, selling, general and administrative expenses have decreased to \$7.9 million from \$8.6 million. This 7.8% decrease is the result of expense controls and productivity improvements across many divisions in the Company, as well as the timing of certain promotional expenses (which are less heavily weighted in the first quarter this year than in years past).

Amortization expense for prepublication costs has decreased slightly to \$0.6 million in 2008 compared to \$0.7 million in 2007. Amortization expense for capital assets has remained consistent at \$0.3 million for both years.

Future employee benefits expense has decreased to \$0.02 million in 2008 from \$0.4 million in 2007 as a result of the curtailment that occurred in the third quarter of 2007.

In the first quarter, the Company reported a foreign exchange loss of \$0.07 million, consistent with the foreign exchange loss in 2007. The Company incurs foreign exchange gains and losses throughout the year as a result of the volume of related-party transactions, most of which are denominated in U.S. dollars. However the Company continues to employ policies to minimize the impact of these currency fluctuations.

## Liquidity and Financial Resources (In Thousands of Dollars)

<i>Balances as at:</i>	<u>March 31-08</u>	<u>December 31-07</u>	<u>March 31-07</u>
Cash and cash equivalents	\$27,373	35,646	\$24,237
Total assets	83,856	94,660	84,741
Working capital	41,881	45,219	42,380
Accounts receivable	2,625	14,489	4,219
Inventories	10,383	7,717	11,335
			<b>Prior Year First</b>
	<b>Current Quarter</b>	<b>Prior Quarter</b>	<b>Quarter</b>
<i>For the 3 Months Ended:</i>	<u>March 31-08</u>	<u>December 31-07</u>	<u>March 31-07</u>
Cash flow from operations	\$(6,319)	19,276	\$(7,513)
Prepublication investment	1,482	2,653	1,249
Capital asset additions	23	82	93
Dividends paid per share	0.225	0.21	0.21

Cash and cash equivalents decreased in the quarter by \$8.3 million. Cash balances generally decrease during the first quarter of each year because of the seasonality of sales. In the first quarter of 2007, cash balances decreased by \$10.3 million.

The accounts receivable balance decreased to \$2.6 million compared to \$4.2 million at the end of March 2007. The balance is lower at the end of the first quarter compared with the prior year due to the lower sales in the latter part of 2007. The Company's collection performance is closely monitored in accordance with credit terms and industry standards.

Inventories are 8.4% lower than at the same time last year at \$10.4 million. The Company continues to put a strong emphasis on inventory management.

Prepublication investment increased to \$1.5 million from \$1.2 million in the first quarter of 2007. The timing of prepublication spending varies from year to year based on the publication plans in the Company's School and Higher Education divisions. The increase in 2008 is in the School Division, in response to curriculum changes in several provinces.

Capital asset purchases have remained at modest levels in the first quarter of 2008 at \$0.02 million compared with \$0.09 million in prior year. These purchases relate to the upgrading of certain facilities within the building.

As at the end of the first quarter, the Company had entered into operating leases, primarily for equipment, for which the estimated future minimum annual lease payments are \$0.3 million in 2008, \$0.1 million in 2009 and \$0.1 million in 2010.

The Company has future purchase commitments with a vendor for printing/copying costs. The minimum annual commitments are \$0.5 million in 2008, \$0.7 million in 2009 and \$0.3 million in 2010.

The Company's cash flow is cyclical during the year because of our sales cycle. During the low cash phase of the cycle, in the second and third quarters, the Company has a line of credit available to meet forecasted needs. The line of credit was not used in 2007 or 2006 or in the first quarter of 2008.

## Transactions with Related Parties

The Company is a partially-owned subsidiary of The McGraw-Hill Companies, Inc. which owns 70.1% of the outstanding common shares. Under long-standing arrangements, the Company purchases books and educational materials from the parent company and various international subsidiaries of The McGraw-Hill Companies, Inc. Inventory purchases during the first quarter 2008 were \$3.1 million, down from \$3.6 million in the same quarter in 2007. In addition, the Company pays royalties to the parent company for any titles that have been adapted to the Canadian market.

The Company also sells books and educational materials to various international subsidiaries of The McGraw Hill Companies, Inc. These purchases and sales are recorded at the exchange rates in effect at the time of the transaction. In the normal course of business, the Company reimburses (and is reimbursed) for common expenses shared with other McGraw-Hill entities. All such reimbursements are done at cost, using exchange rates in effect at the time of the transactions.

