2008 Annual Report

Torstar Corporation

Financial Highlights

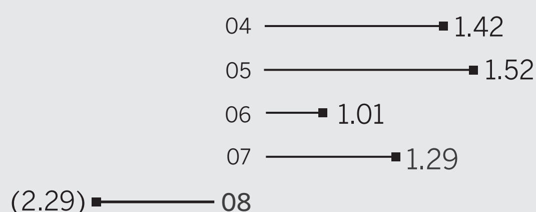
OPERATING RESULTS ($000)	2008	2007
Operating revenue	**$1,536,034**	$1,546,537
EBITDA (1)	**210,127**	225,421
Operating profit	**95,340**	162,780
Net income (loss)	**(180,455)**	101,391
Cash from operating activities	**122,217**	136,152
OPERATING RESULTS		
EBITDA – Percentage of revenue	**13.7%**	14.6%
Operating profit – percentage of revenue	**6.2%**	10.5%
Cash from operating activities – percentage of average shareholders' equity	**15.4%**	15.2%
PER CLASS A AND CLASS B SHARES		
Net income (loss)	**($2.29)**	$1.29
Dividends	**$0.74**	$0.74
Price range (high/low)	**$19.20/6.69**	$23.40/17.86
FINANCIAL POSITION ($000)		
Long-term debt	**$668,700**	$650,798
Shareholders' equity	**$672,577**	$917,761

The Annual Meeting of shareholders will be held Wed., May 6, 2009 at the Toronto Star building, 3rd Floor Auditorium, One Yonge Street, Toronto beginning at 10 a.m. It will also be webcast live on the Internet.

OPERATING REVENUE ($MILLIONS)

OPERATING PROFIT ($MILLIONS)

INCOME (LOSS) FROM CONTINUING OPERATIONS PER SHARE



EBITDA ($MILLIONS) (1)

(1) Operating profit before depreciation, amortization and restructuring provisions. Please see "Non-GAAP Measures" on page 7.

This annual report contains forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario). We caution readers not to place undue reliance on these statements as a number of factors could cause our results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. Additional information about these factors is contained on page 7 under the heading "Forward-Looking Statements".

FRANK IACOBUCCI

Chairman, Board of Directors

Message from the Chairman

Partir, c'est mourir un peu. That is my sentiment when I think of the wonderful people who I have come to know as Chair of the Torstar Board of Directors. The year 2009 will be a year of transition as I decided not to stand for re-election to the Board along with four other colleagues. My colleagues on the Board who are also leaving have been superb in fulfilling their duties as directors and have been unqualified in their constructive support of my role as Chair. I shall miss their collegial contact and wish to thank them sincerely for their outstanding contributions. At the same time, I am delighted that we have added new directors who come with an exceptional bundle of talents and experience. I welcome them most warmly, knowing they will be fine stewards for Torstar.

I also wish to acknowledge with gratitude and appreciation the leaders of the Torstar businesses. Rob Prichard, who will be stepping down as President and Chief Executive Officer of Torstar at the Annual General Meeting, has been tireless in his commitment to advance our businesses and his imaginative leadership has served us well in the face of unprecedented challenges in the newspaper industry and the global economy generally. It is fitting that David Holland will take the helm on an interim basis, as he has a rich background in virtually all aspects of the Torstar businesses and has provided great leadership in dealing with the myriad of financial issues facing Torstar and its businesses. Together with the superlative group of Donna Hayes at Harlequin, Ian Oliver at Metroland, John Cruickshank at the Toronto Star and Tomer Strolight at Torstar Digital, David will captain a formidable team of leaders.

I also want to recognize the thousands of employees of the Torstar businesses for their service, support, loyalty, and courtesy extended to me and my colleagues on the Board. Collectively, they are Torstar's greatest asset and on behalf of the Board, I record our appreciation to them.

When I was first approached by my distinguished predecessor, Dr. John Evans, about joining the Board, I was greatly attracted by the immensely important role of newspapers in a progressive democracy. As I learned more about the amazing legacy of the Toronto Star after becoming Chair, I was even more excited about joining the Board. Indeed, as I leave, it is the strength of the people at Torstar and the nobility and importance of the role of newspapers in our society that are not only priceless assets, but also are key to meeting the many challenges that lie ahead. I am confident that Torstar's historical success will continue into the future.

I wish my accomplished successor John Honderich and his colleagues on the Board well as they guide Torstar forward. They lead an important company doing important work. On behalf of all shareholders, it is my hope that they will weather the current economic storm successfully and continue Torstar's record of achievements, innovation and contribution.

J. ROBERT S. PRICHARD

President and Chief Executive Officer

To Our Shareholders

1. Operating Results

2008 was a challenging year for Torstar. In a difficult and deteriorating economy, our operating businesses delivered solid results overall. We earned EBITDA of $210 million compared to $225 million a year earlier. Revenues were down less than 1%. Most of the year-over-year drop in EBITDA can be attributed to increased newsprint and pension costs. In other respects, overall our results were basically flat.

Our solid earnings delivered strong cash flow. We paid our dividend, invested more than $50 million in acquisitions and fixed assets and funded restructuring without any material increase in our debt. We achieved this despite an increase of $25 million in the stated value of our debt due to the weakening of the Canadian dollar.

Our top performer in the year was Harlequin, which delivered 11% growth in reported earnings (15% excluding foreign exchange). This was the second year of growth in a row for Harlequin, reflecting the success of Harlequin's strategy and execution. It is a terrific business and we remain optimistic about its prospects despite the difficult global economy.

Torstar's newspaper and digital online businesses also performed well, growing audience, revenue and profits. In the face of the digital revolution, our commitment to building leading digital franchises is strong. We are enjoying good success with revenues up 34% in the year. Over the longer-term, our digital businesses are becoming an ever-larger portion of our overall business and they will increasingly be a major source of value for Torstar.

With a sharply softening economy in Southern Ontario, both Star Media Group and Metroland Media Group had a tough year. These businesses are leveraged to the economic cycle and as the economy turned against us, profits fell. We are aggressively reducing costs at both the Toronto Star and Metroland. We have made some good progress, but there is more to come. Despite these efforts, in the short-term we expect revenue declines will outpace cost reductions. In the medium- and long-term, particularly as the economy strengthens, we expect this will reverse.

This is not an easy time for newspapers with structural and cyclical forces together putting pressure on profitability. It is important to remember, however, that Torstar is very well positioned. In the Toronto Star we have the largest daily newspaper in Canada leading one of North America's largest media markets. And in Metroland, our largest business, we have Canada's leading community newspaper business, which is widely recognized as one of North America's top performers. These are very strong franchises and together they give us an enviable position.

2. Investments in Associated Businesses

Torstar has significant investments in two associated businesses: CTVglobemedia and Black Press. We hold a 20% interest in each.

2008 has been a tough year for both of these investments. The value of all media assets has been badly affected by the sharp downturn in the economy and our investments have enjoyed no immunity.

We have written down the value of our investment in CTVglobemedia to $200 million, basically half its original value.

This is a disappointing result for Torstar. CTV has maintained strong ratings, but with a significant cyclical shortfall in revenue the bottom line is hurt. Conventional television is also hurt by a broken regulatory model that needs immediate reform.

With our partners at Woodbridge Company Limited, Teachers' Pension Plan and BCE Inc., we remain committed to our investment in CTV. There are important opportunities for improving CTV's performance and creating significant value over the next three years.

We also wrote down the value of our investment in Black Press. The write-down flows from the decreased value of Black Press's daily newspaper in Akron, Ohio, reflecting the overall decline in the value of U.S. daily newspapers. It is important to recognize, however, that despite the write-down, Black Press remains a very good business, highly complementary to ours with its strong community newspaper focus in British Columbia and Alberta.

3. Outlook

As I write, the economic outlook remains highly uncertain and visibility is limited. We are assuming the economy will remain very difficult throughout 2009 and are planning accordingly. If the recovery comes earlier, we will be delighted but we don't want to count on it. We believe it is better to err on the side of caution in our plans.

We expect Harlequin to continue to perform well despite the economy. We also expect our online businesses to grow, except

potentially in the online careers space, which will be constrained by rising unemployment and fewer job advertisements.

Our newspaper businesses face the prospect of lower revenues until the economy recovers. This puts a premium on cost containment to mitigate the damage to the bottom line. We are fully committed to seeking every available opportunity for savings. No division or part of our business is immune.

The stock market's decline has hurt almost every sector and media companies have been directly affected. We are disappointed by the decline in our stock price as it frustrates our commitment to creating shareholder value. We believe the steps we are taking to strengthen the performance of our businesses will be rewarded when the economic recovery begins. We cannot control the timing of the recovery, but we can prepare ourselves for it. We are committed to doing just that.

4. Dividend

Let me turn now to the dividend. We have reduced our annual dividend from 74 cents to 37 cents per share. At 37 cents, it remains a strong and competitive yield as it has long been.

We have taken this decision, with the unanimous support of our Board, in the face of exceptionally high uncertainty about the economy and its potential impact on all businesses, including our advertisers' and our own. In this environment, we believe caution is the right approach. We know our shareholders want us to keep our focus on long-term value, not excessive short-term yield. We want to preserve our ability to strengthen our businesses and seize opportunities as others retreat. We have reduced our dividend before in difficult economic times and then grown it again as the economy recovered and our businesses grew. This is the right approach for both Torstar and the current times.

Some will judge us too cautious, believing we should have maintained the dividend. To those shareholders we say, remember the money is still yours; we just think it best to keep it in the company as we work through what ranks as one of the most difficult economies in generations.

Others will read too much into our caution, judging that we could not support the dividend. They would be wrong too. We generated very substantial cash flow in 2008, investing in fixed assets, doing acquisitions, paying for restructuring and paying the full dividend with only a $7 million increase in debt.

We simply believe in times like this it is best to err on the side of caution; that our shareholders seek a strong but not excessive yield; and that we must keep our eyes squarely focused on the long-term for value creation.

5. Transition

This is my final letter to shareholders after seven years as Chief Executive Officer. Late last summer we began developing a plan for transition and at the Annual Meeting, David Holland will take office as Interim President and Chief Executive Officer.

David will do an excellent job. He knows our businesses very well. At different times he has been chief financial officer for the Toronto Star, for our newspaper division and for Harlequin. For the past four years, he has served with great effectiveness as Executive Vice-President and Chief Financial Officer of Torstar. David is highly regarded and respected internally and externally and is totally committed to Torstar's success. We will not miss a beat as David takes the baton.

The Annual Meeting also marks a transition in leadership for the Board of Directors. Our Chairman, Hon. Frank Iacobucci, elected not to stand for re-election and John Honderich will take his place. Frank is a Canadian of great distinction and it has been an honour for everyone at Torstar to have him as our leader. His lifetime record of achievement and contribution symbolizes so many of the values we hold dear at Torstar: excellence, integrity, commitment and service to our community and country. On behalf of all shareholders, I record our collective gratitude to Frank for his service.

John Honderich brings to the chairmanship a lifetime of association with Torstar and eleven years as a director. He knows all of our businesses and many of our people well; he is one of the Canadian newspaper industry's best-known figures; he has worked closely and successfully with David Holland in the past; and he is determined to guide Torstar through a renewal and strengthening of our businesses as the economy recovers.

As the Chairman's message has noted, this is also a time of renewal for the Board. Four members have elected to step down and five new directors are joining us. To those who are leaving, we are grateful for their many valued contributions. To those who are joining, we thank them for casting their lot with Torstar and we look forward to benefitting from their ideas and stewardship.

It is not easy to leave all of this after eight years at Torstar and the last seven as CEO. I love the work and the people. We do important work and we have a remarkably fine group of colleagues throughout the company who do the work very well. It is a privilege to count all of them as colleagues.

We now have in place outstanding leaders at all of our operating businesses. Donna Hayes at Harlequin stands squarely in the first rank of global book publishing executives. Ian Oliver at Metroland stands equally prominently among North America's community newspaper leaders. John Cruickshank, Publisher of the Toronto Star, has an outstanding record of accomplishment in leading daily newspapers in both Canada and the United States. And Tomer Strolight, the founding President of Torstar Digital, is a remarkably innovative and talented leader not just of his business, but of the development of Canada's online media as a whole. In short, our businesses are in excellent hands.

This made it the right time for me to move on, to plan for transition and to allow the natural process of renewal to occur. I do so with gratitude: gratitude for the privilege of serving as your CEO; gratitude to the Board of Directors for their support and encouragement throughout the past eight years; gratitude to all of my colleagues for allowing me to count myself as one of them; and gratitude to you, our shareholders, for your confidence and your making possible all we do.

I leave with two constants: a strong belief in the work we do and an equally strong belief in the strength of our businesses and the people who fuel them. It is this that gives me confidence in Torstar's future as the new leadership team takes charge.

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For the year ended December 31, 2008

Dated: February 26, 2009

The following review and analysis of Torstar Corporation's ("Torstar") operations and financial position is supplementary to, and should be read in conjunction with the audited consolidated financial statements of Torstar Corporation for the year ended December 31, 2008.

Torstar reports its financial results under Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding for the applicable period.

Non-GAAP Measures

Management uses both operating profit, as presented in the consolidated statements of income, and EBITDA as measures to assess the performance of the reporting units and business segments. EBITDA is a measure that is also used by many of Torstar's shareholders, creditors, other stakeholders and analysts as a proxy for the amount of cash generated by Torstar or by a reporting unit or segment. EBITDA is not the actual cash provided by operating activities and is not a recognized measure of financial performance under GAAP. Torstar calculates EBITDA as the consolidated, segment or reporting unit operating profit before charges for interest, taxes, depreciation and amortization of intangible assets. Torstar also excludes restructuring and other charges from its calculation of EBITDA. Torstar's method of calculating EBITDA may differ from other companies and accordingly may not be comparable to measures used by other companies.

Forward-looking statements

Certain statements in this MD&A and in the Company's oral and written public communications may constitute forward-looking statements that reflect management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities as of the date of this report. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "believe", "plan", "forecast", "expect", "intend", "would", "could", "if", "may" and similar expressions. All such statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. These statements reflect current expectations of management regarding future events and operating performance, and speak only as of the date of this report. The Company does not intend, and disclaims any obligation to, update any forward-looking statements, whether written or oral, or whether as a result of new information or otherwise, except as may be required by law.

By their very nature, forward-looking statements require management to make assumptions and are subject to inherent risks and uncertainties. There is a significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that management's assumptions may not be accurate and that actual results, performance or achievements may differ significantly from such predictions, forecasts, conclusions or projections expressed or implied by such forward-looking statements. We caution readers to not place undue reliance on the forward-looking statements in this MD&A as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, outlooks, expectations, goals, estimates or intentions expressed in the forward-looking statements. In addition, forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes.

These factors include, but are not limited to: general economic conditions in the principal markets in which the Company operates, the Company's ability to operate in highly competitive industries, the Company's ability to compete with other forms of media, the Company's ability to attract advertisers, cyclical and seasonal variations in the Company's revenues, labour disruptions, newsprint costs, foreign exchange fluctuations, investments, restrictions imposed by existing credit facilities and availability of capital, pension fund obligations, reliance on its printing operations, reliance on technology and information systems, interest rates, availability of insurance, litigation, environmental regulations, dependence on key personnel, control of Torstar by the voting trust, loss of reputation, intellectual property rights and uncertainties associated with critical accounting estimates.

We caution that the foregoing list is not exhaustive of all possible factors, as other factors could adversely affect our results.

In addition, a number of assumptions, including those assumptions specifically identified throughout this MD&A, were applied in making the forward-looking statements set forth in this MD&A. Some of the key assumptions include, without limitation, assumptions regarding the performance of the North American economy; tax laws in the countries in which we operate; continued availability of printing operations; continued availability of financing on appropriate terms; exchange rates; market competition; and successful development of new products. There is a risk that some or all of these assumptions may prove to be incorrect.

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OVERVIEW

Torstar Corporation is a broadly based media company listed on the Toronto Stock Exchange (TS.B). Torstar reports its operations in two segments: Newspapers and Digital; and Book Publishing. The Newspapers and Digital Segment includes the Star Media Group led by the Toronto Star, Canada's largest daily newspaper with digital properties including thestar.com, toronto.com, Wheels.ca, Workopolis, Olive Media, and eyeReturn Marketing; and Metroland Media Group, publishers of community and daily newspapers in Ontario. Its Book Publishing Segment represents Harlequin Enterprises Limited, ("Harlequin") a leading global publisher of books for women. Torstar also has investments in CTVglobemedia Inc. ("CTVgm") and Black Press Limited which are accounted for as Associated Businesses, using the equity method.

Newspapers and Digital Segment

The Newspapers and Digital Segment includes the Star Media Group; Metroland Media Group ("Metroland"); and Transit Television Network ("Transit TV").

Star Media Group includes the Toronto Star, Canada's largest daily newspaper which is read in print and online (thestar.com) by more than 2.9 million readers every week. In addition to thestar.com, Star Media Group includes the Wheels.ca (reviews, articles and information on new and used vehicles) and toronto.com (an online destination for where to go and what to do in the Greater Toronto Area) websites. Star Media Group also includes eyeReturn Marketing, a leading provider of online marketing services, the Torstar Digital corporate group and Torstar Media Group Television (a 24-hour direct response television business and commercial production house).

In addition to the above wholly-owned operations, Star Media Group also includes Torstar's proportionate interests in Sing Tao Daily, Metro, Workopolis, and Olive Media. Sing Tao Daily publishes a Chinese language newspaper in Canada with editions in Toronto, Vancouver and Calgary. It is also involved in printing, outdoor advertising, Chinese telephone directories, radio and weekly magazine publishing. Torstar jointly owns the Canadian operations of Sing Tao Daily with Sing Tao Holdings Limited. Metro is a free daily newspaper that is published in Toronto, Vancouver, Ottawa, Calgary and Edmonton jointly by Torstar and Metro International S.A. and in Halifax jointly by Torstar, Metro International S.A. and Transcontinental Media G.P. Torstar owns 50% of Workopolis, Canada's leading provider of Internet recruitment and job search solutions, and 75% of Olive Media, which provides media solutions that reach over 12 million unique Canadian visitors monthly on its portfolio of top-tier sites including CNET.com, iVillage.com, thestar.com, cyberpresse.ca, RD.ca (Readers Digest), Allrecipes.com and tetesaclaques.tv. Gesca Ltd. is Torstar's partner in both of these partnerships.

Metroland Media Group publishes in print and online more than 100 community newspapers and three daily newspapers – The Hamilton Spectator, the Waterloo Region Record and the Guelph Mercury. It is also the publisher of Gold Book Directories, a number of specialty publications, and operates several consumer shows throughout Ontario. Metroland Media Group has eight web press facilities which print the Metroland newspapers but also engage in commercial printing.

Transit TV is a U.S. based operation that delivers full motion, broadcast-quality information and entertainment to passengers on buses and rail transit on screens mounted in the vehicle. In early 2009, Transit TV ceased operations and the two Transit TV subsidiaries filed a voluntary petition for relief under Chapter 7 of the United Sates Bankruptcy Code. Torstar has written off its investment in Transit TV.

Book Publishing Segment

The Book Publishing Segment reports the results of Harlequin, a leading global publisher of books for women. Harlequin publishes books around the world in a variety of genres and formats, selling through the retail channel and directly to the consumer by mail and the Internet. Harlequin's publishing operations are comprised of three divisions: North America Retail, North America Direct-To-Consumer and Overseas. In 2008 Harlequin published books in 28 languages in 114 international markets. Harlequin reported a total of 130 million books sold in 2008, stable compared to 2007 levels.

Harlequin sells books under several imprints including Harlequin, Silhouette, MIRA, HQN, Steeple Hill, LUNA, Spice and Kimani Press. Harlequin publishes books in both series and single title formats. Series titles are published monthly in mass-market paperback format under an imprint that identifies the type of story to the reader. Each series typically has a preset number of titles that will be published each month. The single title publishing program provides a broader spectrum of content in a variety of formats (mass-market paperback, trade paperback, hardcover) and generally a lengthier book. Single title books have a longer shelf life than the series titles.

Associated Businesses

Torstar owns a 20% equity interest in CTVglobemedia Inc. ("CTVgm"). CTVgm is a Canadian multi-media company with ownership interests in CTV, a Canadian private broadcaster, and the national daily newspaper, The Globe and Mail. CTVgm owns and operates 27 conventional television stations across Canada, with interests in 32 specialty channels. CTVgm also owns the CHUM Radio Division, which operates 34 radio stations throughout Canada. Other CTVgm investments include: an interest in Maple Leaf Sports and Entertainment Ltd., which owns the Toronto Maple Leafs, Toronto Raptors and the Air Canada Centre; and an interest in Dome Productions, a North American leader in the provision of mobile high definition production facilities.

Torstar has a 19.35% equity investment in Black Press Ltd. Black Press Ltd. is a privately held company that publishes more than 150 newspapers (weeklies, dailies and shoppers) in Canada and the U.S., and has 17 press centres in Western Canada, Washington State, Ohio and Hawaii.

OPERATING RESULTS – YEAR ENDED DECEMBER 31, 2008

Overall Performance

Total revenue was $1,536.0 million in 2008, down $10.5 million from $1,546.5 million in 2007. Newspapers and Digital revenue was $1,063.1 million in 2008, down $20.7 million from $1,083.8 million in 2007 as declines in print advertising revenue more than offset growth in digital revenues. Reported Book Publishing revenue was $472.9 million in 2008, up $10.2 million from $462.7 million in 2007 including a $0.6 million increase from the strengthening of the Canadian dollar during the year. North America Retail and Overseas revenues were up in the year, more than offsetting declines in North America Direct-To-Consumer.

Operating profit before restructuring and other charges was $154.6 million in 2008, down $15.7 million from $170.3 million in 2007. Including the $59.2 million of restructuring and other charges, operating profit was $95.3 million in 2008, down $67.5 million from $162.8 million in 2007 (which included $7.5 million of restructuring and other charges). Newspapers and Digital Segment operating profit was $104.0 million in 2008, down $24.7 million from $128.7 million in 2007 as higher newsprint prices and investment spending compounded the impact of lower revenues. Book Publishing reported operating profit was $67.5 million in 2008, up $6.9 million from $60.6 million in 2007. Underlying operating profit was up $9.2 million in the year offset by a $2.3 million decrease from the impact of foreign exchange. Underlying results were up in the North America Retail and Overseas divisions and down in North America Direct-To-Consumer. Corporate costs were $16.9 million in 2008, down $2.1 million from $19.0 million in 2007 primarily reflecting lower compensation costs.

EBITDA[1] , excluding restructuring and other charges, was $210.1 million in 2008, down $15.3 million from $225.4 million in 2007.

	2008	2007
Newspapers and Digital	$154,556	$178,921
Book Publishing	72,411	65,473
Corporate	(16,840)	(18,973)
EBITDA, excluding restructuring and other charges	$210,127	$225,421

Restructuring and other charges

Restructuring and other charges of $59.2 million were recorded in 2008 compared with $7.5 million in 2007. The 2008 amount included restructuring provisions of $39.3 million, $17.5 million related to the write off of the Transit TV assets and a $2.4 million impairment loss on certain community newspapers mastheads and customer relationship intangible assets. In 2007, the full amount related to restructuring provisions.

The restructuring charges in both years were in the Newspapers and Digital segment as Star Media Group and Metroland Media Group made several changes to their operations to reduce operating costs. Total annual savings from the 2008 restructuring activities are expected to be approximately $30.0 million (with approximately $6.5 million realized during 2008) and a reduction of approximately 500 positions.

Other charges in 2008 included a $17.5 million write off of the net assets of Transit TV. In early 2009, Transit TV ceased operations and the two Transit TV subsidiaries filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code.

Interest

Interest expense was $28.2 million in 2008, down $6.2 million from $34.4 million in 2007. The lower expense reflects lower average levels of debt and lower effective interest rates. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $628.9 million in 2008, down $31.8 million from $660.7 million in 2007. Torstar's effective interest rate was 4.5% in 2008 and 5.2% in 2007. Net debt was $627.3 million at December 31, 2008, up $7.0 million from $620.3 million at December 31, 2007.

Foreign exchange

Torstar reported a non-cash foreign exchange gain of $2.2 million in 2008. This gain arose from the translation of foreign-currency (primarily U.S. dollars) denominated assets and liabilities into Canadian dollars. The amount of the gain or loss in any year will vary depending on the movement in relative value of the Canadian dollar and on whether Torstar has a net asset or net liability position in the foreign currency. In 2007, a non-cash foreign exchange loss of $1.9 million was reported.

Income (loss) from associated businesses

Income (loss) from associated businesses was a loss of $137.0 million in 2008 compared with income of $20.4 million in 2007. Losses were incurred at both CTVgm and Black Press.

$110.6 million of the loss from associated businesses in 2008 was from CTVgm. During the fourth quarter of 2008, Torstar reported its share of impairment losses of intangible assets and goodwill related to the CTVgm businesses. The impairment losses were calculated based primarily on the income approach which used discounted cash flows to determine the fair value of an intangible asset or reporting unit and reflect the impact the economy is having on the media industry in Canada and the short-term outlook for CTVgm's businesses. The combination of these losses was $124.2 million. Excluding the impairment losses, CTVgm contributed income of $13.6 million in 2008 which included gains realized on transactions. CTVgm contributed income of $17.2 million in 2007

[1]EBITDA is calculated as operating profit before interest, taxes, depreciation and amortization of intangible assets. It also excludes restructuring and other charges. See "non-gaap measures".

including a positive $5.2 million earnings impact as future tax liabilities related to intangible assets were reduced to reflect the reduction in future Canadian federal income tax rates. Excluding this adjustment, CTVgm contributed income of $12.0 million in 2007. CTVgm's underlying operating results were lower in 2008 from softness in the conventional television business and the impact of the slowing economy on advertising revenue across all Canadian media.

$26.3 million of the loss from associated businesses in 2008 was from Black Press. During Torstar's fourth quarter, Black Press determined that it would likely record an impairment loss related to certain of its intangible assets and reporting unit goodwill in its fiscal 2009 (year ended February 2009) financial statements. The impairment loss reflects the impact that the U.S. economy and the structural challenges facing U.S. daily newspapers is having on Black Press's U.S. newspapers. In particular, Black Press's Beacon Journal in Akron has suffered an impairment of its value. Torstar has recorded an estimate of $21.8 million in the fourth quarter of 2008 for the impairment loss and expects Black Press will finalize the determination of the impairment loss during Torstar's second quarter of 2009. Excluding this estimated impairment charge Black Press contributed a loss of $4.5 million in 2008 down from income of $3.1 million in 2007. The lower results in 2008 were a combination of reduced U.S. revenues as the newspapers were negatively impacted by the U.S. economy, increased newsprint costs, higher amortization expense, the mark to market of financial derivatives, higher effective tax rates and a $2.1 million second quarter adjustment related to Black Press's future tax assets.

Gain on Sale of Land

In 2008, Torstar recognized a gain of $9.2 million from the sale of excess land in Vaughan. The proceeds from the sale included a $6.2 million mortgage which matures in December 2009.

Investment Write Down and Loss

During 2008, Torstar recognized an investment write down and loss of $99.8 million. This included a $95.7 million write down of its investment in CTVgm and a $1.7 million write down of its portfolio investment in Vocel Inc., representing an other than temporary decline in the carrying value of these investments. This reduces Torstar's carrying value in CTVgm to $200 million. Also during 2008, Torstar realized a loss of $2.4 million on the sale of its portfolio investment in U.S. based LiveDeal, Inc.

Income and other taxes

Torstar reported a 2008 tax provision of $22.2 million on a loss before taxes of $158.3 million. Torstar's effective tax rate was 35.3% in 2008 (excluding the impact of the loss from associated businesses and investment write down and loss, which were not fully tax affected). Torstar's effective tax rate was 31.0% in 2007 including a $5.9 million benefit from changes in statutory tax rates. During 2007, the Canadian federal government enacted corporate tax decreases for future years. Under Canadian generally accepted accounting principles the impact of these changes on Torstar's future income tax assets and liabilities is to be recorded during the period the tax changes are substantially enacted. Excluding the benefit from the statutory tax rate change, the 2007 effective tax rate was 35.0%. The effective tax rate was relatively flat year over year as lower Canadian statutory tax rates in 2008 were offset by the impact of permanent differences and higher foreign losses that were not tax affected.

Net income (loss)

Torstar reported a net loss of $180.5 million or $2.29 per share in 2008. Losses from associated businesses and investment write down and loss were $230.8 million or $2.93 per share net of tax in 2008. Excluding these items, Torstar had net income of $50.3 million or $0.64 per share in 2008. In 2007 net income was $101.4 million or $1.29 per share. The average number of Class A and Class B non-voting shares outstanding was 78.8 million in 2008 up slightly from 78.6 million in 2007.

The following chart provides a continuity of earnings per share from 2007 to 2008:

Net income per share 2007		$1.29
Changes		
• Operations	(0.08)	
• Restructuring provisions	(0.28)	
• Transit TV asset write down	(0.22)	
• Impairment of intangible assets	(0.03)	
• Income (loss) from associated businesses	(1.89)	
• Investment write down and loss	(1.26)	
• Gain on sale of land	0.10	
• Non-cash foreign exchange	0.10	
• Lower 2008 effective tax rate	0.05	
• Change in statutory tax rates	(0.07)	
Net income per share 2008		**($2.29)**

Segment Operating Results – Newspapers and Digital

The following tables set out, in $000's, the results for the reporting units within the Newspapers and Digital Segment for the fourth quarters ended December 31, 2008 and 2007

	Operating Revenue		Operating Profit (Loss)		Profit Margin	
	2008	2007	2008	2007	2008	2007
Metroland Media	$564,886	$577,425	$97,412	$109,996	17.2%	19.0%
Star Media	495,950	504,153	11,893	28,754	2.4%	5.7%
Transit TV	2,281	2,250	(5,298)	(10,075)	n/a	n/a
Segment Total	$1,063,117	$1,083,828	$104,007	$128,675	9.8%	11.9%

	Depreciation and Amortization		EBITDA		EBITDA Margin	
	2008	2007	2008	2007	2008	2007
Metroland Media	$15,809	$14,717	$113,221	$124,713	20.0%	21.6%
Star Media	32,440	31,998	44,333	60,752	8.9%	12.1%
Transit TV	2,300	3,531	(2,998)	(6,544)	n/a	n/a
Segment Total	$50,549	$50,246	$154,556	$178,921	14.5%	16.5%

Total revenue of the Newspapers and Digital Segment was $1,063.1 million in 2008, down $20.7 million from $1,083.8 million in 2007. Digital revenues grew 34.3% in 2008 and were 6.1% of the total Newspapers and Digital revenue in 2008, up from 4.4% in 2007. EBITDA was down $24.3 million in the year as lower revenues, higher newsprint costs, higher pension costs and investment in the digital operations more than offset savings in labour costs from restructuring initiatives and lower losses at Transit TV. Operating profit was down $24.7 million in the year.

Metroland Media Group

Metroland Media Group revenues were $564.9 million in 2008 down $12.5 million from $577.4 million in 2007. The decline was a combination of lower advertising and commercial printing revenues offset partially by higher digital and Gold Book revenues. Advertising revenues were lower at both the community and daily newspapers in 2008 with weakness in the national and classified categories. The negative revenue trends occurred throughout the year as the Ontario economy slowed but became more pronounced in the last two quarters. Within the classified category employment advertising was particularly soft. Offsetting part of this revenue decline was a 2.7% increase in distribution revenues with over 3.5 billion pieces distributed by the community and daily newspapers.

Metroland Media Group incurred higher newsprint costs in 2008 as prices rose throughout the year, higher pension expense and investment spending in the creation of the Metroland Digital Media Group. These cost increases were more than offset by cost savings including labour cost savings realized in 2008 from the restructuring efforts undertaken in 2007 and in the first half of 2008.

Metroland Media Group's EBITDA was $113.2 million in 2008 down $11.5 million from $124.7 million in 2007. Depreciation and amortization expense was $1.1 million higher in 2008 reflecting the investment in press equipment and inserting machines that was made during 2007 and 2008. Metroland Media Group's operating profit was $97.4 million in 2008 down $12.6 million from $110.0 million in 2007.

Star Media Group

Star Media Group revenues were $496.0 million in 2008, down $8.2 million from $504.2 million in 2007. Strong revenue growth at the digital properties, the Metro newspapers (including the new markets) and Sing Tao was not sufficient to offset lower advertising revenue at the Toronto Star.

Revenues at Star Media Group's digital properties including thestar.com, toronto.com, eyeReturn Marketing and the jointly owned Workopolis and Olive Media were up a combined 28.8% in the year. This included growth in national advertising revenue, an expansion of the sites that Olive Media represents and the impact of the acquisitions of eyeReturn Marketing and the Brainhunter business (acquired by Workopolis).

Revenues for the jointly-owned Sing Tao and Metro newspapers were up 11.5% in the year primarily from revenue growth in the newer Metro markets of Vancouver, Ottawa, Calgary, Edmonton and Halifax. Sing Tao grew revenues through the introduction of new products despite a challenging Toronto market.

Toronto Star print advertising revenues were down 10.9% in 2008 with the most significant declines in the national, retail and classified categories. The Toronto Star continues to face advertising revenue challenges from the continuing slowdown in the economy in the Greater Toronto Area as well as the migration of advertising to the Internet (some of which, however, is realized by

Star Media Group's digital properties).

Star Media Group expenses were higher in 2008 including the continued growth of the digital properties, the Metro market expansions, Sing Tao's new products and the acquisition of eyeReturn Marketing. At the Toronto Star a 12.0% decrease in consumption (from a combination of the web-width reduction completed in the third quarter of 2007 and reduced copies and paging) more than offset the impact of a 7% newsprint price increase. Labour costs at the Toronto Star were down in the year due to reduced staffing levels from the various restructuring initiatives undertaken in 2007 and the first half of 2008 partially offset by general wage increases and higher pension costs.

Star Media Group EBITDA was $44.3 million in 2008, down $16.5 million from $60.8 million in 2007. Depreciation and amortization expense was up $0.4 million in the year. Star Media Group operating profit was $11.9 million in 2008 down $16.9 million from $28.8 million in 2007.

Segment Operating Results – Book Publishing

The following tables set out, in $000's, a summary of operating results for the Book Publishing Segment and a continuity of revenue and operating profit, including the impact of foreign currency movements, for the years ended December 31, 2008 and 2007.

	2008	2007
Revenue	$472,917	$462,709
EBITDA	$72,411	$65,473
Depreciation & amortization	4,961	4,833
Operating profit	$67,450	$60,640
EBITDA margin	15.3%	14.1%
Operating profit margin	14.3%	13.1%

Reported revenue, prior year	$462,709
Impact of currency movements and foreign exchange contracts	639
Change in underlying revenue	9,569
Reported revenue, current year	$472,917
Reported operating profit, prior year	$60,640
Impact of currency movements and foreign exchange contracts	(2,361)
Change in underlying operating profit	9,171
Reported operating profit, current year	$67,450

Book Publishing revenues were up $9.6 million in 2008 excluding the impact of foreign exchange. North America Retail was up $13.3 million, North America Direct-To-Consumer was down $6.4 million and Overseas was up $2.7 million.

Book Publishing operating profits were up $9.2 million in 2008 excluding the impact of foreign exchange. North America Retail was up $8.6 million, North America Direct-To-Consumer was down $0.6 million and Overseas was up $1.2 million.

North America Retail operating profits were up $8.6 million in 2008. The increase was driven by higher revenues, including the effect of positive adjustments to prior period returns provisions, with more books sold in both series and single title formats. Significant progress has been made in improving the efficiency of the retail business resulting in a higher percentage of books sold relative to books distributed. Promotional spending was higher in 2008, supporting the higher revenues.

North America Direct-To-Consumer operating profits were down $0.6 million in 2008. The traditional direct-to-consumer business continued to face the challenge of a declining customer base which was reflected in the lower revenues. Offsetting the revenue decline from fewer direct mail customers were improved payment rates and lower promotional costs resulting from smaller, more effective, direct mail campaigns. Internet sales were higher in the year for both printed and digital books. Harlequin continues to expand its digital book sales releasing all new North American titles, more than 100 each month, in digital format.

Overseas operating profit was up $1.2 million in 2008 with growth in most markets. In 2008, the Japanese operation entered into an agreement with SoftBank Creative Corp., (a division of Softbank Corp., one of the largest providers of cell phone services in Japan) to distribute digital manga (comic) content on cell phones and Internet distribution sites. Contribution from this business

more than offset lower book sales in Japan. The U.K. business faced the challenge of increased printing costs as the Pound Sterling depreciated in value relative to the Euro as well as higher provisions for bad debts due to the bankruptcy of one of their distributors. The Nordic group continued their trend of the past two years with growth in their markets. Investment spending in India was up slightly in 2008 as the business was launched in the first quarter of the year.

OPERATING RESULTS – THREE MONTHS ENDED DECEMBER 31, 2008

Overall Performance

Total revenue was $412.8 million in the fourth quarter, up $9.9 million from $402.9 million in the fourth quarter of 2007. Newspapers and Digital revenue was $286.6 million in the fourth quarter of 2008 down $9.7 million from $296.3 million in the same period last year as the weakening Ontario economy adversely affected advertising revenues. Reported Book Publishing revenues were $126.2 million in the fourth quarter of 2008, up $19.6 million from $106.6 million in the same period last year. This included an increase of $13.6 million from the impact of the weakening Canadian dollar. Underlying revenues were up $6.0 million in the quarter with increases in the North America Retail and Overseas divisions.

Operating profit before restructuring and other charges was $50.2 million in the fourth quarter of 2008, down $7.5 million from $57.7 million in the fourth quarter of 2007. Including the $14.6 million of restructuring and other charges, operating profit was $35.6 million in the fourth quarter of 2008, down $14.6 million from $50.2 million in the fourth quarter of 2007 (which included $7.5 million of restructuring and other charges). Newspapers and Digital Segment operating profit was $36.8 million in the fourth quarter of 2008, down $13.1 million from $49.9 million in the same period last year as higher newsprint prices compounded the impact of lower revenues. Book Publishing reported operating profits were $17.2 million in the fourth quarter, up $4.4 million from $12.8 million in the same period last year including an increase of $1.4 million from the impact of the weakening Canadian dollar. Underlying operating profit was up $3.0 million in the fourth quarter with increases in the North America Retail and Overseas divisions. Corporate costs were $3.8 million in the fourth quarter of 2008, down $1.1 million from $4.9 million in the fourth quarter of 2007 reflecting lower compensation costs.

EBITDA, excluding restructuring and other charges, was $63.4 million in the fourth quarter, down $7.6 million from $71.0 million in the same period last year.

	Fourth Quarter 2008	Fourth Quarter 2007
Newspapers and Digital	$48,712	$61,924
Book Publishing	18,418	13,951
Corporate	(3,754)	(4,905)
EBITDA, excluding restructuring and other charges	$63,376	$70,970

Restructuring and other charges

Restructuring and other charges of $14.6 million were recorded in the fourth quarter 2008 compared with $7.5 million in 2007. The 2008 amount included $10.7 million of restructuring provisions, $1.5 million related to the write off of the Transit TV assets and a $2.4 million impairment loss on certain community newspapers mastheads and customer relationship intangible assets. In 2007, the full amount related to restructuring provisions.

Restructuring charges of $10.7 million were recorded in the fourth quarter of 2008 compared with $7.5 million in 2007. In both years the restructuring charges were in the Newspapers and Digital segment as both the Star Media Group and Metroland Media Group made changes to their operations to reduce operating costs. The 2008 charges will result in the reduction of approximately 230 positions with annual savings expected to be $12.5 million.

Interest

Interest expense was $6.6 million in the fourth quarter of 2008, down $1.7 million from $8.3 million in the fourth quarter of 2007. This decrease was from lower effective interest rates and a slightly lower level of debt outstanding during the fourth quarter of 2008. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $624.3 million in the fourth quarter of 2008, down $3.1 million from $627.4 million in 2007. Torstar's effective interest rate was 4.2% in the fourth quarter of 2008 and 5.3% in the fourth quarter of 2007.

Foreign exchange

Torstar reported a non-cash foreign exchange gain of $1.6 million in the fourth quarter of 2008. This gain arose from the translation of foreign-currency (primarily U.S. dollars) denominated assets and liabilities into Canadian dollars. The amount of the gain or loss in any year will vary depending on the movement in relative value of the Canadian dollar and on whether Torstar has a net asset or net liability position in the foreign currency. In 2007, a non-cash foreign exchange gain of $0.5 million was reported.

Income (loss) from associated businesses

Income (loss) from associated businesses was a loss of $137.7 million in the fourth quarter of 2008 compared with income of $17.6 million in 2007. Losses were incurred at both CTVgm and Black Press.

$114.2 million of the loss from associated businesses in the fourth quarter of 2008 was from CTVgm. During the fourth quarter of 2008, Torstar reported its share of impairment losses of intangible assets and goodwill related to the CTVgm businesses. The impairment losses were calculated based primarily on the income approach which used discounted cash flows to determine the fair value of an intangible asset or reporting unit and reflect the impact the economy is having on the media industry in Canada and the short-term outlook for CTVgm's businesses. The combination of these losses was $124.2 million. Excluding these adjustments, CTVgm contributed income of $10.0 million in the fourth quarter of 2008. CTVgm contributed income of $17.1 million in 2007 including a positive earnings impact as future tax liabilities related to intangible assets were reduced to reflect the reduction in future Canadian federal income tax rates that was partially offset by a write down related to CTVgm's interest in TQS (a French-language conventional television broadcaster). Excluding these adjustments, CTVgm contributed $13.9 million in 2007. CTVgm's lower fourth quarter 2008 operating results reflected the softness in the conventional television business and the impact of the slowing economy on advertising revenue across all Canadian media.

$23.2 million of the loss from associated businesses in the fourth quarter of 2008 was from Black Press. During Torstar's fourth quarter, Black Press determined that it would likely record an impairment loss related to certain of its intangible assets and reporting unit goodwill in its fiscal 2009 (year ended February 2009) financial statements. The impairment loss reflects the impact that the U.S. economy and the structural challenges facing U.S. daily newspapers is having on Black Press's U.S. newspapers. In particular, Black Press's Beacon Journal in Akron has suffered impairment of its value. Torstar has recorded an estimate of $21.8 million in the fourth quarter of 2008 for the impairment loss and expects Black Press will finalize the determination of the impairment loss during Torstar's second quarter of 2009. Excluding this estimated impairment charge Black Press contributed a loss of $1.4 million in 2008 down from income of $0.6 million in 2007. The lower results in 2008 were a combination of reduced U.S. revenues as the newspapers were negatively impacted by the U.S. economy, increased newsprint costs, higher amortization expense, the mark to market of financial derivatives and higher effective tax rates.

Investment Write Down and Loss

During the fourth quarter of 2008, Torstar recognized an investment write down of $97.4 million. This included a $95.7 million write down of its investment in CTVgm and a $1.7 million write down of its portfolio investment in Vocel Inc., representing an other than temporary decline in the carrying value of these investments. This reduces Torstar's carrying value in CTVgm to $200 million.

Income and other taxes

Torstar reported a fourth quarter tax provision of $6.7 million on a loss before taxes of $204.5 million. Torstar's effective tax rate was 39.5% in the fourth quarter of 2008 (excluding the impact of the loss from associated businesses and investment write down and loss, which were not fully tax affected). Torstar's effective tax rate was 21.3% in the fourth quarter of 2007 including a $5.5 million benefit from changes in statutory tax rates. During the fourth quarter of 2007, the Canadian federal government enacted corporate tax decreases for future years. Under Canadian generally accepted accounting principles the impact of these changes on Torstar's future income tax assets and liabilities is to be recorded during the period the tax changes are substantially enacted. Excluding the benefit from the statutory tax rate change, the fourth quarter 2007 effective tax rate was 30.3%. The higher effective tax rate in 2008 was primarily the result of the mix of income in the quarter.