The Company owed related parties \$2.3 million at the end of the first quarter 2008, compared with \$3.3 million at the end of March 2007 and was owed \$5.6 million by related parties at the end of the quarter, down from \$6.2 million at the end of March 2007.

## Quarterly Results (2008, 2007, 2006)

Quarterly Income Statement (\$000) – except Per Share Data

	<u>Quarter Ended</u> <u>March 31</u>			<u>Quarter Ended</u> <u>June 30</u>		<u>Quarter Ended</u> <u>Sept. 30</u>		<u>Quarter Ended</u> <u>Dec. 31</u>	
	2008	2007	2006	2007	2006	2007	2006	2007	2006
Total Revenue	\$8,818	\$9,965	\$12,608	\$19,025	\$18,015	\$40,995	\$37,479	\$22,547	\$24,447
Net Income (Loss) for the period	(2,476)	(2,976)	(1,590)	627	(271)	9,819	5,385	2,491	2,401
Net Income (Loss) per share	(1.24)	(1.49)	(0.80)	0.31	(0.14)	4.92	2.70	1.25	1.20

The Company's sales are cyclical based on the education industry's school terms for the School and Higher Education divisions. As a result, the Company earns a significant proportion of its total sales in the third and fourth quarters of each year.

The variance between the \$2.5 million loss reported in first quarter of 2008 and the \$3.0 million loss in prior year first quarter is mainly the result of the decrease in expenses.

## Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

The critical accounting estimates included in the financial statements are as follows:

The inventory obsolescence reserve is based upon management's assessment of the marketplace of products in demand as compared to the number of units currently on hand. This calculation is

completed for each title. Should the estimate for inventory obsolescence vary by one percentage point, it would have an approximate \$0.1 million impact on operating profit.

The allowance for doubtful accounts is calculated by reviewing any specifically identified aged accounts plus a general provision for the balance of the accounts. The impact on operating profit for a one percentage point change in the allowance for doubtful accounts rate is \$0.1 million.

The estimate for sales return reserve is calculated using the forecasted rate of returns in future periods. This forecast is calculated separately for each segment, and is based on the average rate of returns over the past three years. Should the estimate for sales returns vary by one percentage point, it would have an approximate \$0.1 million impact on operating profit.

## **Other**

The number of common shares outstanding as of April 10, 2008 was 1,996,638.

## **Risks and Uncertainties**

### **Educational Funding Constraints and Curriculum Revisions in the School Market**

Educational funding varies from year to year depending on the current government's mandate in each jurisdiction. The annual provincial government mandates affect both the funding levels and curriculum revision cycles. The funding levels and curriculum revision cycles have an immediate and on-going impact on the performance of the Company's School Division.

### **Format and Delivery of Future Learning Resources**

Changing media technology continues to affect the publishing industry in several ways: sales of non-print materials have begun to increase as a percentage of total sales; there has been an increase in electronic piracy over the internet; and, most important, the format of future learning resources remains uncertain. While the Company is working on leveraging the opportunities arising from these developments, there can be no assurances that one or more of these developments will not have a permanent and long-term impact on markets for the Company's products.

### **Competition from Foreign-Based Sources (Wholesalers and On-line Bookstores)**

The advent of online bookstores in the U.S. and other countries has created an avenue for Canadian consumers and students to purchase published products directly from foreign retailers, thus eliminating the Canadian marketers and distributors of the product. In particular, students are able to access a very large source of second-hand products. Sustained increases in market penetration by foreign-based virtual bookstores and wholesalers could adversely impact the Company's market share and financial performance. This competition has heightened in recent years as a result of the appreciation in the Canadian dollar.

### **Copyright**

Court rulings in Canada have reinforced user rights. As media technology continues to evolve, publishers may find it more difficult to protect their content effectively. These factors may impact the future sales and royalties within the School industry from copyright collectives. Royalties are also impacted from the value of license agreements. The Federal Copyright Board will finalize their evaluation of the School industry copyright tariff in 2008.

## **Dependency on Retail National Accounts**

While national accounts comprise a small portion of the Company's total business, their significant influence in the marketplace can increase the volatility of sales and returns and lead to less favourable commercial terms as a result of their negotiating power. In addition, some national accounts have introduced in-house publishing programs that may potentially compete with the Company's publishing program.

## **Labour Disruptions in the Education Sector**

A labour disruption in the School or Higher Education market can have a significant impact on the purchasing behaviour within these markets, depending on timing and duration of the disruption.

## **Uncertainty in Employee Future Benefits Costs**

Changes in medical or dental costs or life insurance premiums may have an impact on the Company's results for certain employees eligible for the employee retirement benefits.

## **Foreign Exchange**

The following table sets forth, for each period indicated, the exchange rate for Canadian dollars expressed in U.S. dollars at the end of that period.

	<b>2006</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2008</b>
	<b>Dec. 31</b>	<b>Mar. 31</b>	<b>June 30</b>	<b>Sept. 30</b>	<b>Dec. 31</b>	<b>Mar. 31</b>
Exchange Rate	0.858	0.863	0.938	0.999	1.002	0.976

A significant portion of the Company's purchases are incurred in U.S. dollars, while all its revenues are in Canadian dollars and its financial results are reported in Canadian dollars. As a result, major exchange-rate fluctuations between the Canadian and U.S. dollars will either positively or negatively affect net income. The Company is employing policies to minimize the impact of these currency fluctuations.

## **Outlook**

The outlook for 2008 remains unchanged after the first quarter: Fiscal 2008 is expected to be a year of modest growth for the Company. Demand for the Higher Education Division's industry-leading products and services will drive minor growth in that division. The Professional Division is forecasting a year of very minor revenue growth as a result of strong downward pressure on pricing in the second half of 2007 that will continue to impact this Division in 2008. The School Division forecasts further sales increases in 2008 as a result of continuing curriculum revisions in several provinces.

## **Cautionary Note Regarding Forward-Looking Statements**

Certain statements contained in this Quarterly Report and MD&A, including statements which may contain the words "may", "will", "likely", "project", "intend", "plan", "forecast", "expects", "believes", "anticipates", "could", and similar expressions and statements related to matters that are not historical facts, constitute forward-looking information within the meaning of securities laws.

Such forward-looking information, particularly with respect to the Company's future plans, costs, objectives, or economic performance, reflects what we believe in good faith to be reasonable assumptions, expectations, and intentions based on information that is currently available. Although we believe these underlying assumptions, expectations and intentions to be reasonable, forward-looking information is not a guarantee of

future performance, and involves risks and uncertainties, many of which are beyond our control and which may cause actual results, events or actions to differ materially from these expressed or implied in such forward-looking information. These risks and uncertainties include, but are not limited to, changes in customer markets, changes in demand for the Company's products, changes in technology, changes in educational funding by governments, curriculum changes in the School market, other government policy changes, changes to the format and delivery of future learning resources, competition from foreign-based virtual bookstores, changes to copyright law and the ability to protect the Company's content under copyright law, and general economic conditions.

The factors and assumptions that were applied in reaching the forward-looking information included herein include, but are not limited to, the assumptions:

- that curriculum revisions in several provinces will take place as anticipated and that our newly published products will meet the requirements of those curriculum revisions;
- that enrollment at elementary schools, secondary schools, and colleges/universities is consistent with our expectations. Nationally, we expect a minor decline in enrolment at the elementary/secondary school level and a minor increase at the college/university level;
- that demand for the Higher Education Division's technology-based products and services continues to grow;
- that provincial funding for educational resources will proceed as anticipated; and
- that Retail and Medical accounts will maintain stable purchasing and returns patterns.

Although we have attempted to identify and describe under the heading "Risks and Uncertainties" important risks and factors which may cause actual results to differ materially from those described in any forward-looking information, there may be other risks and factors that cause results, events or actions to differ materially from those anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking information contained in this report. Any forward-looking information contained herein is expressed as of the date of this report and, except as required by law, the Company does not undertake any obligation to update or revise such forward-looking information to reflect subsequent information, events or circumstances.