Net income

Torstar reported a net loss of $211.2 million or $2.68 per share in the fourth quarter of 2008. Losses from associated businesses and investment write down and loss were $229.5 million or $2.91 per share net of tax in the fourth quarter of 2008. Excluding these items, Torstar had net income of $18.3 million or $0.23 per share in the fourth quarter of 2008. In the fourth quarter of 2007 net income was $47.2 million or $0.60 per share. The average number of Class A and Class B non-voting shares outstanding was 78.9 million in the fourth quarter of 2008 up slightly from 78.7 million in 2007.

The following chart provides a continuity of earnings per share from 2007 to 2008:

Net income per share fourth quarter 2007		$0.60
Changes		
• Operations	(0.05)	
• Restructuring provisions	(0.03)	
• Transit TV asset write down	(0.02)	
• Impairment of intangible assets	(0.03)	
• Income (loss) from associated businesses	(1.87)	
• Investment write down and loss	(1.24)	
• Non-cash foreign exchange	0.03	
• Change in statutory tax rates	(0.07)	
Net income per share fourth quarter 2008		**($2.68)**

Segment Operating Results – Newspapers and Digital

The following tables set out, in $000's, the results for the reporting units within the Newspapers and Digital Segment for the fourth quarters ended December 31, 2008 and 2007.

	Operating Revenue		Operating Profit (Loss)		Profit Margin	
	2008	2007	2008	2007	2008	2007
Metroland Media	$149,850	$156,464	$28,689	$35,366	19.1%	22.6%
Star Media	136,295	139,406	8,906	16,519	6.5%	11.8%
Transit TV	412	462	(802)	(2,024)	n/a	n/a
Segment Total	$286,557	$296,332	$36,793	$49,861	12.8%	16.8%

	Depreciation and Amortization		EBITDA		EBITDA Margin	
	2008	2007	2008	2007	2008	2007
Metroland Media	$4,079	$3,270	$32,768	$38,636	21.9%	24.7%
Star Media	7,840	8,014	16,746	24,533	12.3%	17.6%
Transit TV	0	779	(802)	(1,245)	n/a	n/a
Segment Total	$11,919	$12,063	$48,712	$61,924	17.0%	20.9%

Newspapers and Digital revenues were down $9.8 million in the fourth quarter of 2008 as the weakening Ontario economy continued to have a negative impact. Digital revenues were 6.4% of the total in the fourth quarter of 2008, up from 4.3% in the fourth quarter of 2007.

Metroland Media Group

Metroland Media Group revenues were $149.9 million in the fourth quarter of 2008 down $6.6 million from $156.5 million in the fourth quarter of 2007. The decline was from lower advertising revenues partially offset by higher digital revenues. The community newspapers saw weakness in the classified and local retail categories during the fourth quarter as the Ontario economy worsened. Within the classified category, employment, rentals and automotive advertising were particularly soft. The daily newspapers had a similar experience in the classified category during the fourth quarter and also continued to see softness from national advertisers.

Metroland Media Group's operating expenses in the quarter were down slightly with higher newsprint costs and investment in Metroland's Digital Media Group more than offset by labour cost savings realized from the restructuring efforts undertaken in 2007 and in the first half of 2008.

Metroland Media Group's EBITDA was $32.8 million in the fourth quarter of 2008 down $5.9 million from $38.6 million in the fourth quarter of 2007. Depreciation and amortization expense was $0.8 million higher in 2008 reflecting the investment in press equipment and inserting machines that was made during 2007 and 2008. Metroland Media Group's operating profit was $28.7 million in the fourth quarter of 2008 down $6.7 million from $35.4 million in 2007.

Star Media Group

Star Media Group revenues were $136.3 million in the fourth quarter of 2008, down $3.1 million from $139.4 million in the fourth quarter of 2007. Strong revenue growth at the digital properties and the Metro newspapers (including the new markets) was not sufficient to offset lower advertising revenue at the Toronto Star.

Revenues at Star Media Group's digital properties including thestar.com, toronto.com, eyeReturn Marketing and the jointly owned Workopolis and Olive Media were up a combined 26.6% in the quarter. This included growth in national advertising revenue, an expansion of the sites that Olive Media represents and the impact of the acquisitions of eyeReturn Marketing and the Brainhunter business (acquired by Workopolis). Workopolis' revenue growth slowed in the fourth quarter as employment advertising was negatively impacted by the Ontario economy.

Revenues for the jointly-owned Sing Tao and Metro newspapers were up 12.2% in the fourth quarter primarily from revenue growth in the newer Metro markets of Vancouver, Ottawa, Calgary, Edmonton and Halifax.

Toronto Star print advertising revenues were down 11.9% in the fourth quarter of 2008 with declines across most categories. National automotive was lower in the fourth quarter 2008 reflecting the uncertainty in the automotive market in the quarter and the comparison to a stronger fourth quarter in 2007 when the automotive manufacturers had undertaken a significant promotion in response to the Cdn/U.S. exchange rate issue.

Star Media Group expenses were higher in the fourth quarter of 2008 primarily due to higher newsprint costs. Newsprint prices were 26.8% higher in the fourth quarter of 2008 compared with the fourth quarter of 2007. Newsprint prices increased throughout 2008 whereas they had decreased throughout 2007. This contributed to cost increases at the Toronto Star, Metro and Sing Tao. Labour costs at the Toronto Star were down in the quarter due to reduced staffing levels from the various restructuring initiatives undertaken in 2007 and the first half of 2008 partially offset by general wage increases and higher pension costs.

Star Media Group EBITDA was $16.7 million in the fourth quarter of 2008, down $7.8 million from $24.5 million in the fourth quarter of 2007. Star Media Group operating profit was $8.9 million in the fourth quarter of 2008 down $7.6 million from $16.5 million in the fourth quarter of 2007.

Segment Operating Results – Book Publishing

The following tables set out, in $000's, a summary of operating results for the Book Publishing Segment and a continuity of revenue and operating profit, including the impact of foreign currency movements, for the three months ended December 31, 2008 and 2007.

	Fourth Quarter	
	2008	2007
Revenue	$126,206	$106,598
EBITDA	18,418	13,951
Depreciation & amortization	1,264	1,189
Operating profit	$17,154	$12,762
EBITDA margin	14.6%	13.1%
Operating profit margin	13.6%	12.0%

	Fourth Quarter
Reported revenue, prior year	$106,598
Impact of currency movements and foreign exchange contracts	13,656
Change in underlying revenue	5,952
Reported revenue, current year	$126,206
Reported operating profit, prior year	$12,762
Impact of currency movements and foreign exchange contracts	1,426
Change in underlying operating profit	2,966
Reported operating profit, current year	$17,154

Book Publishing revenues were up $6.0 million in the fourth quarter of 2008 excluding the impact of foreign exchange. North America Retail was up $5.5 million, North America Direct-To-Consumer was down $1.6 million and Overseas was up $2.1 million.

Book Publishing operating profits were up $3.0 million in the fourth quarter of 2008 excluding the impact of foreign exchange. North America Retail was up $3.0 million, North America Direct-To-Consumer was down $0.6 million and Overseas was up $0.6 million.

North America Retail operating profit was up $3.0 million in the fourth quarter as a result of higher revenues with relatively flat year over year costs. North American Direct-To-Consumer operating profit was down $0.6 million as higher sales of books through the Internet and increased digital revenues were not sufficient to offset lower results in the traditional direct mail business.

Overseas results were up $0.6 million in the fourth quarter. In the U.K. higher sales for both series and single title books more than offset higher overhead costs including a provision for bad debts due to the bankruptcy of one of their distributors. The Japanese operations continued to benefit from higher digital sales in the quarter but this increase was offset by lower book sales.

OUTLOOK

Torstar anticipates that 2009 will be a challenging year. Economic conditions are expected to be difficult for the Newspapers and Digital segment. However, stable results are expected for Harlequin.

In the Newspapers and Digital segment, we expect advertising revenues to continue to decline in our print newspaper products as consumers and businesses react to the sharply slowing Ontario economy. As unemployment levels increase and fewer employers are looking to hire, help wanted and careers advertising revenues, both in print and online, are expected to decline. In addition to increased pension costs, newsprint pricing is expected to be higher in 2009, in particular in the first half of the year, which will add cost pressures to the newspaper businesses. Offsetting some of the declines in revenues and increased costs will be the labour savings realized from the restructuring activities undertaken in 2008 and from further reductions expected in 2009.

Harlequin continues to perform well and 2009 results are expected to be stable despite anticipated cost increases for pensions and paper. Harlequin's revenues, to date, have not been significantly affected by the global, and in particular, U.S. economic situation. This could change during 2009 either as a result of decreased consumer spending or from disruptions to the U.S. retail distribution system. Harlequin's 2009 results will likely benefit from the weaker Canadian dollar relative to the U.S. dollar. In 2008, including the impact of the U.S. dollar contracts, Harlequin's U.S. dollar earnings were translated at a rate of approximately $1.07. For 2009, Torstar has U.S. dollar contracts for $50.1 million U.S. at an average exchange rate of $1.12. The balance of Harlequin's U.S. earnings in 2009 will be translated at the average exchange rates realized during the year.

On a consolidated basis, Torstar's pension expense in 2009 is expected to be $33.1 million, up $20.3 million from $12.8 million in 2008. Due to the timing of actuarial valuations for the most significant group of Torstar's pension plans (required as of December 31, 2009), an increase in pension funding is not anticipated until 2010. Unless capital market conditions improve significantly, Torstar anticipates that its required funding for these plans would increase significantly in 2010 and beyond.

CTVgm's 2009 results are also expected to be negatively impacted by the reduction in advertising revenues in their television, radio and newspaper businesses.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Torstar's businesses generate a significant amount of cash flow from operations. These funds are generally used for capital expenditures, acquisitions, distributions to shareholders and debt repayment. Long-term debt is used to supplement funds from operations as required, generally for capital expenditures or acquisitions. Approximately 60% of Torstar's long-term facility will not mature until January 2012. The remaining 40% of the facility was renewed for one year in early 2009 and has the ability to be extended at Torstar's option through January 2011. Torstar has $90.3 million of available credit under the long-term debt facility.

It is expected that future cash flows from operating activities, combined with the long-term debt facilities available will be adequate to cover forecasted financing requirements.

In 2008, $122.2 million of cash was generated by operations, $46.1 million was used for investing activities and $68.7 million was used for financing activities. Cash and cash equivalents net of bank overdraft increased by $10.9 million in the year from $30.5 million to $41.4 million.

In the fourth quarter of 2008, $37.0 million of cash was generated by operations, $11.2 million was used for investing activities and $18.9 million was used for financing activities. Cash and cash equivalents net of bank overdraft increased by $9.3 million in the quarter from $32.1 million to $41.4 million.

Operating Activities

Operating activities provided cash of $122.2 million in 2008, down $14.0 million from $136.2 million in 2007. In the fourth quarter of 2008, operating activities provided cash of $37.0 million down $4.3 million from $41.3 million in the same period last year. The lower level of cash provided in 2008 reflected the lower operating profits offset partially by lower post employment benefit funding.

Other adjustments to operating cash flows were a source of cash of $1.5 million in the year and use of $1.1 million in the fourth quarter of 2008. This included $7.5 million ($2.5 million in the quarter) to adjust the pension expense, as recorded in operating profit, to the cash funding of the pension plans during the period. The balance of the adjustment included the non-cash write down of Transit TV's assets, the impairment loss on intangible assets and the gain realized on the sale of land.

Non-cash working capital investment decreased $6.1 million in 2008. This was a combination of lower accounts receivable from lower revenues and improved collection efforts in the Newspapers and Digital segment and a net increase in restructuring provisions of $18.7 million partially offset by a higher amount of income taxes recoverable due to timing of payments and loss carrybacks to prior years and lower trade payables due to timing of payments and lower bonus accruals.

Non-cash working capital investment decreased $2.2 million in the fourth quarter of 2008. This was a combination of higher trade payables due to timing of payments and a net increase in restructuring provisions of $3.0 million partially offset by higher accounts receivable in the Newspapers and Digital segment due to the traditionally higher fourth quarter revenue (relative to the third quarter).

Investing Activities

During 2008, $46.1 million was used for investments, up from $41.2 million in 2007. In the fourth quarter of 2008, $11.2 million was used for investments down from $13.8 million in the fourth quarter of 2007.

Additions to property, plant and equipment were $26.1 million in 2008, down from $38.1 million in 2007. Fourth quarter additions were $10.3 million and $13.8 million in 2008 and 2007 respectively. The 2008 additions included investment in technology to improve the utilization of information across the Newspapers and Digital segment both in print and on the Internet and a web-width reduction at The Hamilton Spectator. In 2007, additions included inserting machines at Metroland Media Group and a web-width reduction at the Toronto Star.

In 2008, $24.7 million was used for acquisitions in the Newspapers and Digital segment. This included eyeReturn Marketing, the assets of Central Ontario Web, 50% of Save.ca and Torstar's share of Workopolis' acquisition of the specialist online employment board business of Brainhunter Inc. On the purchase of eyeReturn Marketing there is a further $6.5 million of purchase price owing over the next three years. In 2007, $4.7 million was used for the acquisition of several community newspapers and publications and Insurance Hotline.

In 2008, cash of $3.1 million was received on the sale of excess land. The balance of the proceeds ($6.2 million) was received in the form of a mortgage which matures in December 2009 but can be paid earlier at the option of the purchaser.

2009 Capital expenditures

Capital expenditures in 2009 are expected to be approximately $25.0 to $30.0 million consistent with the $26.1 million spent in 2008. The 2009 capital expenditures are anticipated to include investment in Harlequin's distribution centre in New York State and the continued investment in technology to improve the utilization of information across the Newspapers and Digital Segment both in print and on the Internet.

Financing Activities

Cash of $68.7 million was used in financing activities during 2008, down from $105.5 million used in 2007. In the fourth quarter of 2008, $18.9 million was used in financing activities down from $36.7 million in the fourth quarter of 2007.

Torstar repaid $11.8 million of long-term debt during 2008 including $4.8 million in the fourth quarter. Torstar repaid $51.8 million in 2007 including $22.7 million in the fourth quarter.

Cash dividends paid to shareholders were $57.9 million in 2008, up $0.2 million from $57.7 million in 2007. Cash dividends were approximately $14.5 million in the fourth quarter of both 2008 and 2007. In 2007, $2.6 million of cash was received from the exercise of stock options.

Net Debt

Net debt was $627.3 million at December 31, 2008, up $7.0 million from $620.3 million at December 31, 2007. The $7.0 million included an increase of $21.1 million from the weakening of the Canadian dollar, $11.8 million of long-term debt repayments and a decrease of $2.3 million from changes in cash, bank overdraft and the value of the fair value hedge related to the medium term notes.

Long-term Debt

At December 31, 2008, Torstar had long-term debt of $668.7 million outstanding. The debt consisted of U.S. dollar bankers' acceptances of $123.6 million, Canadian dollar bankers' acceptances of $441.7 million and Canadian dollar medium term notes of $100.0 million increased by $3.4 million related to fair value hedge adjustments.

Torstar has long-term bank credit facilities that consist of a $425 million revolving loan that will mature on January 4, 2012 and a revolving 364-day operating loan. The revolving 364-day operating loan was established at $375 million at the same time as the revolving loan and was structured to allow it to be extended annually with the consent of all parties for additional 364-day periods through January 2012 (i.e. would not be renewable beyond the term of the revolving loan). If the consent of all the parties cannot be reached on a renewal, then Torstar has the option of converting the operating loan to a 364-day term loan. The revolving 364-day operating loan was renewed in January 2009 with the consent of all the parties and was reduced at Torstar's request to $310 million. The same terms for renewal in January 2010 or the conversion to a 364-day term loan are still applicable.

Amounts may be drawn under the facility in either Canadian or U.S. dollars. The interest rate spread above the bankers' acceptance rate if in Canadian dollars, or the LIBOR rate if in U.S. dollars, varies based on Torstar's long-term credit rating. Effective with the renewal of the 364-day operating loan in January 2009, the interest rate spread is 0.6% on the $425 million revolving loan and 1.2% on the $310 million operating loan.

Torstar borrows under the facility primarily in the form of bankers' acceptances. The bankers' acceptances normally mature over periods of 30 to 180 days but are classified as long-term as they are issued under the long-term credit facility.

Bankers' acceptances are generally issued for a term of less than six months in order to provide for flexibility in borrowing and to benefit from short term interest rates. However, the bankers' acceptances program has been and is intended to continue to be an ongoing source of financing for Torstar. Recognizing this intent, to the extent that the long-term credit facility has sufficient credit available that it could be used to replace the outstanding bankers' acceptances, the bankers' acceptances are classified as long-term debt on Torstar's balance sheet.

Torstar has a policy of maintaining a sufficient level of U.S. dollar denominated debt in order to provide a hedge against its U.S. dollar assets. It is expected that the level of U.S. dollar debt will remain relatively constant during 2009.

The revised long-term credit facility for $735 million acts as a standby line in support of letters of credit. At December 31, 2008, $567.2 million was drawn under the facility and a $27.5 million letter of credit was outstanding relating to an executive retirement plan.

Torstar has a $25.0 million medium term note that will mature on September 9, 2009. It is Torstar's intention to refinance the medium term note through the issuance of bankers' acceptance or through its long-term credit facility. As of December, after taking into account the updated credit facility, the long-term credit facility had $140.3 million of available credit which would adequately cover the refinancing of the $25.0 million medium term note. Therefore, the $25.0 million medium term note continues to be classified as long-term debt on Torstar's balance sheet.

After providing for the refinancing of the $25.0 million medium term note, Torstar's credit facility has $115.3 million of available credit.

Contractual Obligations

Torstar has the following significant contractual obligations (in $000's[2]):

Nature of the Obligation	Total	Less than 1 Year (2009)	2 – 3 Years (2010–2011)	4 – 5 Years (2012–2013)	After 5 Years (2014 +)
Office leases	$170,393	$16,942	$34,988	$31,510	$86,953
Services	35,114	10,838	15,651	6,407	2,218
Acquisitions	6,500	2,200	4,300		
Equipment leases	3,915	1,354	1,727	834	
Capital purchases	705	345	360		
Subtotal	216,627	31,679	57,026	38,751	89,171
Long-term debt	665,338			665,338	
Total	$881,965	$31,679	$57026	$704,089	$89,171

Office leases include the offices at One Yonge Street in Toronto for Torstar and the Toronto Star, Harlequin's Toronto head office and the Waterloo Region Record in Kitchener. The One Yonge Street and Kitchener leases extend until the year 2020. Harlequin's lease was renewed during 2008 and will expire in 2018. Equipment leases include office equipment and company vehicles.

The services include the outsourced Toronto Star circulation call centre, the acquisition by Olive Media of advertising impressions on third party websites and a distribution contract for Harlequin's United Kingdom operations. The acquisition obligation relates to the 2008 purchase of eyeReturn Marketing. The obligation has been recorded on Torstar's balance sheet.

The full amount of the bank debt is included in the above chart as maturing in 2012 on the basis that the revolving portion of the facility will be extended through 2012. Torstar expects to be able to secure new debt financing prior to the bank facility maturing in 2012.

Torstar has a guarantee outstanding in relation to an operating lease for a warehouse in New Hampshire that was entered into by one of the businesses in its former Children's Supplementary Education Publishing segment. Lease payments are under U.S. $1.0 million per year and the lease runs through December 2018. The warehouse has been subleased, on identical terms and conditions, to the purchaser of that business. The sublease is secured by a U.S. $0.7 million letter of credit.

Funding of Post Employment Benefits

Only one of Torstar's defined benefit pension plans is required to prepare an actuarial report as of December 31, 2008. Therefore Torstar's required pension funding for its registered pension plans in 2009 is expected to be approximately $15.0 million, relatively consistent with the funding requirements in 2008. The most significant group of Torstar's pension plans (in terms of assets and obligations) will be required to prepare an actuarial report as of December 31, 2009. Unless capital market conditions improve significantly, Torstar anticipates that its required funding for these plans could increase significantly in 2010 and beyond. If current market conditions do not change it is likely that the registered pension funding in 2010 will exceed the amount of the 2009 registered pension plan expense.

FINANCIAL INSTRUMENTS

Foreign Exchange

Harlequin's international operations provide Torstar with approximately 29% of its operating revenues. As a result, fluctuations in exchange rates can have a significant impact on Torstar's reported profitability. Torstar's most significant exposure is to the movements in the U.S.$/Cdn.$ exchange rate. To manage this exchange risk in its operating results, Torstar's practice is to enter into forward foreign exchange contracts to hedge a portion of its U.S. dollar revenues.

In 2008, Torstar sold U.S. $41.5 million under forward foreign exchange contracts at an average exchange rate of $1.08. In 2007 U.S. $27.5 million was sold at an average exchange rate of $1.14. The settlement of these contracts resulted in an exchange loss of $1.1 million in 2008 and a gain of $1.7 million in 2007. Torstar has entered into forward foreign exchange contracts to sell $50.1 million U.S. dollars during 2009 at an average rate of $1.12 and $21.0 million U.S. dollars in 2010 at an average rate of $1.22. These U.S. dollar contracts are designated as revenue hedges for accounting purposes and any resulting gains or losses are recognized in Book Publishing revenues as realized.

From time to time, Torstar may also enter into forward foreign exchange contracts to hedge other currencies (Yen, Euro, and Pound Sterling) which it is exposed to in Harlequin's overseas operations.

The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. Further details are contained in Note 19 of the consolidated financial statements.

In order to offset the exchange risk on its balance sheet from net U.S. dollar denominated assets, Torstar maintains a certain level of U.S. dollar denominated debt. These net assets are primarily current in nature, and to the extent that the amount of net U.S. dollar assets differs from the amount of the U.S. dollar debt, a non-cash foreign exchange gain or loss is recognized in earnings.

[2] ***All foreign denominated obligations were translated at the December 31, 2008 spot rates.***

Interest Rates

Torstar has long-term debt in the form of medium-term notes and bankers' acceptances issued under the bank loan facility. Torstar issues debt in both Canadian and U.S. dollars with the U.S. dollar debt used as a hedge against the U.S. dollar denominated assets in the Book Publishing Segment. Torstar issues bankers' acceptances at floating rates and medium term notes with either fixed or floating interest rates. Torstar's general practice is to have at least one half of its debt at floating interest rates but the exact split will vary from time to time.