**BALANCE SHEETS**

(unaudited)

(In Thousands of Dollars)

As of

	March 31, 2008	December 31, 2007	March 31, 2007
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 27,373	\$ 35,646	\$ 24,237
Accounts receivable	2,625	14,489	4,219
Due from affiliated companies	5,619	1,870	6,225
Inventories	10,383	7,717	11,335
Prepaid expenses and other assets	1,042	354	1,230
Income taxes receivable	2,613	—	3,390
Future tax assets	1,569	2,390	1,481
<b>Total current assets</b>	<b>51,224</b>	<b>62,466</b>	<b>52,117</b>
Capital assets, net	16,933	17,247	18,111
Other assets, net	15,256	14,365	13,258
Future tax assets	443	582	1,255
<b>Total assets</b>	<b>\$ 83,856</b>	<b>\$ 94,660</b>	<b>\$ 84,741</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued charges	7,020	10,821	6,423
Income taxes payable	—	972	—
Due to affiliated companies	2,323	5,454	3,314
<b>Total current liabilities</b>	<b>9,343</b>	<b>17,247</b>	<b>9,737</b>
Employee future benefits	2,008	1,983	5,172
<b>Total liabilities</b>	<b>11,351</b>	<b>19,230</b>	<b>14,909</b>
<b>Shareholders' equity</b>			
Share capital			
Authorized – 5,000,000 common shares			
Issued and outstanding – 1,996,638 common shares	1,997	1,997	1,997
Retained earnings	70,508	73,433	67,835
<b>Total shareholders' equity</b>	<b>72,505</b>	<b>75,430</b>	<b>69,832</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 83,856</b>	<b>\$ 94,660</b>	<b>\$ 84,741</b>

**STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND RETAINED EARNINGS**

(unaudited)

(In Thousands of Dollars except per share data)

For the three months ended

	March 31, 2008	March 31, 2007
<b>REVENUE</b>		
Sales, less returns	\$ 8,194	\$ 9,264
Other	624	701
<b>Total revenue</b>	<b>8,818</b>	9,965
<b>EXPENSES</b>		
Operating	3,499	4,362
Editorial, selling, general and administrative	7,921	8,593
Amortization – prepublication costs	584	686
Amortization – capital assets	337	341
Future employee benefits	25	367
Exchange loss	68	69
<b>Total operating expenses</b>	<b>12,434</b>	14,418
<b>Loss before income taxes</b>	<b>(3,616)</b>	(4,453)
Recovery of income taxes		
Current	(2,100)	(2,561)
Future	960	1,085
	<b>(1,140)</b>	(1,476)
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (2,476)</b>	\$ (2,977)
Retained earnings, beginning of period	73,433	71,230
Dividends paid to shareholders (\$0.225 per share; 2007 - \$0.21 per share)	(449)	(419)
<b>Retained earnings, end of period</b>	<b>\$ 70,508</b>	\$ 67,834
<b>Earnings per share</b>		
Basic – net loss for the period	\$ (1.24)	\$ (1.49)
Diluted – net loss for the period	\$ (1.24)	\$ (1.49)

Weighted average number of shares for basic and diluted earnings per share for 2008 and 2007 is 1,996,638.

**STATEMENTS OF CASH FLOWS**

(unaudited)

(In Thousands of Dollars)

For the three months ended

	<b>March 31, 2008</b>	March 31, 2007
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (2,476)	\$ (2,976)
Add/deduct charges to income not affecting cash:		
Amortization – prepublication costs	584	686
Amortization – capital assets	337	341
Employee future benefits	25	351
Future taxes	960	1,085
Net change in non-cash working capital balances related to operations	(5,749)	(7,000)
<b>Cash used in operating activities</b>	<b>\$ (6,319)</b>	<b>\$ (7,513)</b>
<b>INVESTING ACTIVITIES</b>		
Prepublication costs	(1,482)	(1,249)
Investment in capital assets	(23)	(93)
<b>Cash used in investing activities</b>	<b>(1,505)</b>	<b>(1,342)</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid to shareholders	(449)	(419)
<b>Cash used in financing activities</b>	<b>(449)</b>	<b>(419)</b>
Net decrease in cash during period	(8,273)	(9,274)
Cash, beginning of period	35,646	33,511
Cash, end of period	\$ 27,373	\$ 24,237
<b>Supplemental cash flow information</b>		
Income taxes paid	\$ 1,527	\$ 1,340

Cash position consists of: cash and term deposits

**MCGRAW-HILL RYERSON LIMITED**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
March 31, 2008 (unaudited)

**1. General**

The accompanying interim financial statements of McGraw-Hill Ryerson Limited (the “Company”) do not meet the requirements of Canadian Generally Accepted Accounting Principles [“GAAP”] for annual financial statements, and these interim financial statements should be read in conjunction with the annual audited financial statements for the year ended December 31, 2007.

The same accounting policies and methods are followed as in the annual audited financial statements for the year ended December 31, 2007, with the exception that as of January 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants (“CICA”) accounting standards Section 3031 “Inventories”, Section 3862 “Financial Instruments – Disclosure” and Section 3863 “Financial Instruments – Presentation”. The adoption of these new standards resulted in additional disclosures with regards to inventory and financial instruments, but had no impact on the classification and valuation of the Company’s inventory and financial instruments.

**Inventories**

Inventories are stated at the lower of cost, on a first-in, first-out basis, and net realizable value. The Canadian product inventory cost consists of paper, print and binding costs. The inventory cost of imported and agency product is the purchase price of the product. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. A significant estimate for the Company is the reserve for inventory obsolescence. The reserve is based upon management’s assessment of the demand for its products in the market as compared to the number of units currently on hand.

**Financial Instruments**

The Company has classified its cash and certain cash equivalents, receivables, accounts payable and accrued charges and due from/to parent and affiliated companies as held for trading. The Company has some cash equivalents that are classified as held to maturity. The fair values of the Company’s financial instruments are not materially different from their carrying value. The Company does not currently engage in any hedging activities. The Company has not pledged any financial assets as collateral.

**2. Cyclicity**

The Company’s sales are cyclical based on the education industry’s school terms for the School and Higher Education Divisions. The Company earns a significant amount of its sales in the fall and winter seasons. In the first quarter the Company earns only a small portion of its annual revenue.

**3. Financial Instruments**

The Company’s activities expose it to certain financial risks, of which foreign exchange is the most significant. Foreign exchange risk arises primarily from the Company’s purchases of books and educational materials from its parent company and other international subsidiaries that are mainly made in US dollars. As a result, the Company may experience major foreign exchange exposures between the Canadian and US dollar affecting net income. As of March 31, 2008, fluctuations of +/-5% would, everything else being equal, have an effect on loss from continuing operations before taxes for the three months ended March 31, 2008 of approximately +/- \$194. The U.S. dollar exposure is partially offset by U.S. dollar denominated cash held by the Company. As at March 31, 2008, net US dollar account balances are 4.6% of total assets [2007 – 3.9%].

The Company’s credit risk primarily arises from the receivables. The Company’s maximum exposure to credit risk is equal to the carrying value of the accounts receivable balance. With respect to receivables, the Company’s credit risk is limited due to significant proportion of accounts that are government funded. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. Management also monitors the utilization of credit limits regularly. In cases where the credit quality of a client does not meet the Company’s requirements, prepayment is required before any products are provided. The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts, where the amount of the loss is recognized in the income statement within editorial, selling, general and administrative expenses, and an allowance for estimated returns, where the amount of the loss is recognized in the income statement within sales and operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. The Company has receivables due from parent and affiliates for \$5,619 which are offset by the payables due to parent and affiliates of \$2,323. These related party amounts are received within established trading terms.

	<b>As at March 31, 2008</b>
Accounts receivable	7,940
Less: Allowance for doubtful accounts	(442)
Less: Allowance for estimated returns	(4,874)
<b>Accounts receivable</b>	<b>2,625</b>

	<b>As at March 31, 2008</b>
Allowance for doubtful accounts, December 31, 2007	386
Add: provision booked to expense	56
<b>Allowance for doubtful accounts, March 31, 2008</b>	<b>442</b>

	<b>As at March 31, 2008</b>
Allowance for estimated returns, December 31, 2007	7,207
Less: Returns received by customers in quarter	(2,333)
<b>Allowance for estimated returns, March 31, 2008</b>	<b>4,874</b>

The following table sets forth the age of trade receivables that are not overdue as well as an analysis of overdue amounts:

	<b>As at March 31, 2008</b>
Not overdue	54%
Past due for more than one day but not more than three months	41%
Past due for more than three months	5%

The Company's five largest customers make up approximately 53% of the accounts receivable balance as at March 31, 2008 and approximately 11% of the net sales for the three months ending March 31, 2008.