In 2005, Torstar entered into swap agreements that effectively convert the $100 million of Canadian dollar fixed rate medium term notes into floating rate debt based 90-day bankers' acceptances rates plus 0.4%. The swap agreements have been designated as fair value hedges and mature on the due dates of the respective notes. The fair value of these swap agreements was $3.4 million favourable at December 31, 2008.

In 2006, Torstar entered into interest rate swap agreements to fix the rate of interest on $250 million of Canadian dollar borrowings at 4.3% (plus the applicable interest rate spread based on Torstar's long-term credit rating, currently 0.768%) through September 2011. These swap agreements, which have been designated as cash flow hedges, had a fair value of $20.2 million unfavourable at December 31, 2008.

In 2008, Torstar entered into interest rate swap agreements that fix the interest rate on U.S. $80 million of borrowings at approximately 4.2% (plus the applicable interest rate spread based on Torstar's long-term credit rating, currently 0.892%) for seven years ending May 2015. These swap agreements, which have been designated as cash flow hedges, had a fair value of $11.2 million unfavourable at December 31, 2008.

Torstar mitigates its exposure to credit related losses in the event of non-performance by counterparties to the interest rate swaps by accepting only major financial institutions with high credit ratings as counterparties. Further details are contained in Note 8 of the consolidated financial statements.

POST EMPLOYMENT BENEFIT OBLIGATIONS

Torstar has several defined benefit registered pension plans which provide pension benefits to its employees in Canada and the U.S. Torstar also has a non-registered, unfunded defined benefit pension plan that provides pension benefits to eligible senior management executives of Torstar and a post-employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the Canadian newspaper operations. For certain members of this group the annual benefit is capped. In addition, Torstar has capital accumulation (defined contribution) plans in Canada, the U.S. and certain of Harlequin's overseas operations.

The accrued benefit asset or liability and the related cost of defined benefit pension and other retirement benefits earned by employees is actuarially determined each year by independent actuaries using the projected unit credit actuarial cost method, prorated on credited service. Unrecognized actuarial gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs, are amortized over the expected average remaining service life of the employee group covered by the plans. Funding requirements are determined based on actuarial valuations that are generally completed every three years. Not all of Torstar's defined benefit pension plans are subject to valuation on the same three-year cycle. The most significant group of plans (in terms of assets and obligations) will be subject to an actuarial valuation at December 31, 2009 with the funding requirements determined by that valuation becoming effective in 2010.

The accounting for defined benefit plans requires the use of actuarial estimates for pension expense and pension plan obligations. In making the estimates, certain assumptions must be made by management. Different assumptions could result in significantly different amounts of expense and obligations.

The significant assumptions made by Torstar in 2008 and 2007 were:

To determine the benefit obligation at the end of the year:	2008	2007
Discount rate	5.6% - 6.3%	5.25%
Rate of future compensation increase	3.0% - 4.0%	3.0% - 4.0%
To determine the pension benefit expense for the year:	**2008**	**2007**
Discount rate	5.25%	5.0%
Rate of future compensation increase	3.0% - 4.0%	3.0% - 4.0%
Expected long-term rate of return on plan assets	7.0%	7.0%
Average remaining service life of active employees	8 to 16 years	8 to 17 years
To determine the pension benefit expense for the following year:	**2009**	
Discount rate	5.6% - 6.3%	
Rate of future compensation increase	3.0% - 4.0%	
Expected long-term rate of return on plan assets	7.0%	
Average remaining service life of active employees	8 to 16 years	

The discount rates of 5.6% - 6.3% were the yields at December 31, 2008 on high quality Canadian corporate bonds with maturities that match the expected maturity of the pension obligations (as prescribed by the Canadian Institute of Chartered Accountants ("CICA")). The selection of a discount rate that was one percent higher (holding all other assumptions constant) would have resulted in a decrease in the total pension plan obligation at December 31, 2008 of $81.8 million and a decrease in the 2008 expense of $4.8 million. A discount rate that was one percent lower would have increased the total pension plan obligation at December 31, 2008 by $93.5 million and increased the 2008 expense by $11.4 million. The impact of a change in the discount rate would have a similar impact on the 2009 expense.

Management has estimated the rate of future compensation increases to be between 3.0% and 4.0%. This rate includes an anticipated level of inflationary increases as well as merit increases. Management has considered both historical trends and expectations for the future. Recent compensation increases have been lower than this range given current market conditions but management believes the range reflects an appropriate longer-term view.

Torstar management has estimated an expected long-term rate of return on plan assets of 7%. This long-term rate includes assumptions on inflation rates and expected real rates of return on cash, fixed income and equity investments. These various expected rates of returns were then weighted to reflect the actual and targeted mix of investments held by Torstar's pension plans. Despite the fact that recent market performance has been below this level, management feels that a long-term rate of return expectation of 7% is reasonable and within the range used by other Canadian corporations. Holding all other assumptions constant, if the expected long-term rate of return on plan assets had been one percent higher (lower) the 2008 pension expense would have been $7.5 million lower (higher). A similar impact would apply for the 2009 pension expense.

Pension expense can also be affected by actual performance of the pension plan assets relative to the estimated long-term rate of return. Under Canadian GAAP, gains and losses (relative to the expected rate of return) are not amortized unless they are in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs. Holding all other assumptions constant, for every 1% short-fall against the expected long-term rate of return of 7%, pension expense is estimated to increase by approximately $1.2 million. In 2008, Torstar's pension plan assets experienced a negative 22% return, reflecting the general market performance.

The average remaining service life of active employees is used to amortize past service costs from plan improvements and actuarial gains or losses that are subject to amortization. Torstar's management has estimated the time period to be 8-16 years as of December 31, 2008. This range reflects the current composition of the members of these plans (most of Torstar's defined benefit plans are closed for new hires who are enrolled in capital accumulation plans) and expectations for staff turnover. The estimate of the average remaining service life is reviewed annually and validated every three years as part of the actuarial valuation.

Torstar's pension plans are in a net unfunded position of $100.1 million at December 31, 2008 compared with $4.0 million at the end of 2007. This balance includes $23.8 million ($26.4 million in 2007) for a senior management executive retirement plan, which is not funded until payments are made to the executives upon retirement, but is supported by a letter of credit. Excluding the executive retirement plan, Torstar's pension plans are in a net unfunded position of $76.3 million compared with a net funded position of $22.4 million in 2007. This significant change in funded status reflects the impact the economic conditions during the latter part of 2008 had on investment returns. As noted earlier, the most significant group of Torstar's defined pension plans will be subject to an actuarial valuation at the end of 2009. Unless there is a significant improvement in market conditions during 2009, Torstar anticipates that funding requirements to its registered defined benefit pension plans will increase significantly in 2010 and beyond.

Torstar's expense related to the registered defined benefit pension plans was $8.2 million in 2008, up from $4.3 million in 2007. For 2009, pension expense for the registered defined benefit plans is expected to be approximately $29.0 million. Torstar's funding related to the registered defined benefit pension plans was $17.1 million in 2008, down from $23.5 million in 2007. Funding for the registered defined benefit plans in 2009 is expected to be similar to the 2008 levels.

Torstar's expense related to the unregistered executive retirement plan was $4.6 million in 2008 and $3.9 million in 2007. 2009 expense is expected to be approximately $4.1 million. Torstar only funds this plan when a member of the plan has retired or has left the company and is of retirement age and as a result it is difficult to predict future funding requirements. Payments of $6.2 million were made in 2008 and $4.9 million in 2007.

Torstar also provides post-employment benefits including health and life insurance benefits to certain grandfathered employees, primarily in the Canadian newspaper operations. This obligation is being funded as payments are made to retirees. Torstar has recorded a liability of $57.7 million on its December 31, 2008 balance sheet and an annual expense of $3.7 million ($56.2 million and $3.6 million respectively in 2007). At December 31, 2008 the unfunded obligation for these benefits was $53.2 million, down from $59.2 million at December 31, 2007. The key assumptions for this obligation are the discount rate and the health care cost trends. The discount rate used is the same as the prescribed rate for the defined benefit pension obligation. For health care costs, the estimated trend was for a 9.5% increase for the 2008 expense. For 2009, health care costs are estimated to increase by 9.0% with a 0.5% decrease each year until 2017. If the estimated increase in health care costs was one percent higher (lower) the obligation at December 31, 2008 would be approximately $3.0 million higher (lower). The increase in the 2008 expense would have been $0.2 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Torstar prepares its consolidated financial statements in Canadian dollars and in accordance with Canadian GAAP. A summary of

Torstar's significant accounting policies is presented in Note 1 of the consolidated financial statements. Some of Torstar's accounting policies require subjective, complex judgments and estimates as they relate to matters that are inherently uncertain. Changes in these judgments or estimates could have a significant impact on Torstar's financial statements. Critical accounting estimates that require management's judgments include the provision for book returns, income (loss) from associated businesses, valuation of goodwill and intangible assets, valuation of investments, accounting for employee future benefits and accounting for income taxes.

Provision for Book Returns

Revenue from the sale of books, net of provisions for estimated returns, is recognized for retail sales based on the publication date and for sales made directly to the consumer when the books are shipped and title has transferred.

The provision for estimated returns is significant for retail sales where books are sold with a right of return. As revenue is recognized, a provision is recorded for returns. This provision is estimated by management, based primarily on point-of-sale information, returns patterns and historic sales performance for that type of book and the author. Books are returned over time and are adjusted against the returns provision. On a quarterly basis the actual returns experience is used to assess the adequacy of the provision.

The impact of the variance between the original estimate for returns and the actual experience is reported in a period subsequent to the original sale. This can have either a positive (if the actual experience is better than estimated) or negative (if the actual experience is worse) impact on reported results. A change in market conditions can therefore have a compounded effect on the book publishing results. If the market sales are declining, the estimate being made for returns on current period sales will generally be higher and the adjustment to the returns provision for prior period sales is likely to be negative (i.e. the market has softened since the original estimate was made). The opposite effect could occur if market sales are increasing.

Series books are on sale for approximately one month and returns are normally received within one year, with more than 95% received within the first six months. Single title books are on sale for several months and, as a result, experience a longer return period. For these books, there is more variation in net sale rates between titles, even for the same author. As a result, the estimate for returns on these titles has more variability than that for the series titles.

At December 31, 2008, the returns provision deducted from accounts receivable on the consolidated balance sheets was $110 million ($101 million in 2007). A one percent change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2008 would have resulted in a $3.9 million change in reported 2008 revenue.

Income (Loss) from Associated Businesses

As Torstar does not have coterminous year ends with either CTVgm or Black Press, Torstar may be required to record an estimate of operating results, a transaction, or other items in advance of CTVgm or Black Press finalizing their accounting treatment. In that situation Torstar management is required to record an estimate based on any preliminary information provided by CTVgm or Black Press management as well as Torstar's understanding of the underlying business or transaction. This estimate would be included in Torstar's income (loss) from associated business. Torstar will report any adjustments in the reporting period when CTVgm or Black Press finalize their accounting treatment. The ultimate amount recorded by CTVgm or Black Press could differ significantly from the estimate made by Torstar.

During the fourth quarter of 2008, Torstar has recorded an estimate for an impairment loss related to certain of Black Press's intangible assets and reporting unit goodwill. This estimate of $21.8 million has been included in Torstar's loss from associated businesses. Torstar expects Black Press will finalize the determination of the impairment loss during Torstar's second quarter of 2009.

Valuation of Goodwill and Intangible Assets

Under Canadian GAAP, goodwill is not amortized but is assessed for impairment at the reporting unit level annually or when impairment may be indicated by events or changes in circumstances. Reporting units are identified based on the nature of the business and the level of integration between operations. Goodwill is assessed for impairment using a two-step approach.

In the first step, the carrying value of the reporting unit is compared to its fair value. Fair value is generally based on estimates of discounted future cash flows or other valuation methods. When the fair value of a reporting unit exceeds its carrying value, then goodwill of the reporting unit is considered not to be impaired and the second step is not required.

The second step of the impairment test is carried out when the carrying value of a reporting unit exceeds its fair value. In this situation, the fair value of the reporting unit is allocated to the assets and liabilities, based on their fair values as if Torstar had acquired the reporting unit at the impairment assessment date. The excess, if any, of the fair value after the allocation (i.e. the residual) represents the implied fair value of the goodwill. When the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss equal to the excess is recognized in the period in which the impairment is determined.

For determining the fair value of its reporting units, Torstar uses both the income and market approaches. Under the income approach, management estimates the discounted future cash flows for five years and a terminal value for each of the reporting units. The future cash flows are based on management's best estimates considering historical and expected operating plans, strategic plans, economic conditions and the general outlook for the industry and markets in which the reporting unit operates. The discount rates used are based on an optimal debt-to-equity ratio and considers the risk free rate, market equity risk premium, size premium and a specific risk premium for possible variations from management's projections. The terminal value is the value attributed to the reporting unit's operations beyond the projected period using a perpetuity growth rate based on industry, revenue and operating

income trends and growth prospects. Under the market approach, Torstar estimates fair value by multiplying maintainable earnings before interest, income taxes, depreciation, amortization and other non-recurring costs by multiples based on transactions and market comparables. The estimation process results in a range of values which management uses to determine the fair value for the reporting unit.

Intangible assets are accounted for at cost, which for business acquisitions, represents the fair value at the date of the acquisition. Intangible assets with an indefinite life, such as mastheads, trademarks and URLs, are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying value of the intangible asset with its fair value, and an impairment loss is recognized for the excess, if any, in the period in which the impairment is determined.

Depending on the nature of the intangible asset, Torstar calculates fair value using either a relief-from-royalty or discounted cash flow approach. In calculating the fair value, both at the time of acquisition and for the subsequent impairment tests, management is required to make several assumptions including but not limited to royalty rates, expected future revenues, expected future cash flows and discount rates.

Torstar's assumptions for these valuations are influenced by current market conditions and levels of competition both of which may affect expected revenues. Expected cash flows may be further affected by changes in operating costs beyond what Torstar is currently anticipating. Torstar has made certain assumptions for the discount and terminal growth rates to reflect possible variations in the cash flows; however, the risk premiums expected by market participants related to uncertainties about the industry, specific reporting units or specific intangible assets may differ or change quickly depending on economic conditions and other events. Changes in any of these assumptions could have a significant impact on the fair value of the reporting unit or the intangible asset and the results of the related impairment testing.

Torstar has completed its annual impairment test of goodwill and intangible assets as of October 1, 2008. No adjustment for impairment of goodwill was required for any of Torstar's reporting units. A write down of $2.4 million was recorded in restructuring and other charges related to an impairment loss on certain community newspaper mastheads and customer relationship intangible assets.

Valuation of Investments

Torstar has significant investments in CTVgm and Black Press which are accounted for by the equity method.

On the acquisition of the investments in CTVgm and Black Press, Torstar was required to complete an allocation of the purchase price to the underlying assets and liabilities of the businesses with the residual amount being identified as equity goodwill. Any intangible assets that were established from the allocation of the purchase price are required to be tested annually for impairment under the same standards and similar assumptions as discussed above for intangible assets that are identified on Torstar's balance sheet. Changes in any of the assumptions made could have a significant impact on the fair value of the intangible asset and the results of the impairment testing. The equity goodwill is not tested for impairment but is assessed as part of the carrying value of the investment.

On the investment in CTVgm, intangible assets including broadcast licenses, masthead and customer relationships were identified. Torstar has completed its annual impairment testing for these intangibles during its fourth quarter and has included an impairment loss of $96.6 million in the reported loss from associated businesses.

Torstar is required to write down the carrying value of its investments if there has been an "other than temporary" loss in value. An "other than temporary" loss does not mean a permanent decline but rather could be evidenced by either a significant or prolonged decline in the fair value.

For determining the fair value of its investments, Torstar uses a combination of the income and market approaches discussed above adjusted for long-term debt and other liabilities to determine the enterprise value. This requires Torstar's management to make multiple assumptions including those regarding future operating results, future cash flows, discount rates, and economic conditions. Changes in any of the assumptions used in determining the fair value of the investment could have a significant impact on the fair value of the investment and any required write down to its carrying value.

Torstar has completed its assessment of whether its investments have realized an "other than temporary" decline in value below the carrying value. This assessment has been done as of December 31, 2008. In connection with its investment in CTVgm, Torstar has recorded a write down of $95.7 million which is included in the investment loss and write down reported on the consolidated statements of income. This has reduced Torstar's carrying value of its investment in CTVgm to $200 million.

Accounting for Employee Future Benefits

The accrued benefit asset or liability and the related cost of defined benefit pension and other retirement benefits earned by employees is actuarially determined each year by independent actuaries using the projected unit credit actuarial cost method, prorated on credited service. Unrecognized actual gains and losses in excess of 10% of the greater of the accrued benefit obligation or the fair value of plan assets, and past service costs, over the expected average remaining service life of the employee group covered by the plans. Funding requirements are determined based on actuarial valuations that are generally completed every three years.

The discount rate used in measuring the liability and expected healthcare costs is prescribed to be equal to the current yield on long-term, high-quality corporate bonds with a duration similar to the duration of the benefit obligation.

The calculations are based on management's estimates of the long-term rate of investment return on plan assets, future compensation increases, health care costs and the expected average remaining service life of the employee group covered by the plans. Management applies judgment in the selection of these estimates, based on regular reviews of historical investment returns, salary increases, health care costs and demographic employee data. Expectations regarding future economic trends and business conditions, including inflation rates are also considered.

If future investment returns, salaries increases and health care cost differ from management's estimates the accrued benefit asset or liability and related expense and funding obligations could differ significantly from current estimates. Management's current estimates, along with a sensitivity analysis of changes in these estimates on both the benefit obligation and the benefit expense are further discussed under "Pension Obligations" in this MD&A and are disclosed in Note 18 of the consolidated financial statements.

Accounting for Income Taxes

Future income taxes are recorded to account for the effects of future taxes on transactions occurring in the current period. Management uses judgment and estimates in determining the appropriate rates and amounts to record for future taxes, giving consideration to timing and probability. Previously recorded tax assets and liabilities are adjusted if the expected tax rate is revised based on current information.

The recording of future tax assets also requires an assessment of recoverability. A valuation allowance is recorded when Torstar does not believe, based on all available evidence, that it is more likely than not that all of the future tax assets recognized will be realized prior to their expiration. This assessment includes a projection of future year earnings based on historical results and known changes in operations.

More information on Torstar's income taxes is provided in Note 16 of the consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, Torstar adopted five new accounting standards (i) Section 1535 "Capital Disclosures", (ii) Section 3031 "Inventories", (iii) Section 3862 "Financial Instruments – Disclosures", (iv) Section 3863 "Financial Instruments – Presentation" and (v) Section 1400 "General Standards of Financial Statement Presentation" with no restatement of prior periods.

Capital Disclosures

Section 1535 establishes standards for disclosure of both qualitative and quantitative information that enables users to evaluate the entity's objectives, policies and processes for managing capital; the disclosure and compliance with any externally imposed capital requirements and the consequences of any non-compliance.

Inventories

Section 3031 prescribes the measurement of inventories at the lower of cost and net realizable value, with guidance on cost determination including the allocation of overheads and other costs to inventory. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the value of inventories.

Financial Instruments

Sections 3862 and 3863 together replace Section 3861 "Financial Instruments – Disclosures and Presentation", revising and enhancing its disclosure requirements while carrying forward unchanged its presentation requirements. These new sections emphasize disclosures of the nature and extent of risks arising from financial instruments to which the entity is exposed and how those risks are managed.

Assessing Going Concern

The Accounting Standards Board amended the CICA Handbook Section 1400 "General Standards of Financial Statement Presentation" to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.

There was no impact from these changes in accounting policies on net income for the year ended December 31, 2008.

Future Accounting Changes – Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets" which will replace Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs" and will apply to Torstar effective January 1, 2009. The standard, which requires retrospective application, provides guidance on the criteria for recognition of intangible assets and the accounting treatment for advertising and promotional activities. Under this standard, direct-response advertising costs can no longer be capitalized and amortized against the related revenue. As a result Torstar will expense as incurred, customer acquisition and retention costs with respect to Harlequin's direct-to-consumer businesses. There is no impact on the Newspapers and Digital segment. Torstar estimates it will record a pre-tax adjustment to opening retained earnings in the range of $10 - $12 million on the adoption of this new standard. Assuming the level of direct mail activity remains stable the impact of this change in accounting policy on annual net income should not be significant, although there could be a higher level of fluctuation in earnings reported throughout the year.

Future Accounting Changes – International Financial Reporting Standards

The CICA has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. At this date, Torstar will be required to prepare

financial statements in accordance with IFRS. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

Torstar has completed an initial review of IFRS and has made a preliminary classification of the IFRS standards into those that could have a significant, moderate or no impact on Torstar's financial reporting. Torstar is currently developing its IFRS conversion plan which will include a deeper analysis of the IFRS standards, with priority being placed on those that have been identified as possibly having a significant impact. The analysis of each IFRS standard will include identifying the differences between IFRS and Torstar's accounting policies, assessing the impact of the difference, and where necessary, analyzing the various policies that Torstar could elect to adopt.

Torstar has identified that the proposed amendment to IAS 31 "Joint Ventures" is one IFRS standard that will likely have a significant impact on Torstar's financial reporting. Under this new standard some of Torstar's joint ventures that are currently proportionately consolidated may be required to be accounted for either as a fully consolidated subsidiary (with minority interest) or under the equity method. Torstar is currently reviewing the classification of each of its joint ventures under IFRS and is not able to provide any further guidance on the impact at this time.

Future Accounting Changes – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC-173 "Credit risk and the fair value of financial assets and financial liabilities" which becomes effective for Torstar's 2009 fiscal year with retrospective application without restatement of prior periods. The guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. Torstar is reviewing the guidance to determine the potential impact on its consolidated financial statements.

RISKS AND UNCERTAINTIES

Torstar is subject to a number of risks and uncertainties, including those set forth below. A risk is the possibility that an event might happen in the future that could have a negative effect on the financial condition, results of operations or business of Torstar. The actual effect of any event on Torstar's business could be materially different from what is anticipated. This description of risks does not include all possible risks.

Economic Conditions

Revenue from Torstar's Newspapers and Digital segment accounted for approximately 69% of Torstar's consolidated operating revenue in the year ended December 31, 2008. The majority of Torstar's newspaper revenue is from advertising. Advertising revenue in Torstar's newspapers is affected by a variety of factors, including general economic conditions and the level of consumer confidence. Torstar's newspaper business is cyclical in nature. Retail activity is particularly sensitive to general economic cycles, and the level of retail activity can impact national, retail and classified advertising, each of which contribute materially to Torstar's advertising revenue. Consequently, a continuing downturn in the economy could have a significant impact on Torstar's business, financial condition or results of operations.

Circulation levels can also be sensitive to prevailing economic conditions and although circulation accounts for less of Torstar's newspaper revenue when compared to advertising, a substantial decrease in circulation results in a substantial decrease in readership, and accordingly, a potentially significant impact on advertising revenue. This impact in turn could affect Torstar's business, financial condition or results of operations.

In addition, the newspaper business has relatively high fixed costs, and accordingly, during periods of poor economic conditions, revenue may decrease while costs remain fixed, resulting in decreased earnings for Torstar overall. The Newspapers and Digital segment's internet-related activities have limited histories and, therefore, it is difficult to assess their susceptibility to changes in the strength of the economy.

Revenue from Torstar's Book Publishing segment accounted for approximately 31% of Torstar's consolidated operating revenue in the year ended December 31, 2008. In 2008, 95% of revenues from the Book Publishing segment were derived from non-Canadian sources. The largest non-Canadian market for the Book Publishing segment was the U.S., with other principal markets including the United Kingdom, Japan, Nordic, Australia and France. This geographic diversification generally lessens the impact of changes in general economic performances in individual countries however Torstar does have significant exposure to the economic conditions in the U.S. market. The Book Publishing revenues have not historically been as affected by economic conditions as have advertising revenues, perhaps in part due to placement of Harlequin's books in large mass merchandisers who tend to retain their customer base in weaker economic times. There is no assurance that this will continue to be the case in the future.

Revenue Risks and Competition – Newspapers and Digital Segment

Revenues in the newspaper industry are dependent primarily upon the sale of advertising and paid circulation. Advertising revenue includes in-paper advertising, inserts/flyers, and specialty publications as well as online advertising. Competition for advertising and circulation revenue comes from local and regional newspapers, radio, broadcast and cable television, outdoor, direct mail, the Internet and other communications and advertising media that operate in Torstar's markets. The extent and nature of such competition is, in large part, determined by the location and demographics of each market and the number of media alternatives available. This competitive environment affects all aspects of Torstar's Newspapers and Digital segment, including circulation and advertising rates, employee and distribution costs. In particular, the Toronto Star is part of an intense circulation battle with five other daily newspapers in the GTA, including two free daily papers.

Print readership levels have traditionally been an important factor in the ability of a newspaper to generate advertising revenues. Changes in everyday lifestyle have meant that people are choosing not to devote as much time to reading print newspapers as they once did. Offsetting this decline in print readership is an increase in online readership. While online readership appears to be an important factor in the ability of a newspaper to generate advertising revenue it may have a negative impact on circulation revenues. Although Torstar strives to provide content in print and online that is attractive and appealing to readers, reader acceptance depends on a number of factors, including the effect of competing content and the availability of alternate forms of news and entertainment. The reviews of critics, public preferences and tastes, general economic conditions and the news worthiness of current events, among other intangible factors, may also contribute to the fluctuation in readership levels, and accordingly, limit the ability of Torstar to generate advertising and circulation revenue. Maintenance of satisfactory readership levels cannot be guaranteed.

In addition to competing with other newspapers in print, Torstar's newspapers and online businesses compete with numerous online services and other new media technologies. To date, the competitive impact of online services has been most evident with respect to classified advertising but online services are currently competing for a share of other advertising categories. Competition for media revenues has increased as a result of the number of new entrants from the digital space. These entrants range from start up operations with low cost structures to global players with access to greater financial and other resources than Torstar. In addition, at this stage, the online media space includes certain competitors that currently have only a nominal profit motivation and provide services for little or no consideration. It is difficult to predict the effects of this competition and its impact on Torstar's revenues. There can be no assurance that new media technologies will not diminish newspapers, either in print or online, as a form of media, which could in turn have a material adverse effect on Torstar's business, financial condition and results of operations.

Revenue Risks – Book Publishing Segment

A key risk for book publishing revenue is the ability to publish books that consumers want to read and to have them available where and when consumers are making their purchasing decision. Harlequin regularly introduces new product lines in order to attract new readers and discontinues products where consumer interest has declined. As Harlequin's business has evolved to include both series and single title formats, Harlequin's revenue base is also dependent on the popularity of its authors. Books are a discretionary consumer purchase and Harlequin could see a decline in sales in the current weak global retail environment. Additionally, distribution is relatively concentrated with a small number of wholesalers and retailers creating collection risk and distribution risk in the event of any insolvency in the retail channel. Harlequin continues to expand its distribution network through retail stores, by direct mail and through the Internet in both print and digital formats. Harlequin competes with many other publishers in very competitive global markets and this competition is expected to remain.

Books sold through the retail channel are sold to wholesalers and retailers with a right of return leaving the ultimate sales risk with Harlequin. In order to reflect the ability of the retailers to return books that they don't sell, a provision for returns is made when revenue is recognized. (See additional information in the Critical Accounting Policies and Estimates section of this MD&A.) The provision is adjusted as actual returns are received over time. Series books are on sale for approximately one month. Returns for these books are normally received within one year, with more than 95% received within the first six months. Single title books are on sale for several months and, as a result, experience a longer return period. The difference between the initial estimate of returns and the actual returns realized has an impact on Harlequin's results during subsequent periods as the returns are received. Single title books tend to have a higher variability in return rates than series books, increasing the related risk in the provision for returns estimate.

A key revenue risk for Harlequin's direct-to-consumer business is being able to maintain the customer base both by retaining existing customers and acquiring new ones. A significant source of new customers has historically been through direct mail offers. The direct marketing industry has faced considerable challenges from a lack of available mailing lists, regulation and competitive pressure from alternate channels over the past ten years. This has made the acquisition of new customers through direct mail offers difficult. Harlequin has responded to these challenges in a number of ways including the use of its Internet site, eharlequin.com, to attract new customers. There is no guarantee that there will be a sufficient number of new customers acquired each year to offset the decline of existing customers.

Labour Disruptions

Torstar has a number of collective agreements at its newspaper operations that have historically tied annual wage increases to cost of living. The newspapers face the risk of future labour negotiations and the potential for business interruption should a strike, lockout or other labour disruption occur. Such a disruption may lead to lost revenues and could have an adverse effect on Torstar's business. The level of unionization at the newspapers also impacts the ability of Torstar to respond quickly to downturns in the economy that negatively impact revenue. The book publishing and digital operations do not have any unionized employees.

The Toronto Star has approximately 1,140 staff covered by seven collective agreements. The largest agreement covers approximately 690 employees at One Yonge Street. This agreement was negotiated in January 2008 and will expire in December 2010. There are six agreements covering approximately 450 employees at the Toronto Star's Vaughan Press Center. One agreement covering approximately 10 employees will expire in December 2010 and the other five will expire in December 2011.

Sing Tao has two collective agreements covering approximately 125 employees that will expire at the end of 2009. Metro's Toronto operations have a collective agreement covering approximately 50 employees that will expire in March of 2010. There are no collective agreements at any of the Star Media Group digital properties.

Metroland Media Group has a total of 21 collective agreements covering approximately 850 employees. There are ten collective

agreements covering approximately 290 employees within the community newspapers. The largest agreement is for approximately 130 editorial employees that will expire in December 2009. Two agreements covering approximately 20 employees expired at the end of 2008. Negotiations commenced in January 2009. Three of the remaining agreements covering approximately 50 employees will expire during 2009 and four covering approximately 90 employees will expire in 2010.

At the Metroland Media Group daily newspapers there are 11 agreements covering approximately 560 employees. One agreement covering approximately 85 employees in the advertising department at The Hamilton Spectator expired at the end of 2008. Negotiations are expected to commence near the end of the first quarter of 2009. Two agreements covering approximately 180 employees in the editorial and mailroom at the Hamilton Spectator will expire at the end of 2009. Five of the remaining agreements covering approximately 195 employees will expire during 2010 and three covering approximately 100 employees will expire in 2011.

The Book Publishing segment does not have any collective agreements in place.

Newsprint Costs

Newsprint costs are the single largest raw material expense for Torstar's Newspapers and Digital segment and, after wages and employee benefits expense, represent the most significant operating cost for this segment. An increase in the cost of newsprint could have a material adverse effect on the Corporation's operating income. Newsprint is priced as a commodity with price increases or decreases implemented at regular intervals. In 2008, newsprint prices increased during the year and Torstar's newsprint price was on average 7% higher than in 2007. Torstar's newspapers consume approximately 140,000 tonnes of newsprint each year. A $10 change in the price per tonne affects operating profits by $1.4 million.

Foreign Exchange

As an international publisher, approximately 95% of Harlequin's revenues (approximately 29% of Torstar's operating revenues) are earned in currencies other than the Canadian dollar. As a result, Harlequin's revenues and operating profits are affected by changes in foreign exchange rates relative to the Canadian dollar. The most significant risk is from changes in the U.S.$/Cdn.$ exchange rate. Harlequin also has exposure to many other currencies, the most significant of which are the Euro, Yen and British Pound.

To offset some of this exposure, Torstar regularly enters into forward foreign exchange contracts to sell U.S. dollars. From time to time, Torstar may also enter into forward foreign exchange contracts to hedge other currencies (Yen, Euro, and Pound Sterling). (See additional information on foreign exchange risks in the Financial Instruments section of this MD&A and in note 19 to Torstar's consolidated financial statements.)

Investment in CTVgm

Torstar has a significant investment in CTVgm. Torstar does not own a controlling interest in CTVgm and does not exercise control over its management, strategic direction or daily operations. CTVgm's results, and the value of Torstar's investment, are dependent upon the television and radio broadcasting and newspaper environment in Canada and CTVgm's position in relation to its competitors. CTVgm faces many of the same challenges as Torstar does from the growth of the Internet as well as declines in conventional television revenues. Broadcasting is subject to extensive government regulation in Canada. Changes to the applicable regulations and policies or terms of licences could have a material effect on CTVgm's businesses. CTVgm carries a significant level of debt and is currently in the process of renegotiating its banking arrangements. A change in CTVgm's operations could have a significant impact on the value of Torstar's investment. A negative change in the value of CTVgm could require Torstar to take a charge to earnings in order to reduce its carrying value. In the fourth quarter of 2008, Torstar recorded a $95.7 million write down of its investment in CTVgm bringing the carrying value to $200 million. Further write downs could be possible in the future.

Restrictions Imposed by Existing Credit Facilities, Debt Financing and Availability of Capital

The agreements governing certain indebtedness of Torstar impose a number of restrictions on Torstar, including on the payment of dividends other than on a basis consistent with Torstar's current dividend policy (which does not include extraordinary dividends) and in circumstances where Torstar is in default pursuant to its credit facilities, and require compliance with certain financial covenants in order for such debt to remain outstanding. These covenants include not exceeding either a maximum level of debt compared to equity or a maximum level of debt compared to cash flow. In addition, Torstar cannot experience a material adverse change in its business. Failure to comply with these restrictions and financial covenants could have a material adverse effect on Torstar. A full description of these restrictions and financial covenants can be found in the original loan agreement and recent amendments thereto filed on www.sedar.com

The global financial crisis and global economic slowdown have adversely affected the availability and pricing of both debt and equity financing. If such conditions persist they may negatively affect Torstar's ability to raise capital and the price of such capital. Failure to obtain such additional financing, when and if required, could have a material adverse effect on Torstar's future growth.

Pension Fund Obligations

Relative to its size, and when compared to other companies, Torstar has large pension liabilities, funding requirements and costs. In an effort to manage ongoing pension costs and funding requirements, management has purposefully chosen investments which will not always change in value as do pension liabilities in periods of changing long-term interest rates. Similarly, pension fund returns will not always meet the assumptions used for valuation purposes. This investment policy introduces a significant level of volatility into Torstar's future pension expense, funding requirements and the funded status of its pension plans.

Only one of Torstar's defined benefit pension plans is required to prepare an actuarial report as of December 31, 2008. The most significant group of Torstar's pension plans (in terms of assets and obligations) will be required to prepare an actuarial report as of

December 31, 2009. Unless capital market conditions improve significantly, Torstar anticipates that its required funding for these plans could increase significantly in 2010 and beyond.

Reliance on Printing Operations

The newspaper operations of Torstar place considerable reliance on the functioning of its printing operations for the printing of their various publications, with particular emphasis placed on the Toronto Star's Vaughan Press Centre, which primarily supports the Toronto Star's printing needs. In the event that any of the print facilities experiences a shutdown, Torstar will attempt to mitigate potential damage by shifting the printing to its remaining facilities or outsourcing such work to a third party commercial printer. However, given Torstar's reliance on such facilities, such a shutdown could result in Torstar being unable to print some publications, and consequently could have an adverse effect.

Torstar also relies on the adequacy of third-party printing arrangements for its book publishing operations in North America and worldwide. In the event any existing arrangements change or cease to be available, Torstar would attempt to mitigate the situation by using an alternative supplier or printing location. However, there can be no assurance that such an event would not have an adverse effect on the Corporation. Quebecor World Inc. (Harlequin's printer for North American mass-market paperbacks) has been operating under creditor protection since January 2008 when it applied for court protection in Canada and the U.S. in order to conduct restructuring. To date, there has not been any disruption in printing services during the restructuring. However, a disruption in these printing services could have an adverse effect on the Corporation.

Reliance on Technology and Information Systems

Torstar places considerable reliance upon information technology systems. In the event that these systems are subject to disruptions or failures resulting from system failures, loss of power, viruses, unauthorized access, human error, acts of sabotage or other similar events, it could have an adverse effect on Torstar's operations and revenues.

The media industry is experiencing rapid and significant technological changes. The continued growth in the popularity of the Internet has increased the number of content options that compete with newspapers. In order to be able to compete, Torstar is required to be able to attract and retain appropriately skilled staff. Torstar also must manage the changes in new technologies and be able to acquire, develop or integrate them. The cost of such acquisition, development or implementation could be significant. Torstar's ability to fund such implementation may be limited which could have a material adverse effect on Torstar's ability to successfully compete in the future.

Interest Rates

Torstar has long-term debt in the form of medium-term notes and bankers' acceptances issued under the bank loan facility. Torstar is exposed to fluctuations in interest rates on its bankers' acceptances that are issued at floating rates and on the medium term notes that have been swapped into floating rates. Torstar manages this risk through the use of interest rate swap contracts to fix the interest rate on approximately one half of its outstanding debt. Torstar remains exposed to fluctuations in interest rates on the balance of its outstanding debt.

Availability of Insurance

Torstar has property and casualty insurance and directors' and officers' liability insurance in place to address certain material insurable risks. Torstar believes that such insurance coverage is similar to that which would be maintained by prudent owners of similar businesses and assets and that the coverage limits, exclusions and deductibles that are in effect are reasonable given the cost of procuring insurance. However, there is no assurance that such insurance will continue to be available on an economically feasible basis, that all events that could give rise to a loss or liability are insurable, or that the level of insurance coverage will be sufficient to cover each and every material loss or claim that may occur involving Torstar's operations or assets.

Litigation

Torstar is involved in various legal actions, primarily in the Newspapers and Digital Segment, which arise in the ordinary course of business. These actions include the litigation as described under the heading "Legal Proceedings" in Torstar's most recent Annual Information Form. In particular, given the nature of Torstar's businesses, Torstar has had, and may continue to have, litigation claims filed related to the publication of its editorial content. Although Torstar maintains insurance for claims of this nature, there can be no assurance that it is available for all such claims. In addition, there can be no assurance as to the outcome of any future litigation, proceedings or investigations or that the outcome will not be adverse to Torstar or not have a material impact on Torstar's results.

Environmental Regulations

Torstar is subject to a variety of federal, provincial, state and municipal laws concerning, among other things, emissions to the air, water and sewer discharges, handling and disposal of wastes, recycling, or otherwise relating to the protection of the environment. There have been considerable changes to environmental laws and regulations in recent years, and such laws and regulations are expected to continue to change. Compliance with new environmental laws and regulations may subject Torstar to significant costs and a failure to comply with present or future laws or regulations could have an adverse effect on Torstar. While Torstar does have an environmental policy and environmental committee in place to assist in monitoring compliance with environmental legislation, there can be no assurance that all environmental liabilities have been identified.

Dependence on Key Personnel

Torstar is dependent upon the continued services of its senior management team. The loss of any of such key personnel could have an adverse effect on Torstar.

Control of Torstar by the Voting Trust

More than 98% of Torstar's Class A shares are held in a Voting Trust pursuant to a Voting Trust Agreement, which joins together seven groups of shareholders. Under the Voting Trust Agreement, each shareholder group is entitled to appoint a Voting Trustee. The Voting Trustees exercise various powers and rights, including among others the right to vote in the manner as determined by a majority of the Voting Trustees all of the Class A shares of Torstar held by the members of the Voting Trust. The Class A shares are the only class of issued shares carrying the right to vote in all circumstances. Accordingly, the Voting Trust through a single ballot effectively elects the Torstar Board of Directors and controls the vote on any matters submitted to a vote of shareholders of Torstar.

Loss of Reputation

Torstar, its customers, shareholders and employees place considerable reliance on Torstar's good reputation. If this reputation is tarnished through negative publicity, whether true or not, the business, operations or financial condition of Torstar could be affected, including the value of its shares.

Intellectual Property Rights

Torstar places considerable importance on the protection of its intellectual property rights. On occasion, third parties may contest or infringe upon these rights and Torstar will endeavour to take appropriate action to address such matters. There can be no assurance that Torstar's actions will be adequate to prevent the infringement of Torstar's intellectual property rights, or protect Torstar against claims of infringement by third parties.

ANNUAL INFORMATION – 3 YEAR SUMMARY

The following table presents, in $000's (except for per share amounts) selected key information for the past three years:

	2008	2007	2006
Revenue	$1,536,034	$1,546,537	$1,528,270
Net income (loss)	($180,455)	$101,391	$79,141
Per share (basic)	($2.29)	$1.29	$1.01
Per share (diluted)	($2.29)	$1.29	$1.01
Average number of shares outstanding during the year (in 000's)			
Basic	78,837	78,620	78,250
Diluted	78,837	78,707	78,414
Cash dividends per share	$0.74	$0.74	$0.74
Total assets	$1,787,607	$1,960,837	$2,001,473
Total long-term debt	$668,700	$650,798	$724,193

Total revenues have been relatively steady over the past three years as growth in certain divisions was offset by declines in others. In 2008, print advertising revenues were lower in the Newspapers and Digital segment more than offsetting growth in the digital properties and market expansions. In 2007, revenue growth at Metroland Media Group and the digital properties more than offset declining print revenues at the Toronto Star. Book Publishing revenue is impacted by the movement of the Canadian dollar to foreign currencies, in particular the U.S. dollar. Book Publishing revenues were up $9.6 million in 2008 and down $1.0 million in 2007 excluding the impact of foreign exchange.

Net income increased in 2007 with improved results in both segments. The Newspapers and Digital segment benefited from cost savings from lower newsprint prices and lower pension costs in 2007. A net loss was reported in 2008 as a result of losses from associated businesses and a write down of investments. The loss from associated businesses was driven by accounting for impairment losses in intangible assets and goodwill. Excluding these items, net income was still lower in 2008 as growth in Book Publishing was more than offset by lower Newspapers and Digital results. In 2008, the Newspapers and Digital savings realized from restructuring plans were not sufficient to offset the impact of lower revenue, higher newsprint prices and increased pension costs.

The decrease in total assets in 2008 primarily relates to the write down of the investment in associated businesses discussed above.

SUMMARY OF QUARTERLY RESULTS

(In thousands of dollars except for per share amounts)

	2008 Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Revenue	$412,763	$372,115	$399,506	$351,650
Net income (loss)	($211,232)	($2,728)	$36,962	($3,457)
Net income per Class A voting and Class B non-voting share				
Basic	($2.68)	($0.03)	$0.47	($0.04)
Diluted	($2.68)	($0.03)	$0.47	($0.04)

	2007 Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Revenue	$402,930	$369,200	$396,965	$377,442
Net income (loss)	$47,182	$8,419	$30,053	$15,737
Net income per Class A voting and Class B non-voting share				
Basic	$0.60	$0.11	$0.38	$0.20
Diluted	$0.60	$0.11	$0.38	$0.20

The summary of quarterly results illustrates the cyclical nature of revenues and operating profit in the Newspapers and Digital Segment. The fourth and second quarters are generally the strongest for the newspapers however the revenue declines realized in 2008 have masked some of the cyclical impact. Book Publishing revenues will vary depending on the publishing schedule and the impact of foreign exchange rates.

Restructuring and other charges have impacted the level of net income in several quarters. In 2008, the first, second, third and fourth quarters had restructuring and other charges of $20.8 million, $4.4 million, $19.4 million and $14.6 million respectively. The third and fourth quarter included write downs related to the assets of Transit TV of $16.0 million and $1.5 million respectively. The fourth quarter also included a $2.4 million impairment loss on certain community newspaper mastheads and customer relationship intangible assets. In 2007, the fourth quarter had a restructuring and other charge of $7.5 million.

A net loss was reported in the fourth quarter of 2008 as a result of losses from associated businesses and a write down of investments. The loss from associated businesses was driven by accounting for impairment losses in intangible assets and goodwill.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by Torstar in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to Torstar's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2008, under the supervision of, and with the participation of the CEO and CFO, Torstar's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, Torstar's CEO and CFO have concluded that, as at December 31, 2008, the Company's disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

Torstar's management is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls include policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Torstar; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of Torstar; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Torstar's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, Torstar's management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management, under the supervision of, and with the participation of the CEO and CFO, assessed the effectiveness of internal controls over financial reporting, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, and based on that assessment concluded that internal control over financial reporting was effective as of December 31, 2008.