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents and through the availability of funding from committed credit facilities. As at March 31, 2008, the Company was holding cash and cash equivalents of \$27,373 and had undrawn lines of credit available to it of \$6,500.

Interest rate risk primarily arises from certain cash equivalents held at the bank. These financial assets held to maturity as at the end of the first quarter are \$22,000 [2007 - \$20,000] and interest income earned on these investments in the three months ended is \$325 [2007 - \$322]. The income earned on these cash equivalents is subject to the movements in interest rates. The terms of the investments are between 30 and 60 days. A +/- 1% change in interest rates would, everything else being equal, have an effect on the net loss before income taxes for the three months ended March 31, 2008, of approximately +/- \$57.

The contractual maturities of the Company's financial liabilities were presented in the Company's financial statements for the year-ended December 31, 2007.

#### **4. Inventory**

The cost of inventory recognized as an expense and included in the income statement in operating expenses for the three months ended March 31, 2008 amounted to \$1,003 [2007 - \$1,327]. During the three months ended March 31, 2008, \$60 [2007- \$151] of inventory provisions was charged to the income statement. As at March 31, 2008, none of the inventory was pledged as security and there was no reversal during this quarter of any write-downs in inventory that were recognized as an expense in prior periods.

#### **5. Segmented Disclosure**

The Company is structured on a market-focus basis and operates in three primary market areas: post-secondary education, including universities, community colleges and proprietary colleges ("Higher Education"); secondary and elementary schools ["School"]; and trade, professional and medical, including retailers, distributors, libraries, non-traditional booksellers, direct marketing and the medical sector ("Professional"). The accounting policies of these operating segments are the same as those described in the annual audited financial statements for the year ended December 31, 2007:

	For the three-month period ended March 31, 2008					For the three-month period ended March 31, 2007				
	Higher Education	School	Professional & Medical	Warehouse Fulfillment and Support	Total	Higher Education	School	Professional & Medical	Warehouse Fulfillment and Support	Total
Sales, less returns	\$3,660	\$2,787	\$1,583	\$164	\$8,194	\$4,050	\$2,805	\$2,227	\$ 182	\$9,264
Amortization – Prepublication costs	244	340	—	—	584	(235)	(451)	—	—	(686)
Amortization – Capital assets	18	9	3	307	337	(17)	(10)	(3)	(311)	(341)
Divisional contribution (loss)	(1,710)	(292)	36	(1,650)	(3,616)	(1,699)	(877)	371	(2,248)	(4,453)
Provision for income taxes	—	—	—	(1,140)	(1,140)	—	—	—	(1,476)	(1,476)
Total expenditures for additions to capital assets and goodwill	—	—	—	23	23	77	3	—	13	93
	As at March 31, 2008					As at December 31, 2007				
Segment assets	11,340	13,849	3,388	16,696	45,273	19,391	13,541	3,822	16,978	53,732

## Reconciliations

	March 31, 2008	December 31, 2007
Segment assets	45,273	53,732
Unallocated assets		
Cash and cash equivalents	27,373	35,646
Due from affiliated companies	5,619	1,870
Non-divisional prepaid expensed and other assets	700	167
Income taxes receivable	2,613	—
Future tax assets	1,569	2,390
Non-current future tax assets	443	582
Non-current other assets	266	273
<b>Total assets</b>	<b>83,856</b>	<b>94,660</b>
Segment sales, less returns	8,194	9,264
Other revenue	624	701
<b>Total revenue</b>	<b>8,818</b>	<b>9,965</b>