Changes in Internal Control over Financial Reporting

There have been no changes in Torstar's internal controls over financial reporting that occurred during the fourth quarter of 2008, the most recent interim period, that have materially affected, or are reasonably likely to materially affect, Torstar's internal controls over financial reporting.

RECENT DEVELOPMENTS

In the face of high uncertainty about the economy and the timing of the recovery, Torstar has reduced its annual dividend by half from $0.74 to $0.37 per share. In doing this, Torstar has taken a cautious approach, recognizing that its shareholders want management to keep a clear focus on creating long-term value including preserving the ability to strengthen Torstar's businesses. The lower dividend will apply for the dividend payable on March 31, 2009.

On February 26, 2009, Torstar announced that as part of a planned transition, Robert Prichard will step down as President and Chief Executive Officer effective May 6, 2009 and that David Holland, the current Executive Vice President and Chief Financial Officer will become Interim Chief Executive Officer on the same date. Torstar expects to record an accounting provision of approximately $8.0 million, net of tax, in the first quarter in connection with this transition followed by lower corporate costs in subsequent quarters.

In addition to other changes to the Board of Directors, Torstar also announced on February 26, 2009 that the Honourable Frank Iacobucci, who has served as Chair of the Board of Torstar since 2005, has decided not to stand for re-election to the Board. John A. Honderich, a Torstar Director for 11 years, Chair of the Voting Trust and former Publisher of the Toronto Star, will become Chair of the Board.

OTHER

At January 31, 2009, Torstar had 9,892,667 Class A voting shares and 68,999,120 Class B non-voting shares outstanding. More information on Torstar share capital is provided in Note 14 of the consolidated financial statements.

At January 31, 2009, Torstar had 5,528,018 options to purchase Class B non-voting shares outstanding to executives and non-executive directors. More information on Torstar's stock option plan is provided in Note 15 of the consolidated financial statements.

Additional information relating to Torstar including the Annual Information Form is available on SEDAR at www.sedar.com.

MANAGEMENT'S REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparation of the consolidated financial statements, notes hereto and other financial information contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using the best estimates and judgments of management, where appropriate. Information presented elsewhere in this annual report is consistent with that in the financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities by the Audit Committee of the Board. The Committee meets quarterly with management and the internal and external auditors, and separately with the internal and external auditors, to satisfy itself that management's responsibilities are properly discharged, and to discuss accounting and auditing matters. The Committee reviews the consolidated financial statements and recommends approval of the consolidated financial statements to the Board.

The internal and external auditors have full and unrestricted access to the Audit Committee to discuss their audits and their related findings as to the integrity of the financial reporting process.

J. Robert S. Prichard
President and Chief Executive Officer

David P. Holland
Executive Vice-President and Chief Financial Officer

February 26, 2009

AUDITORS' REPORT
TO THE SHAREHOLDERS OF TORSTAR CORPORATION

We have audited the consolidated balance sheets of Torstar Corporation as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario,
February 23, 2009
(except as to Note 29, which is dated February 26, 2009)

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

TORSTAR CORPORATION

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

(thousands of dollars)

Assets	2008	2007
Current:		
Cash and cash equivalents	**$45,787**	$34,096
Receivables (note 2)	**273,658**	263,779
Inventories (note 11)	**39,141**	31,807
Prepaid expenses	**71,922**	61,325
Prepaid and recoverable income taxes	**13,719**	3,097
Future income tax assets (note 16)	**24,416**	19,010
Total current assets	**468,643**	413,114
Property, plant and equipment (net) (note 3)	**298,475**	330,391
Investment in associated businesses (note 4)	**201,571**	434,294
Intangible assets (note 5)	**34,667**	28,773
Goodwill (net) (note 6)	**577,116**	562,120
Other assets (note 7)	**156,543**	154,175
Future income tax assets (note 16)	**50,592**	37,970
Total assets	**$1,787,607**	$1,960,837
Liabilities and Shareholders' Equity		
Current:		
Bank overdraft	**$4,425**	$3,616
Accounts payable and accrued liabilities	**237,431**	208,217
Income taxes payable	**12,557**	17,065
Total current liabilities	**254,413**	228,898
Long-term debt (note 8)	**668,700**	650,798
Other liabilities (note 13)	**119,827**	89,678
Future income tax liabilities (note 16)	**72,090**	73,702
Shareholders' equity:		
Share capital (note 14)	**390,978**	388,036
Contributed surplus	**11,018**	9,929
Retained earnings	**296,477**	535,242
Accumulated other comprehensive loss (note 12)	**(25,896)**	(15,446)
Total shareholders' equity	**672,577**	917,761
Total liabilities and shareholders' equity	**$1,787,607**	$1,960,837

Contingencies (note 24)

(See accompanying notes)

ON BEHALF OF THE BOARD

The Hon. Frank Iacobucci
Director

J. Spencer Lanthier
Director

Consolidated Statements of Income

Years ended December 31, 2008 and 2007

(thousands of dollars except per share amounts)	**2008**	2007
Operating revenue		
Newspapers and digital	**$1,063,117**	$1,083,828
Book publishing	**472,917**	462,709
	$1,536,034	$1,546,537
Operating profit		
Newspapers and digital	**$104,007**	$128,675
Book publishing	**67,450**	60,640
Corporate	**(16,903)**	(19,028)
Restructuring and other charges (note 20)	**(59,214)**	(7,507)
	95,340	162,780
Interest (note 8(e))	**(28,225)**	(34,432)
Foreign exchange	**2,205**	(1,873)
Income (loss) of associated businesses (note 4)	**(136,948)**	20,416
Gain on sale of land (note 21)	**9,170**	
Investment write-down and loss (note 22)	**(99,797)**	
Income (loss) before taxes	**(158,255)**	146,891
Income and other taxes (note 16)	**(22,200)**	(45,500)
Net income (loss)	**($180,455)**	$101,391
Earnings (loss) per Class A and Class B share (note 14(c))		
Net income (loss) – Basic	**($2.29)**	$1.29
Net income (loss) – Diluted	**($2.29)**	$1.29

(See accompanying notes)

Consolidated Statements of Comprehensive Income

Years ended December 31, 2008 and 2007

(thousands of dollars)	**2008**	2007
Net income (loss)	**($180,455)**	$101,391
Other comprehensive income (loss), net of tax:		
Reclassification adjustment for unrealized foreign currency translation loss included in net income	**7,955**	
Unrealized foreign currency translation adjustment	**10,987**	(7,980)
Reclassification adjustment for unrealized available-for -sale financial assets included in net income	**1,602**	
Unrealized loss on available-for-sale financial assets	**(1,516)**	
Realized gain on cash flow hedges transferred to net income	**(1,305)**	(693)
Unrealized change in fair value of cash flow hedges	**(25,344)**	3,869
Unrealized change in fair value of cash flow hedges for associated businesses	**(279)**	
Other comprehensive loss	**(7,900)**	(4,804)
Comprehensive income (loss)	**($188,355)**	$96,587

(See accompanying notes)

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2008 and 2007

(thousands of dollars)	**2008**	2007
Share capital (note 14)	**$390,978**	$388,036
Contributed surplus		
Balance, beginning of year	**$9,929**	$7,466
Stock-based compensation expense	**1,089**	2,464
Transfer to share capital for stock options exercised		(1)
Balance, end of year	**$11,018**	$9,929
Retained earnings		
Balance, beginning of year	**$535,242**	$491,999
Net income (loss)	**(180,455)**	101,391
Dividends	**(58,310)**	(58,148)
Balance, end of year	**$296,477**	$535,242
Accumulated other comprehensive loss		
Balance, beginning of year as previously reported	**($15,446)**	
Unrealized foreign currency translation adjustment losses		($9,116)
Cumulative impact of accounting changes relating to financial instruments		(1,526)
	(15,446)	(10,642)
Transition impact of accounting changes relating to financial instruments for associated businesses (note 4)	**(2,550)**	
Other comprehensive loss	**(7,900)**	(4,804)
Balance, end of year (note 12)	**($25,896)**	($15,446)
Total shareholders' equity	**$672,577**	$917,761

(See accompanying notes)

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

(thousands of dollars)	**2008**	2007
Cash was provided by (used in)		
Operating activities	**$122,217**	$136,152
Investing activities	**(46,086)**	(41,225)
Financing activities	**(68,671)**	(105,464)
Increase (decrease) in cash	**7,460**	(10,537)
Effect of exchange rate changes	**3,422**	(2,847)
Cash, beginning of year	**30,480**	43,864
Cash, end of year	**$41,362**	$30,480
Operating activities:		
Net income (loss)	**($180,455)**	$101,391
Depreciation and amortization	**55,573**	55,134
Future income taxes	**1,552**	885
Loss (income) of associated businesses	**136,948**	(20,416)
Dividends received from associated business	**1,161**	
Investment write-down and loss	**99,797**	
Other (note 23)	**1,536**	(10,331)
	116,112	126,663
Decrease in non-cash working capital	**6,105**	9,489
Cash provided by operating activities	**$122,217**	$136,152
Investing activities:		
Additions to property, plant and equipment	**($26,129)**	($38,139)
Acquisitions and investments (note 17)	**(24,651)**	(4,693)
Proceeds on sale of land (note 21)	**3,095**	
Other	**1,599**	1,607
Cash used in investing activities	**($46,086)**	($41,225)
Financing activities:		
Issuance of banker's acceptance	**$14,479**	$13,541
Repayment of banker's acceptance	**(26,291)**	(65,350)
Dividends paid	**(57,871)**	(57,658)
Exercise of stock options (note 14(b))		2,586
Other	**1,012**	1,417
Cash used in financing activities	**($68,671)**	($105,464)
Cash represented by:		
Cash and cash equivalents	**$45,787**	$34,096
Bank overdraft	**(4,425)**	(3,616)
	$41,362	$30,480

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

(Tabular amounts in thousands of dollars)

1. ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The following is a summary of the significant accounting policies.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries and joint ventures. The major subsidiaries are: Toronto Star Newspapers Limited; Harlequin Enterprises Limited (“Harlequin”) and Metroland Media Group Limited. The Company proportionately consolidates its joint ventures.

(b) Foreign currency translation

Assets and liabilities denominated in foreign currencies have been translated to Canadian dollars primarily at exchange rates prevailing at the year end. Revenues and expenses are translated at average rates for the year. Translation gains or losses relating to self-sustaining foreign operations, principally in Europe and Asia, are deferred and included in accumulated other comprehensive loss within shareholders’ equity as foreign currency translation adjustments. A proportionate amount of these deferred gains or losses are recognized in income when there is a reduction in the Company’s net investment in the foreign operation.

(c) Financial instruments

All financial assets are classified as (i) held-for-trading, (ii) held-to-maturity investments, (iii) loans and receivables or (iv) available-for-sale. Also, all financial liabilities are classified as (i) held-for-trading or (ii) other financial liabilities. Upon initial recognition, all financial instruments are recorded on the consolidated balance sheet at their fair values. After initial recognition, the financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest rate method. Changes in the fair value of financial instruments classified as held-for-trading are recognized in net income. If a financial asset is classified as available-for-sale, any gain or loss arising from a change in its fair value is recognized in other comprehensive income until the financial asset is derecognized and all cumulative gain or loss is then recognized in net income. The Company uses trade-date accounting.

The Company has classified its cash and cash equivalents, bank overdraft and derivative financial instruments that are not designated as hedges as held-for-trading. They are presented at their fair value and the gains or losses arising on the revaluation at the end of each period are included in net income. The carrying values of these instruments approximate their fair values.

Accounts receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost.

The long term debt instruments have been classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Transaction costs related to the long term debt instruments are included in the value of the instruments and amortized using the effective interest rate method.

Portfolio investments are classified as available-for-sale and are measured at fair value except for securities that do not have a quoted market price in an active market which are carried at cost. Any changes in the fair value are recognized in other comprehensive income except for other than temporary impairment losses which are recognized in net income.

Derivative financial instruments that are designated as cash flow hedges, such as the floating to fixed interest rate swap agreements and forward exchange contracts are presented at their fair value. The gains or losses arising from the revaluation at the end of each period are included in other comprehensive income to the extent of hedge effectiveness. For effective fair value hedges, such as the fixed to floating interest rate swap agreements, changes in the fair value of the hedging derivative are recorded in net income. The carrying value of the hedged item is adjusted for unrealized gains or losses attributable to the hedged risk and also recognized in net income.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative in the balance sheet, at its fair value. The Company will recognize embedded derivatives on its consolidated balance sheet, when applicable.

The fair value of the Company’s financial instruments approximates their carrying value unless otherwise stated.

The Company manages its exposure to currency fluctuations, primarily U.S. dollars, through the use of derivative financial instruments. Foreign exchange contracts to sell U.S. dollars have been designated as hedges against future Book publishing revenue. Gains and losses on these instruments are accounted for as a component of the related hedged transaction. Foreign exchange contracts which do not qualify for hedge accounting are reported on a mark to market basis in earnings.

The Company uses interest rate swap contracts to manage interest rate risks and has designated all interest rate swap contracts as hedges. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on an accrual basis. Any resulting carrying amounts are included in receivables in the case of favourable contracts and accounts

payable in the case of unfavourable contracts.

The Company manages its exposure associated with changes in the fair value of its deferred share unit ("DSU") plans and the cost of its restricted share unit ("RSU") plan through the use of derivative instruments. Changes in the fair value of these instruments are recorded as compensation expense.

The Company does not engage in trading or other speculative activities with respect to derivative financial instruments.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such derivative instrument ceases to exist as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

The fair value of derivative financial instruments reflects the estimated amount that the Company would have been required to pay if forced to settle all unfavourable outstanding contracts or the amount that would be received if forced to settle all favourable contracts at year end. The fair value represents a point-in-time estimate that may not be relevant in predicting the Company's future earnings or cash flows.

The Company determines the fair value for interest rate swaps as the net discounted future cash flows using the implied zero-coupon forward yield curve. The change in the difference between the discounted cash flow streams for the hedged item and the hedging item is deemed to be hedge ineffectiveness and recorded in earnings.

(d) Cash and cash equivalents

Cash and cash equivalents consists of cash in bank and short-term investments with maturities on acquisition of 90 days or less.

(e) Receivables

Receivables are reduced by provisions for anticipated book returns and estimated bad debts which are determined by reference to past experience and expectations.

(f) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of finished goods and work in progress includes raw materials, translation and related printing and production costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made for slow moving and obsolete inventory. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the value of the inventory.

(g) Prepaid expenses

Prepaid expenses include advance royalty payments to authors which are deferred until the related works are published and are reduced by estimated provisions for advances that may exceed royalties earned.

(h) Property, plant and equipment

These assets are recorded at cost and depreciated over their estimated useful lives. The rates and methods used for the major depreciable assets are:

Buildings:

- straight-line over 25 years or 5% diminishing balance

Leasehold Improvements:

- straight-line over the life of the lease

Machinery and Equipment:

- straight-line over 10 to 20 years or 20% diminishing balance

(i) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. Any impairment loss would be determined as the excess of the carrying value of the assets over their fair value.

(j) Investments in associated businesses

Investments in associated businesses are accounted for using the equity method.

(k) Intangible assets

Intangible assets are recorded at their fair value on the date of acquisition. Intangible assets with finite lives are amortized over their useful lives and consist primarily of customer relationships which are being amortized on a straight line basis over 4 to 10 years. Certain of the Company's intangible assets, which include trade and domain names and newspaper mastheads, have an indefinite life and accordingly are not amortized.

Intangibles with indefinite lives are tested for impairment annually or more frequently when impairment is indicated by events or changes in circumstances. Impairment loss is determined as the excess of the carrying value of the intangible asset over its fair value.

(l) Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is tested for impairment on an annual basis or between annual tests when an event or circumstance occurs that more likely than not reduces the fair value of a reporting unit below its carrying amount. Goodwill is assessed for impairment using a two-step approach.

In the first step, the carrying value of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying value, then goodwill of the reporting unit is considered not to be impaired and the second step is not required.

The second step of the impairment test is carried out when the carrying value of a reporting unit exceeds its fair value. In this situation, the fair value of the reporting unit is allocated to the assets and liabilities of the reporting unit, based on their fair values. The excess, if any, of the fair value after the allocation (i.e. the residual) represents the implied fair value of the goodwill. When the carrying value of the reporting unit’s goodwill exceeds the implied fair value of the goodwill, an impairment loss equal to the excess is recognized in current period earnings and shown as a separate item in the Consolidated Statements of Income in the period in which the impairment is determined.

(m) Employee future benefits

The Company maintains both defined benefit and defined contribution plans. Details with respect to accounting for defined benefit employee future benefit plans are as follows:

• The cost and obligations of pensions and post employment benefits earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimate of assumptions of future investment returns for funded plans, salary changes, retirement ages of employees and expected health care costs.

• For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

• As prescribed by the CICA, the discount rate used for determining the benefit obligation is the current interest rate at the balance sheet date on high quality fixed income investments with maturities that match the expected maturity of the obligations.

• Past service costs resulting from plan amendments are amortized on a straight-line basis over the average remaining service life of employees active at the date of amendment.

• The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees.

Company pension contributions in excess of the amounts expensed in the statements of income are recorded as accrued benefit assets in other assets in the balance sheet. Liabilities related to unfunded post employment benefits and an executive retirement plan are included as employee future benefits in other long-term liabilities.

Company contributions to capital accumulation plans are expensed as incurred.

(n) Stock-based compensation plans

The Company has a stock option plan, an employee share purchase plan, two DSU plans and an RSU plan.

The Company uses the fair value method of accounting for stock options. Under this method, the fair value of the stock options is determined at the date of grant using an option pricing model. Over the vesting period, this fair value is recognized as compensation expense and a related credit to contributed surplus. The contributed surplus balance is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when the options are exercised.

The fair value method of accounting is utilized for the Company’s annual employee share purchase plans. Under this method, the Company recognizes a compensation expense and a related credit to contributed surplus each period, based on the excess of the current share price over the opening price, in accordance with the terms that would apply if the plan had matured at the current share price. Upon maturity of the plan, contributed surplus is eliminated and share capital is credited. The consideration paid by the plan members is credited to share capital when the plan matures.

Eligible executives and non-employee directors may receive or elect to receive DSUs equivalent in value to Class B non-voting shares of the Company. Compensation expense is recorded in the year of granting of the DSUs and changes in the intrinsic value of outstanding DSUs, including deemed dividend equivalents, are recorded as an expense in the period that they occur. Outstanding DSUs are recorded as long-term liabilities.

During the third quarter of 2008, the Company made a change to its RSU Plan such that the plan will pay out in cash rather than Torstar Class B non-voting shares. This change was made to all outstanding grants as well as for future grants. Effective with this change, the accounting for the plan changed from being an equity obligation to a cash obligation. Under the new accounting, the RSU’s will be accrued over the three-year vesting period and the liability will be marked to market each quarter. Accrued RSUs are recorded as long-term liabilities, except for the portion that will vest within twelve months which is recorded as a current liability.

Prior to the third quarter of 2008, a deferred compensation balance and an RSU equity were recorded for the total grant-date value on the date of the grant. The deferred compensation balance was recorded as a reduction of shareholders' equity and was amortized as compensation expense over the applicable vesting period. The RSU equity was recorded as an increase of shareholders' equity. The Company could choose to fund this liability at any time prior to the vesting date by purchasing Class B non-voting shares of the Company in the open market through an employee benefit trust ("Trust"). Any difference between the value of the RSU equity and the price paid for the shares purchased was recorded as an adjustment to shareholders' equity. For accounting purposes, the Trust was treated as a Variable Interest Entity and consolidated in the accounts of the Company. On consolidation, the dividends paid on the shares held by the Trust were eliminated. The shares were treated as not being outstanding for the basic earnings per share ("EPS") calculations at the time of initial purchase by the Trust. They were amortized back into basic EPS over the vesting period. All of the shares held by the Trust were included in the fully-diluted EPS calculations.

The Company wound up the RSU Trust that it had established to hold Torstar Class B non-voting shares during the third quarter of 2008.

(o) Income taxes

The Company follows the liability method of accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(p) Revenue recognition

Advertising revenue is recognized when publications are delivered or advertisements are placed on the Company's Web sites. Newspaper circulation revenue is recognized when the publication is delivered. Subscription revenue for newspapers is recognized as the publications are delivered over the term of the subscription. Revenue from the sale of books is recognized for the retail distribution channel based on the book's publication date (books are shipped prior to the publication date so that they are in stores by the publication date) and for the direct-to-consumer distribution channel when the books are shipped. Book publishing revenue is recorded net of provisions for estimated returns and direct-to-consumer bad debts, which are estimated primarily based on past experience. Other revenue is recognized when the related service or product has been delivered. Amounts received in advance are included in the balance sheet in Accounts payable and accrued liabilities until the revenue is recognized in accordance with the policies noted above.

(q) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; valuation of goodwill, investments, long-lived assets and financial instruments; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

(r) Changes in accounting policies

On January 1, 2008, the Company adopted the CICA Handbook Section 1535 "Capital Disclosures", Section 3031 "Inventories", Section 3862 "Financial Instruments – Disclosures", Section 3863 "Financial Instruments – Presentation" and Section 1400 "Assessing Going Concern" in accordance with the transitional provisions, which do not require restatement of prior periods.

Capital Disclosures

Section 1535 establishes standards for disclosure of both qualitative and quantitative information that enables users to evaluate the entity's objectives, policies and processes for managing capital; the disclosure and compliance with any externally imposed capital requirements and the consequences of any non-compliance. The required disclosures are included in Note 10 to these consolidated financial statements.

Inventories

Section 3031 prescribes the measurement of inventories at the lower of cost and net realizable value, with guidance on cost determination including the allocation of overheads and other costs to inventory. Reversals of previous write-downs to net realizable value are required when there is a subsequent increase in the value of inventories. The required disclosures are included in Note 11 to these consolidated financial statements.

Financial instruments

Sections 3862 and 3863 together replace Section 3861 "Financial Instruments – Disclosures and Presentation", revising and enhancing its disclosure requirements while carrying forward unchanged its presentation requirements. These new sections emphasize disclosures of the nature and extent of risks arising from financial instruments to which the entity is exposed and how those risks are managed. The Company has included the required disclosures in Note 9 to these consolidated financial statements.