**The following titles were published in the first quarter of 2008:**

**Higher Education**

Bowerman/O'Connell/Aitken-Schermer/Adcock, *Business Statistics in Practice*, 1/e  
Blank/Tarquin/Iverson, *Engineering Economy*. 1/e  
Jerome, *Business Math in Canada*, 6/e  
Good, *Building a Dream*, 7/e  
Willes/Willes, *Fundamentals of Canadian Business Law*, 2/e  
Schiller/Phipps/Sabiston, *The Micro Economy Today*, 1/e  
Beechy/Conrod, *Intermediate Accounting, Volume 1*, 4/e  
Schiller/Phipps/Sabiston, *The Macro Economy Today*, 1/e  
Marston, *Law for Professional Engineers*, 4/e  
Libby/Libby/Short/Kanaan/Gowing, *Financial Accounting*, 3/e  
Ross/Westerfield/Jaffe/Roberts, *Corporate Finance*, 5/e  
Belch/Belch/Guolla, *Advertising & Promotion*, 3/e  
Nolen/Rector, *Abnormal Psychology*, 1/e  
Balderson, *CA Entrepreneurship & Small Business Management*, 7/e  
Levy/Weitz/Beattie, *Retailing Management*, 2/e  
Passer/Smith/Atkinson/Mitchell/Muir, *Psychology, Frontiers and Applications*, 3/e  
Beechy/Conrod, *Intermediate Accounting, Volume 2*, 4/e  
Papalia/Kruk, *A Child's World*, 2/e  
Ferrell/Hirt/Ferrell/Currie/Iskander, *Business: A Changing World*, 3/e  
Bodie/Kane/Marcus/Perrakis/Ryan, *Investments*, 6/e  
Feldman/Frewin, *POWER Learning*, 3/e  
Crane/Kerin/Hartley/Berkowitz/Rudelius, *Marketing*, 7/e  
Hilton/Herauf, *Modern Advanced Accounting in Canada*, 5/e  
Santrock/MacKenzie-Rivers/Leung, *Life Span Development*, 3/e

**School**

Bocknek/Burnell/Edgar/Karner/Mason/Stiff/Weber, *Nova Scotia Science 6*  
McAskill/Watt/Ablett/Johnson/McInulty/Perry/Webb/Wunderlich/Zarski, *MathLinks 8*  
Erdman/Etienne/Ferguson/Lovisa/Meisel/Speijer, *MHR Functions & Applications 11*  
Witte, *Food for Life*

## **Dividend Payment**

On January 31, 2008, your Directors declared a dividend of 22.5¢ per share to be paid on March 6, 2008, to shareholders of record on February 14, 2008.



H. Ian Macdonald, O.C., LL.D  
Chairman of the Board

David L. Swail  
President and Chief Executive Officer

Date: May 1, 2008

## McGRAW-HILL RYERSON LIMITED

### SHAREHOLDER AND CORPORATE INFORMATION

#### Home Office

McGraw-Hill Ryerson Limited  
300 Water Street  
Whitby, Ontario  
L1N 9B6  
Tel (905) 430-5000  
Fax (905) 430-5020  
Website: [www.mcgrawhill.ca](http://www.mcgrawhill.ca)

#### Registrar and Transfer Agent

CIBC Mellon Trust Company  
P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario  
M5C 2W9  
Tel (416) 643-5500 or  
Toll free 1-800-387-0825  
Fax (416) 643-5501  
Website: [www.cibcmellon.ca](http://www.cibcmellon.ca)

#### Exchange Listings

The Toronto Stock Exchange  
Common Shares (MHR)

#### Corporate and Shareholder Information

Gordon Dyer  
Chief Financial Officer  
and Secretary-Treasurer  
Tel (905) 430-5032

Linnie Walsh  
Investor Relations Coordinator  
Tel (905) 430-5054  
Fax (905) 430-5063  
Email: [linniew@mcgrawhill.ca](mailto:linniew@mcgrawhill.ca)

- Obtain a copy of the most recent annual report

#### Shareholder Services Provided by the Transfer Agent

- Change of address
  - Eliminate multiple mailings
  - Transfer McGraw-Hill Ryerson shares
  - Other shareholder account inquiries
- Email: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)

**Form 52-109F2 – Certification of Annual Filings**

I, Gordon K. Dyer, Executive Vice President and Chief Financial Officer of McGraw-Hill Ryerson Limited, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of McGraw-Hill Ryerson Limited (the issuer) for the period ending March 31, 2008;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared;
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any changes in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: May 1, 2008



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Gordon K. Dyer  
Executive Vice-President and Chief Financial Officer  
McGraw-Hill Ryerson Limited

**Form 52-109F2 – Certification of Annual Filings**

I, David L. Swail, President and Chief Executive Officer of McGraw-Hill Ryerson Limited, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of McGraw-Hill Ryerson Limited (the issuer) for the period ending March 31, 2008;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared;
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any changes in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: May 1, 2008



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David L. Swail  
President and Chief Executive Officer  
McGraw-Hill Ryerson Limited