Assessing going concern

The Accounting Standards Board amended the CICA Handbook Section 1400 "General Standards of Financial Statement Presentation" to include requirements for management to assess an entity's ability to continue as a going concern and to

disclose material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. The Company adopted the new standard effective January 1, 2008.

There was no impact from these changes in accounting policies on net income for the year ended December 31, 2008.

Future accounting changes include the following items:

Goodwill and Intangible assets
In February 2008, the CICA issued Section 3064 "Goodwill and Intangible assets" which will replace Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs" and will apply to the Company effective January 1, 2009. The standard, which requires retrospective application, provides guidance on the criteria for recognition of intangible assets and the accounting treatment for advertising and promotional activities. Under this standard, direct-response advertising costs can no longer be capitalized and amortized against the related revenue, hence the Company will expense as incurred, customer acquisition and retention costs with respect to its direct-to-consumer businesses in its Book Publishing segment's operating results. The Company estimates a pre-tax adjustment to opening retained earnings in the range of $10 - $12 million. Assuming the level of direct mail activity remains stable, the impact of this change in accounting policy on annual net income for the year should not be significant, although there could be a higher level of fluctuation in earnings reported throughout the year.

International Financial Reporting Standards
The CICA has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. At this date, the company will be required to prepare financial statements in accordance with IFRS. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The Company has completed an initial review of IFRS and has made a preliminary classification of the IFRS standards into those that could have a significant, moderate or no impact on its financial reporting. The Company is currently developing its IFRS conversion plan which will include a deeper analysis of the IFRS standards, with priority being placed on those that have been identified as possibly having a significant impact. The analysis of each IFRS standard will include identifying the differences between IFRS and the Company's accounting policies, assessing the impact of the difference, and where necessary, analyzing the various policies that it could elect to adopt.

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the CICA issued EIC-173 "Credit risk and the fair value of financial assets and financial liabilities" which becomes effective for the Company's 2009 fiscal year with retrospective application without restatement of prior periods. The guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The Company is reviewing the guidance to determine the potential impact on its consolidated financial statements.

2. RECEIVABLES

The provisions for anticipated book returns and bad debts deducted from receivables at December 31, 2008 amounted to $129 million (2007 - $118 million).

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Net
2008			
Land	**$7,278**		**$7,278**
Buildings and leasehold improvements	**232,684**	**$138,459**	**94,225**
Machinery and equipment	**717,647**	**520,675**	**196,972**
Total	**$957,609**	**$659,134**	**$298,475**
2007			
Land	$7,424		$7,424
Buildings and leasehold improvements	229,113	$129,373	99,740
Machinery and equipment	785,941	562,714	223,227
Total	$1,022,478	$692,087	$330,391

Depreciation expense for the year ended December 31, 2008 was $53.0 million (2007 - $53.7 million).

4. INVESTMENT IN ASSOCIATED BUSINESSES

The Company's Investment in associated businesses includes a 20% equity interest in CTVglobemedia Inc. ("CTVgm"), a 19.35% equity interest in Black Press Ltd. ("Black Press") and a 30% equity interest in Q-ponz Inc. The Investment in associated businesses is comprised of the following:

	2008	2007
Balance, beginning of year	**$434,294**	$416,320
(Loss) income of associated businesses	**(136,948)**	20,416
Dividends received	**(1,161)**	
Write-down of investment	**(95,729)**	
Change in investees accumulated other comprehensive loss	**3,665**	(2,442)
Adjustment to other comprehensive loss on adoption of new accounting standards	**(2,550)**	
Balance, end of year	**$201,571**	$434,294

Torstar does not have coterminous quarter-ends with CTVgm and Black Press and these financial statements reflect the Company's share of CTVgm's and Black Press' results for the twelve months ended November 30, 2008 and 2007.

Included in the 2008 Loss of associated businesses is the effect of goodwill and intangible asset impairment losses for CTVgm of $124.2 million and Black Press of $21.8 million. CTVgm's impairment reflects the impact of lower estimated future cash flows in respect of certain of its television (in particular, conventional television), radio and print assets. In late 2008, Black Press determined that it would likely record an impairment loss related to certain of its intangible assets and reporting unit goodwill in its fiscal 2009 (year ended February 2009) financial statements. The impairment loss reflects the impact that the U.S. economy and the structural challenges facing U.S. daily newspapers is having on Black Press's U.S. newspapers. Torstar has recorded an estimate of $21.8 million in the fourth quarter of 2008 for the impairment loss and expects Black Press will finalize the determination of the impairment loss during Torstar's second quarter of 2009.

Torstar also recorded an $95.7 million write-down on its investment in CTVgm which represents an other than temporary decline in its value below carrying value.

As a result of CTVgm adopting new accounting standards with respect to financial instruments in 2008, the Company has recorded a loss of $2.5 million in accumulated other comprehensive loss, reflecting its share of CTVgm's transition adjustments.

CTVgm is currently in the process of renegotiating its banking arrangements.

At December 31, 2008, Torstar's carrying value of its investment in CTVgm was $200.0 million (2007 - $409.2 million) and was nil for Black Press (2007 - $23.5 million).

Outlined below is summarized financial information for 100% of CTVgm, based on Torstar's fair value adjustments on acquisition, as at November 30, 2008 and 2007 and for the twelve months ended November 30, 2008 and 2007. Torstar's current period write-down due to an other than temporary decline in the value of the investment in CTVgm below carrying value has been reflected as a deduction from goodwill and shareholders' equity in the summarized financial information below.

	2008	2007
Balance Sheet		
Current assets	**$737,396**	$770,170
Property, plant and equipment	**550,649**	533,305
Intangible assets	**1,995,365**	2,659,843
Goodwill	**298,325**	861,400
Other assets	**255,493**	194,240
	$3,837,228	$5,018,958
Current liabilities	**$530,936**	$448,254
Debt	**1,934,627**	2,091,143
Other liabilities and non-controlling interests	**371,663**	433,610
Shareholders' equity	**1,000,002**	2,045,951
	$3,837,228	$5,018,958
Statements of (Loss) Income		
Revenues[1]	**$2,198,815**	$1,938,295
Operating profit[1]	**$214,230**	$286,715
Impairment loss on goodwill and intangible assets[2]	**($1,191,330)**	
Net (loss) income[2]	**($1,031,805)**	$85,880
Statements of Comprehensive (Loss) Income		
Net (loss) income	**($1,031,805)**	$85,880
Other comprehensive loss	**(1,392)**	
Comprehensive (loss) income	**($1,033,197)**	$85,880

[1]CTVgm accounted for its investment in CHUM by the equity method until the end of June 2007 and accordingly the revenue and operating profit for the twelve month period ended November 30, 2007 only includes five months of CHUM's revenues and operating profit.
[2]Includes Torstar's current period write-down due to an other than temporary decline in the value of its investment in CTVgm below carrying value.

5. INTANGIBLE ASSETS

	2008	2007
Intangible assets not subject to amortization:		
Balance, beginning of year	**$19,800**	$18,850
Additions	**2,937**	950
Write-down for impairment	**(1,416)**	
Balance, end of year	**$21,321**	$19,800
Intangible assets subject to amortization:		
Balance, beginning of year	**$8,973**	$10,088
Additions	**7,213**	
Write-down for impairment	**(987)**	
Amortization	**(1,853)**	(1,115)
Balance, end of year	**$13,346**	$8,973
Total	**$34,667**	$28,773

6. GOODWILL

	2008	2007
Balance, beginning of year	**$562,120**	$559,405
Recognized on acquisitions (note 17)	**15,451**	2,798
Foreign exchange difference and other	**(455)**	(83)
Balance, end of year	**$577,116**	$562,120

7. OTHER ASSETS

	2008	2007
Accrued benefit assets (note 18)	**$148,257**	$139,124
Portfolio investments (note 22)	**2,915**	7,632
Derivative instruments (note 9)	**3,363**	2,473
Other	**2,008**	4,946
	$156,543	$154,175

8. LONG TERM DEBT

	2008	2007
Bankers' acceptance:		
Cdn. dollar denominated	**$441,745**	$444,632
U.S. dollar denominated	**123,592**	108,001
	565,337	552,633
Medium Term Notes:		
Cdn. dollar denominated (note 8(b))	**100,000**	100,000
Fair value hedge	**3,363**	(1,835)
	103,363	98,165
	$668,700	$650,798

(a) Bank debt

(i) The Company has long-term credit facilities with its bankers which consist of a $425 million revolving loan that matures in January, 2012 and a $310 million revolving operating loan. The operating loan was extended in January 2009 for 364 days to mature in January 2010 and can be extended with the consent of all parties for an additional 364-day period (and a second additional period not to extend beyond January 2012) or can be converted to a 364-day term loan at the Company's option. The credit facilities may be drawn in Canadian or U.S. dollars. The credit facilities are subject to financial tests and other covenants with which the company was in compliance at December 31, 2008.

(ii) Amounts borrowed under the bank credit facilities would primarily be in the form of bankers' acceptance (or an equivalent) at varying interest rates and would normally mature over periods of 30 to 180 days. The interest rate spread above the bankers' acceptance rate if in Canadian dollars, or the LIBOR rate if in U.S. dollars, varies based on the Company's long-term credit rating and was 0.6% at December 31, 2008 (2007 – 0.6%). In January 2009, the interest rate spread on the $310 million operating loan was increased from 0.6% to 1.2%. The interest rate spread on the $425 million revolving loan remains unchanged at 0.6%.

(iii) In September 2006, the Company entered into interest rate swap agreements with major Canadian chartered banks that fix the interest rate on $250 million of Canadian dollar borrowings. As a result, the Company will pay quarterly a fixed rate of 4.3% per annum (plus the interest rate spread referred to in 8(a)(ii)) for the subsequent five years through September 2011 and will receive quarterly floating rate payments based on 90 day bankers' acceptance rates. These swap contracts have been designated as hedges. The fair value of these swap agreements was $20.2 million unfavourable at December 31, 2008 (2007 - $0.5 million unfavourable).

(iv) The average rate on Canadian dollar bank borrowings outstanding at December 31, 2008 was 2.6% (December 31 2007 – 5.3%). Including the effect of the interest rate swap noted in 8(a)(iii) the effective rate was 4.0% at December 31, 2008 (December 31 2007 – 5.2%).

(v) In May 2008, the Company entered into two interest rate swap agreements that fix the interest rate on U.S. $80 million of borrowings at approximately 4.2% (plus the interest rate spread referred to in 8(a)(ii)) for seven years ending May 2015. These swaps have been designated as hedges. The fair value of the U.S. interest rate swap arrangement at December 31, 2008 was $11.2 million unfavourable.

(vi) Bank debt outstanding at December 31, 2008 included U.S. dollar borrowings of U.S. $100.9 million (December 31 2007 – U.S. $109.3 million) at an average rate of 1.4% (December 31 2007 – 5.6%). Including the effect of the interest rate swap noted in 8(a)(v) the effective rate was 4.2% at December 31, 2008.

(b) Medium Term Notes

The Company issued in September 2005 $75 million 3.85% medium term notes which mature in September 2010. The Company has entered into swap agreements effectively converting this debt into floating rate debt based on 90-day bankers' acceptance rates plus 0.39%. The Company also issued in September 2005 $25 million 3.7% medium term notes which mature in September 2009. The Company has entered into a swap agreement effectively converting this debt into floating rate debt based on 90-day bankers' acceptance rates plus 0.36%. Interest on the medium term notes as well as the payments under the swap agreements is paid semi-annually. The swap agreements have been designated as fair value hedges and mature on the due dates of the respective notes.

The medium term notes that mature on September 9, 2009 are classified as long-term debt as the Company has the ability and intent to refinance these amounts under its long-term credit facilities.

The effective interest rate on the medium term notes outstanding at December 31, 2008, including the above noted swaps, was 2.4% (2007 – 5.3%). The fair value of the medium term notes at December 31, 2008 was $4.1 million favourable (2007 - $4.7 million favourable). The fair value of the interest rate swap agreements related to the medium term debt issuance noted above were $3.4 million favourable at December 31, 2008 (2007 - $1.8 million unfavourable). In accordance with the accounting policy for a fair value hedge, the debt has been increased by $3.4 million to $103.4 million (2007 - reduced by $1.8 million to $98.2 million). There was no impact on net income or other comprehensive income.

(c) The Company is exposed to credit related losses in the event of non-performance by counterparties to the above described derivative instruments, but it does not anticipate any counterparties to fail to meet their obligations given their high credit ratings. The Company has a policy of only accepting major financial institutions, as approved by the Board of Directors, as counterparties.

(d) Loans under the long term credit facilities may only be made provided there has been no development materially adversely affecting the business or financial condition or position of Torstar and its subsidiaries considered on a consolidated basis.

(e) Interest expense includes interest on long-term debt of $29.2 million (2007 - $35.3 million).

(f) Interest of $29.2 million was paid during the year (2007 - $34.7 million).

(g) The maturity profile for long-term debt is as follows:

	2009	2010	2012	Total
Medium Term Notes	$25,000	$75,000		$100,000
Bankers' acceptance			$565,337[1]	$565,337
	$25,000	$75,000	$565,337	$665,337

[1]Assumes the operating loan is extended for two additional periods, otherwise $234 million would mature in 2011.

TORSTAR

9. FINANCIAL INSTRUMENTS

Classification

	2008	2007
Financial assets:		
Held for trading, measured at fair value		
Cash and cash equivalents	**$45,787**	$34,096
Loans and receivables, measured at amortized cost		
Accounts receivable	**253,014**	253,487
Other receivables	**20,644**	10,292
	273,658	263,779
Available for sale, measured at cost		
Portfolio investments	**2,400**[1]	7,632[1]
Available for sale, measured at fair value		
Portfolio investments	**515**[1]	
Derivatives designated as effective hedges, measured at fair value		
Foreign currency hedges	**(5,155)**[2]	1,963[1]
Interest rate swaps – cash flow hedges	**(31,395)**[1]	510[1]
Interest rate swaps – fair value hedges	**3,363**[1]	(1,835)[1]
Financial liabilities, measured at fair value		
Bank overdraft	**4,425**	3,616
Japanese Yen forward contract	**19**[2]	
Financial liabilities, measured at amortized cost		
Long term debt	**668,700**	650,798
Accounts payable and accrued liabilities	**237,431**	208,217

[1]These amounts are included in Other assets and Other liabilities

[2]Included in Accounts payable and accrued liabilities

Risk management

The Company is exposed to various risks related to its financial assets and liabilities. These risk exposures are managed on an ongoing basis.

Credit Risk

In the normal course of business, the Company is exposed to credit risk from its accounts receivable from customers. The carrying amounts for accounts receivable are net of applicable allowances for doubtful accounts and returns, which are estimated based on past experience, specific risks associated with the customer and other relevant information. Under a billing and collection agreement with a third party, the Book publishing segment has a net receivable of $39 million (U.S. $32 million) at December 31, 2008 (2007 - $29 million (U.S. $29 million)). The Company believes that the credit risk associated with this balance is mitigated by the financial stability and payment history of the third party.

The Company is also exposed to credit-related losses in the event of non-performance by counterparties to derivative instruments. The Company manages its counterparty risk by only accepting major financial institutions with high credit ratings, as approved by the Board of Directors, as counterparties.

The maximum exposure to credit risk is the carrying value of the financial assets.

The following table sets out details of the age of trade receivables and provision for bad debts and book returns:

	2008	2007
Gross accounts receivable:		
Current	**$272,241**	$255,882
Up to three months past due date	**93,179**	97,166
Three to twelve months past due date	**8,480**	11,956
Impaired	**8,420**	6,613
	382,320	371,617
Provision for bad debts	**(18,939)**	(17,456)
Provision for book returns	**(110,367)**	(100,674)
	$253,014	$253,487

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at a reasonable cost. The Company manages liquidity risk primarily by maintaining sufficient unused capacity within its long term debt facilities. The unused capacity at December 31, 2008 was approximately $115 million, taking into account the updated credit facility and the $25 million Medium Term Notes maturing in 2009.

The Company has total operating lease commitments of approximately $174 million consisting of $18 million in 2009, $19 million in 2010, $18 million in 2011, $17 million in 2012, $15 million in 2013 and a total of $87 million in 2014 and thereafter. In addition, the Company has guaranteed sub-lease payments to a third party of approximately U.S. $1 million for each of the next 10 years.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

a) Foreign currency risk

The Company is exposed to foreign currency risk through Harlequin's international operations. The most significant foreign currency exposure is to movements in the U.S. dollar/Cdn. dollar exchange rate. To manage this exchange risk in its operating results, the Company's practice is to enter into forward foreign exchange contracts to hedge a portion of its U.S dollar revenues as detailed in Note 19.

From time to time, the Company may also enter into forward foreign exchange contracts to hedge other currencies (Yen, Euro, Pound Sterling) realized in Harlequin's overseas operations.

In order to offset the exchange risk on its balance sheet from net U.S. dollar denominated assets, the Company maintains a certain level of U.S. dollar denominated debt as indicated in Note 8(a)(vi). These net assets are primarily current in nature and to the extent that the amount of net U.S. dollar assets differs from the amount of the U.S. dollar debt, a non-cash foreign exchange gain or loss is recognized in earnings.

b) Interest rate risk

The Company's interest rate risk arises from borrowings issued at or swapped into variable rates which expose the Company to cash flow interest rate risk. The Company manages this risk through the use of interest rate swap contracts to fix the interest rate on a portion of the debt as detailed in Note 8.

An assumed 1% increase in short term interest rates during the year ended December 31, 2008 would have decreased net income by $2.8 million, with an equal but opposite effect for an assumed 1% decrease in interest rates.

The Company does not engage in trading or other speculative activities with respect to derivative financial instruments.

Fair value of financial instruments

The carrying values of the Company's financial instruments approximate their fair values unless otherwise noted.

10. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility in order to preserve its capacity to meet its financial commitments, to pay dividends and to meet its potential obligations resulting from internal growth and acquisitions.

The Company defines capital as:

- Shareholders' equity
- Long term debt
- Bank overdraft net of cash and cash equivalents

Total managed capital was as follows:

	2008	2007
Shareholders' equity	**$672,577**	$917,761
Long term debt	**668,700**	650,798
Bank overdraft	**4,425**	3,616
Cash and cash equivalents	**(45,787)**	(34,096)
	$1,299,915	$1,538,079

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, subject to capital market conditions, the Company may elect to adjust the amount of debt outstanding, adjust the amount of dividends paid to shareholders, return capital to its shareholders, repurchase its shares in the marketplace or issue new shares.

The Company is currently meeting all its financial commitments. The Company's credit facilities are subject to financial tests and other covenants with which it was in compliance at December 31, 2008.

There have been no changes in the Company's approach to capital management during the period.

The Company is not subject to any external capital requirements.

11. INVENTORIES

	2008	2007
Finished goods	**$11,698**	$9,921
Work in progress	**13,889**	9,739
Raw materials	**13,554**	12,147
	$39,141	$31,807

The Company has expensed inventory costs of $229.8 million for the year ended December 31, 2008 (2007 - $225.5 million). The Company recorded an inventory write-down of $5.0 million for the year ended December 31, 2008 (2007 - $5.4 million).

12. ACCUMULATED OTHER COMPREHENSIVE LOSS (NET OF TAX)

	Foreign currency translation adjustment	Unrealized gains (losses) on cash flow hedges	Unrealized gain on available-for-sale securities	Unrealized loss on associated businesses' cash flow hedges	Total
As at January 1, 2007	($9,116)	($1,526)			($10,642)
Other comprehensive income (loss)	(7,980)	3,176			(4,804)
As at December 31, 2007	($17,096)[1]	$1,650[2]			($15,446)
Transition impact of accounting changes relating to financial instruments for associated businesses (note 4)				($2,550)	(2,550)
Other comprehensive income (loss)	18,942	(26,649)	$86	(279)	(7,900)
As at December 31, 2008	$1,846[1]	($24,999)[2]	$86[3]	($2,829)	($25,896)

[1]Net of income tax benefit of $nil (2007 - $572).

[2]Net of income tax benefit of $11,551 (2007 – liability of $823).

[3]Net of income tax liability of $17 (2007 - nil).

13. OTHER LIABILITIES

	2008	2007
Employee future benefits (note 18)	**$71,499**	$71,578
Employees' shares subscribed (note 15(b))	**4,146**	5,558
RSU plan (note 15(c))	**960**	
DSU plan (note 15(e))	**2,818**	5,536
Derivative instruments (note 9)	**31,395**	1,835
Other	**9,009**	5,171
	$119,827	$89,678

14. SHARE CAPITAL

(a) Rights attaching to the Company's share capital:

(i) Class A (voting) and Class B (non-voting) shares, no par value
Class A and Class B shareholders may elect to receive dividends in cash or stock dividends in the form of Class B shares. Class A shares are convertible at any time at the option of the holder into Class B shares.

(ii) Voting provisions
Class B shares are non-voting unless eight consecutive quarterly dividends have not been paid.

(iii) Restrictions on transfer
Registration of the transfer of any of the Company's shares may be refused if such transfer could jeopardize either the ability of the Company to engage in broadcasting or its status as a Canadian newspaper publisher.

(b) Summary of changes in the Company's share capital:

Class A (voting) and Class B (non-voting) shares

Class A shares

The only changes in the Class A shares were the conversion to Class B shares of 14,935 shares (with a stated value of $4,058) in 2008 and 7,190 shares (with a stated value of $1,953) in 2007. Total Class A shares outstanding at December 31 were:

	Shares	Amount
2007	9,907,602	$2,692
2008	**9,892,667**	**$2,688**

Class B shares

The changes in the Class B shares were:

	Shares	Amount
January 1, 2007	68,558,932	$379,703
Converted from Class A	7,190	2
Issued under Employee Share Purchase Plan	107,142	2,009
Stock options exercised	139,800	2,587
Dividend reinvestment plan	24,586	490
Other	1,325	27
	68,838,975	384,818
Change in reduction for RSU Trust Shares (note 1(n))		526
December 31, 2007	**68,838,975**	**$385,344**
Converted from Class A	**14,935**	**4**
Issued under Employee Share Purchase Plan	**109,829**	**1,778**
Dividend reinvestment plan	**34,131**	**439**
Other	**1,225**	**15**
	68,999,095	**387,580**
Change in reduction for RSU Trust Shares (note 1(n))		**710**
December 31, 2008	**68,999,095**	**$388,290**

Totals

The total Class A and Class B shares outstanding at December 31 were:

	Shares	Amount
2007	78,746,577	$388,036
2008	**78,891,762**	**$390,978**

An unlimited number of Class B shares is authorized. While the number of authorized Class A shares is unlimited, the issuance of further Class A shares, may under certain circumstances, require unanimous board approval.

(c) Earnings per share

Basic earnings per share amounts have been determined by dividing income by the weighted average number of Class A and Class B shares outstanding during the year after deducting the unvested shares held by the RSU Trust.

The treasury stock method is used for the calculation of the dilutive effect of stock options and other dilutive securities. In calculating diluted per share amounts under the treasury stock method, the numerator remains unchanged from the basic per share calculation as the assumed exercise of the Company's stock options and employee share purchase plan does not result in an adjustment to income. The reconciliation of the denominator in calculating diluted per share amounts is as follows:

(thousands of shares)	**2008**	2007
Weighted average number of shares outstanding, basic	**78,837**	78,620
Effect of dilutive securities		
- stock options		57
- unvested RSU shares		30
Weighted average number of shares outstanding, diluted	**78,837**	78,707

Outstanding stock options totaling 5,177,900 (2007 - 3,965,932), which are out of the money, have been excluded from the above calculation of dilutive securities.

15. STOCK-BASED COMPENSATION PLANS

(a) Stock option plan

Eligible senior executives may be granted options to purchase Class B non-voting shares at an option price which shall not be less than the closing market price of the shares on the last trading day before the grant. Prior to January 1, 2003, non-executive directors were also eligible to be granted options.

The maximum number of shares that may be issued under the stock option plan is 12,500,000, and the number of shares reserved for issuance to insiders cannot exceed 10% of the outstanding shares. The term of the options shall not exceed ten years from the date the option is granted. Up to 25% of an option grant may be exercised twelve months after the date granted, and a further 25% after each subsequent anniversary. Options to purchase 10,922,859 shares have been granted as of December 31, 2008.

A summary of changes in the stock option plan is as follows:

	Options	Weighted average exercise price
January 1, 2007	5,388,145	$22.80
Granted	523,891	19.70
Exercised	(139,800)	(18.50)
Forfeited or expired	(659,582)	(22.94)
December 31, 2007	**5,112,654**	**$22.57**
Granted	**586,552**	**18.78**
Forfeited or expired	**(521,306)**	**(25.18)**
December 31, 2008	**5,177,900**	**$21.88**

As at December 31, 2008, outstanding stock options were as follows:

Options Outstanding			
Range of exercise price	Number outstanding December 31, 2008	Weighted average remaining contractual life	Weighted average exercise price
$15.75 – 19.61	1,725,521	5.7 years	$18.77
$20.30 – 22.20	2,403,542	3.9 years	$21.72
$25.50 – 29.01	1,048,837	3.8 years	$27.35
$15.75 – 29.01	5,177,900	4.5 years	$21.88

Options Exerciseable		
Range of exercise price	Number exercisable December 31, 2008	Weighted average exercise price
$15.75 – 19.61	790,191	$18.40
$20.30 – 22.20	2,015,229	$21.66
$25.50 – 29.01	1,048,837	$27.35
$15.75 – 29.01	3,854,257	$22.54

Subsequent to year-end, 499,656 stock options were granted at an exercise price of $8.37 per share.
In estimating the compensation expense for stock options granted in 2004 to 2008, the Company used the Black-Scholes options pricing model. The fair value of the options on the date of grant and the assumptions used are as follows:

	2008	2007	2006	2005	2004
Fair Value	**$2.24**	$2.56	$3.08	$3.48	$5.52
Risk-free interest rate	**4.1%**	4.0%	4.2%	3.7%	4.1%
Expected dividend yield	**3.9%**	3.8%	3.3%	3.4%	2.4%
Expected share price volatility	**15.1%**	16.3%	16.8%	20.7%	20.6%
Expected time until exercise (years)	**6**	6	5	5	5

(b) Under the Company's annual employee share purchase plans, employees may subscribe for Class B non-voting shares of the Company to be paid for through payroll deductions over two-year periods at a purchase price which is the lower of the market price on the entry date or the market price at the end of the payment period. The value of the shares that an employee may subscribe for is restricted to a maximum of 20% of salary at the beginning of the two year period. As at December 31, outstanding employee subscriptions were as follows:

	2008		2007	
Maturing	**2009**	**2010**	2008	2009
Subscription price at entry date	**$21.00**	**$15.66**	$21.86	$21.00
Number of shares	**102,564**	**127,189**	132,356	126,871

(c) RSU Plan

Eligible senior executives may be granted RSU awards equivalent in value to Class B non-voting shares of the Company as part of their long-term incentive compensation. RSU's vest after three years.

The Company has entered into a derivative instrument in order to lock in the expense for 291,394 RSU's (2007 – nil). The derivative instrument is settled quarterly. Changes in the fair value of this instrument are recorded as compensation expense and offset the impact of changes in the fair value of the RSU's that have been accrued. As the RSU's are accrued over the three-year vesting period, there will not be an exact offset each period.

As at December 31, 2008, 300,070 units were outstanding of which 86,592 units have been accrued in Accounts payable and accrued liabilities at a value of $0.7 million while 114,740 units have been accrued in Other liabilities at a value of $1.0 million.

A summary of changes in the RSU plan is as follows:

	Units
January 1, 2007	90,781
Granted	102,423
Forfeited	(2,701)
December 31, 2007	**190,503**
Granted	**117,223**
Forfeited	**(4,933)**
Vested and paid	**(2,723)**
December 31, 2008	**300,070**

Subsequent to year-end, 339,992 RSU's have been granted and 86,592 RSU's have vested and were paid.

(d) The Company has recognized in 2008, compensation expense totalling $3.0 million for the stock options granted in 2005 to 2008, RSUs granted in 2006 to 2008 and the employee share purchase plans originating in 2006 to 2008 (2007 - $3.0 million for the stock options granted in 2004 to 2007, RSU's granted in 2006 to 2007 and the employee share purchase plans originating in 2005 to 2007).

(e) DSU Plan

Eligible executives may elect to receive certain cash incentive compensation in the form of DSU units. Each unit is equal in value to one Class B non-voting share of the Company. The units are issued on the basis of the closing market price per share of Class B non-voting shares of the Company on the Toronto Stock Exchange on the date of issue. The units also accrue dividend equivalents payable in additional units in an amount equal to dividends paid on Class B non-voting shares of the Company. DSU units mature upon termination of employment, whereupon an executive is entitled to receive the fair market value of the equivalent number of Class B non-voting shares, net of withholdings, in cash.

The Company has also adopted a DSU plan for non-employee directors. Each non-employee director receives an award of DSU units as part of his or her annual Board retainer. In addition, a non-employee director holding less than the minimum shareholding requirement of Class B non-voting shares, Class A voting shares, DSU units, or a combination thereof, receives the cash portion of his or her annual Board retainer in the form of DSU units. Any non-employee director may elect to participate in the DSU in respect of part or all of his or her retainer and attendance fees. The terms of the director DSU are substantially the same as the executive DSU.

As at December 31, 2008, 336,772 units were outstanding at a value of $2.8 million (2007 – 294,767 units, value $5.5 million). There were 26,576 units redeemed during 2008 at an average price of $15.94 per unit (2007 – 29,332 units, average price $21.76 per unit).

The Company has entered into a derivative instrument in order to offset its exposure to changes in the fair value of units issued under its DSU Plan. The derivative instrument is settled quarterly. As at December 31, 2008, the derivative instrument offset 298,600 units (2007 – 277,281 units).

16. INCOME AND OTHER TAXES

A reconciliation of income taxes at the average statutory tax rate to actual income taxes is as follows:

	2008	2007
Income (loss) before taxes	**($158,255)**	$146,891
Recovery of (provision for) income taxes based on Canadian statutory rate of 33.5% (2007 – 36.1%)	**$53,000**	($53,100)
(Increase) decrease in taxes resulting from:		
Income (loss) of associated businesses	**(40,400)**	4,700
Investment write-down and loss	**(33,000)**	
Foreign income taxed at lower rates	**1,100**	3,000
Foreign losses not tax effected	**(8,600)**	(3,700)
Permanent differences	**4,000**	(2,400)
Manufacturing and processing profits allowance	**500**	1,500
Other	**(100)**	(1,400)
Reduction in tax rates	**1,300**	5,900
	($22,200)	($45,500)
Effective income tax rate	**(14.0%)**	31.0%

Income taxes of $37.4 million were paid during the year (2007 - $24.5 million).

The components of the provision for income taxes are as follows:

	2008	2007
Current tax provision	**$21,500**	$40,800
Future tax (recovery) provision	**700**	4,700
Total tax provision	**$22,200**	$45,500

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as of December 31 are as follows:

	2008	2007
Current future income tax assets:		
Receivables	**$16,836**	$14,464
Other	**7,580**	4,546
	$24,416	$19,010
Non-current future income tax assets:		
Tax losses carried forward	**$36,256**	$33,618
Employee future benefits	**1,958**	1,255
Interest rate swaps	**9,850**	
Other	**2,528**	3,097
	$50,592	$37,970
Non-current future income tax liabilities:		
Property, plant and equipment	**$31,851**	$34,264
Employee future benefits	**24,867**	21,399
Investment in associated businesses		5,498
Goodwill and other	**15,372**	12,541
	$72,090	$73,702

At December 31, 2008, the Company had net operating loss carryforwards of approximately U.S. $166 million for U.S. income tax purposes. No future income tax asset has been recognized for U.S. $84 million of these losses. U.S. $117.2 million of the U.S. loss carryforwards will expire between 2019 to 2021 and U.S. $48.8 million will expire between 2023 and 2028

The Company had Canadian non-capital losses available for carryforward of approximately $6.7 million that will expire between 2025 and 2028. The Company has Canadian capital losses available for carryforward of approximately $18.4 million for which no future income tax asset has been recognized.

17. ACQUISITIONS AND INVESTMENTS

The Company completed a number of acquisitions during 2008 in the Newspapers and Digital segment for cash of $24.7 million, which were accounted for by the purchase method. The acquisitions include Central Ontario Web, eyeReturn Marketing, Save.ca and Torstar's share of Workopolis' acquisition of the specialist online employment board business of Brainhunter Inc. The purchase of eyeReturn Marketing includes future obligations of $6.5 million, which are payable annually from June 2009 through 2011 in three equal installments of approximately $2.2 million. The total purchase price of these acquisitions (including the future obligations) has been allocated $6.0 million to fixed assets, $1.1 million to working capital, $10.1 million to intangible assets, $15.5 million to goodwill, $0.4 million to other assets and $1.9 million to future income tax liabilities. The intangible assets identified included domain names of $2.9 million, which are not amortizable, and customer relationships of $7.2 million, which will be amortized on a straight-line basis over 4 to 10 years. The above allocations are final. The Company also made a portfolio investment in Multimedia Nova of $0.4 million, which is classified as available-for-sale.

During 2007, the Company completed a number of acquisitions in the Newspapers and Digital segment for a total cash purchase price of $4.1 million. These acquisitions were accounted for under the purchase method and $2.8 million has been allocated to goodwill. The Company also made an additional investment in Vocel, Inc. for $0.6 million which was accounted for by the cost method and classified as available-for-sale.

The consideration for each acquisition was cash. The amount of goodwill that is expected to be deductible for tax purposes is $2.4 million (2007 - $0.3 million).

18. EMPLOYEE FUTURE BENEFITS

The Company maintains a number of defined benefit plans which provide pension benefits to its employees in Canada and the United States. The Company also maintains defined contribution plans in Canada, the United States and in certain overseas operations of Harlequin. Post employment benefits other than pensions are also available to employees, primarily in the Canadian newspaper operations, which provide for various health and life insurance benefits.

Information concerning the Company's post employment benefit plans as at December 31 is as follows:

	Pension Plans		Post Employment Benefit Plans	
	2008	2007	**2008**	2007
Accrued benefit obligations				
Balance, beginning of year	**$754,233**	$749,248	**$59,160**	$59,988
Current service cost	**18,406**	19,173	**652**	679
Interest cost	**39,881**	37,739	**3,065**	2,968
Benefits paid	**(42,327)**	(37,062)	**(2,234)**	(2,146)
Actuarial losses (gains)	**(105,532)**	(22,060)	**(7,411)**	(2,329)
Participant contributions	**7,320**	7,469		
Past service costs	**6,471**	1,570		
Foreign exchange	**3,620**	(2,378)		
Special termination benefits	**479**	534		
Balance, end of year	**$682,551**	$754,233	**$53,232**	$59,160
Plans' assets				
Fair value, beginning of year	**$750,250**	$749,590		
Return on plan assets	**(158,658)**	3,641		
Benefits paid	**(42,327)**	(37,062)		
Contributions to plan	**30,623**	35,793		
Foreign exchange	**2,582**	(1,712)		
Fair value, end of year	**$582,470**	$750,250		
Funded status – deficit	**($100,081)**	($3,983)	**($53,232)**	($59,160)
Unamortized losses (gains)	**207,620**	104,593	**(4,580)**	2,812
Unrecognized prior service costs	**26,870**	23,107	**161**	177
Accrued benefit asset (liability)	**$134,409**	$123,717	**($57,651)**	($56,171)
Recorded in:				
Other assets	**$148,257**	$139,124		
Other liabilities	**(13,848)**	(15,407)	**($57,651)**	($56,171)
Accrued benefit asset (liability)	**$134,409**	$123,717	**($57,651)**	($56,171)
Net benefit expense for the year				
Current service cost	**$18,406**	$19,173	**$652**	$679
Interest cost on benefit obligation	**39,881**	37,739	**3,065**	2,968
Actual return on plan assets	**158,658**	(3,641)		
Actuarial gain on benefit obligation	**(105,532)**	(22,060)	**(7,411)**	(2,329)
Past service costs	**6,471**	1,570		
Special termination benefits	**479**	534		
Elements of benefit expense before recognizing its long term nature	**118,363**	33,315	**(3,694)**	1,318
Shortfall of actual return on plan assets over expected return	**(210,490)**	(48,948)		
Difference between net actuarial loss recognized and actual actuarial gain on benefit obligation	**108,307**	23,136	**7,411**	2,329
Difference between recognized and actual past service costs	**(3,366)**	1,067	**16**	
Net benefit expense	**$12,814**	$8,570	**$3,733**	$3,647
Significant assumptions used				
To determine benefit obligation at end of year:				
Discount rate	**5.6% to 6.30%**	5.25%	**6.30%**	5.25%
Rate of future compensation increase	**3.0% to 4.0%**	3.0% to 4.0%	**N/A**	N/A
To determine benefit expense:				
Discount rate	**5.25%**	5.0%	**5.25%**	5.0%
Expected long-term rate of return on plan assets	**7.0%**	7.0%	**N/A**	N/A
Rate of future compensation increase	**3.0% to 4.0%**	3.0% to 4.0%	**N/A**	N/A

	Pension Plans		Post Employment Benefit Plans	
	2008	2007	**2008**	2007
Health care cost trend rates at end of year:				
Initial rate	**N/A**	N/A	**9.50%**	10.0%
Ultimate rate	**N/A**	N/A	**5.0%**	5.0%
Year ultimate rate reached	**N/A**	N/A	**2017**	2017
Average remaining service life of active employees	**8 to 16 years**	8 to 17 years	**12 years**	12 years

At December 31, 2008, long-term liabilities included $12.2 million (2007 - $13.7 million) related to an unfunded executive retirement plan which is supported by an outstanding letter of credit of $27.5 million (2007 - $28.6 million).

The effect of a one percent increase or decrease in significant assumptions used for the Company's pension and post employment benefit plans would result in an increase (decrease) in the net benefit expense and accrued benefit obligation at December 31, 2008:

	Net Benefit Expense		Accrued Benefit Obligation	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Pension plans:				
Discount rate	(4,784)	11,390	(81,782)	93,485
Expected long-term rate of return on plan assets	(7,463)	7,463		
Rate of compensation increase	2,407	(2,094)	10,950	(10,636)
Post employment benefits plans:				
Discount rate	35	213	(6,083)	6,878
Per capita cost of health care	194	(183)	3,034	(2,858)

Pension plan assets, measured as at December 31, are as follows:

	2008	
Equity investments	**59%**	64%
Fixed income investments	**41%**	36%
Total	**100%**	100%

The Company measures the accrued benefit obligations and the fair value of the Plans' assets for accounting purposes as at December 31 of each year. Funding requirements are determined based on actuarial valuations that are generally completed every three years. Not all of the Company's defined benefit pension plans are subject to the funding valuation on the same three-year cycle. The most significant group of plans (in terms of assets and obligations) was last valued as of December 31, 2006 and will be subject to an actuarial valuation at December 31, 2009 with the funding requirements determined by that valuation becoming effective in 2010.

The total amount expensed for capital accumulation plans in 2008 was $2.7 million (2007 - $2.4 million).

19. FORWARD FOREIGN EXCHANGE CONTRACTS

The Company has entered into forward foreign exchange contracts to allow it to convert a portion of its expected future U.S. dollar revenue into Canadian dollars. The forward foreign exchange contracts outstanding at December 31, 2008 establish a rate of exchange of Canadian dollar per U.S. dollar of $1.12 for U.S. $50.1 million in 2009 and $1.22 for U.S. $21.0 million in 2010. At December 31, 2007, forward foreign exchange contracts established a rate of exchange of Canadian dollar per U.S. dollar of $1.06 for U.S. $29.0 million in 2008 and $1.02 for U.S. $2.5 million in 2009. These forward foreign exchange contracts have been designated as cash flow hedges and the net fair value of these contracts was $5.2 million unfavourable at December 31, 2008 (2007 - $2.0 million unfavourable).

The Company has also entered into forward foreign exchange contracts to allow it to convert a portion of its expected future Japanese Yen (¥) earnings into Canadian dollars, which establish a rate of exchange of ¥75 per Canadian dollar for ¥200 million in 2009. These contracts have not been designated as hedges and are recorded at their fair value of $0.02 million unfavourable.

Forward foreign exchange contracts settled in 2008 established a rate of exchange of Canadian dollar per U.S. dollar of $1.08 for U.S. $41.5 million in 2008 (2007 - $1.14 for U.S. $27.5 million).

20. RESTRUCTURING AND OTHER CHARGES

Restructuring and other charges of $59.2 million were recorded in 2008 (2007 - $7.5 million).

a) The Company recorded restructuring provisions of $39.3 million (2007 - $7.5 million) related to voluntary and non-voluntary staff reductions in the Newspapers and Digital Segment. The following table indicates the change in the amount of restructuring provisions included in Accounts payable and accrued liabilities:

	2008	2007
Balance, beginning of year	**$10,718**	$16,978
Provision during the year	**39,320**	7,507
Payments during the year:		
Prior years' provision	**(7,484)**	(13,767)
Current year provision	**(13,164)**	
Balance, end of year	**$29,390**	$10,718

b) In early 2009, Transit Television Network ("Transit TV") ceased operations and the two Transit TV subsidiaries filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code. During 2008, the Company recorded a charge of $17.5 million to write off the carrying value of Transit TV's assets. This amount included $4.6 million of foreign currency translation loss that had previously been included in accumulated other comprehensive loss.

c) A write-down of $2.4 million was recorded related to an impairment loss on certain non-amortizable community newspaper mastheads and amortizable customer relationship intangible assets.

21. GAIN ON SALE OF LAND

In 2008, the company recognized a gain of $9.2 million from the sale of excess land in Vaughan. The net proceeds from this sale were $9.3 million of which $6.2 million is a mortgage which matures in December 2009 and is included in Receivables. The mortgage includes interest at a rate of 6.0% per annum until March 2009 and 9.5% per annum thereafter until maturity. The purchaser may prepay the whole or part of the principal at any time.

22. INVESTMENT WRITE-DOWN AND LOSS

The Company has recorded the following investment write-down and loss:

	2008
Loss on sale of investment in LiveDeal, Inc.	**($2,398)**
Write-down of investment in Vocel, Inc.	**(1,670)**
Write-down of investment in CTVgm (note 4)	**(95,729)**
	($99,797)

During 2008, the Company sold its investment in LiveDeal, Inc. for net proceeds of $1.2 million.

The write-down of the investments in Vocel and CTVgm represent an other than temporary decline in the carrying value of these investments.

23. OTHER CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

	2008	2007
Employee future benefits	($7,532)	($15,720)
Stock-based compensation plans	(123)	3,457
Foreign exchange	(2,205)	1,873
Gain on sale of land	(9,170)	
Transit TV charge	17,491	
Other	3,075	59
	$1,536	($10,331)

24. CONTINGENCIES

The Company is involved in various legal actions, primarily in the Newspapers and Digital segment, which arise in the ordinary course of business. While the final outcome of these matters cannot be predicted with certainty, any liability that may arise from such contingencies is not expected to have a material adverse effect on the financial position or results of operations of the Company.

25. RELATED PARTY TRANSACTIONS

The Company conducts transactions in the normal course of business with CTVgm and Black Press. These transactions are insignificant to these financial statements.

26. JOINT VENTURES

The Company proportionately consolidates its interests in joint ventures. The significant joint ventures in the newspapers and digital segment include Workopolis, Sing Tao Daily Limited and Free Daily News Group (publishes the Metro newspapers in Toronto, Vancouver, Ottawa, Edmonton, Calgary and Halifax). Harlequin also conducts some of its businesses overseas with joint venture partners the most significant of which include France, Germany and Italy. The Company's proportionate share of revenue from these businesses is $142 million (2007 - $134 million) and operating profit is $17 million (2007 - $14 million).

27. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 financial statements.

28. SEGMENTED INFORMATION

The Company operates two business segments: Newspapers and digital and Book publishing, which are described below.

Newspapers and digital – Includes the newspaper, digital, specialty publications and commercial printing businesses of the Star Media Group and Metroland Media Group. Daily newspapers include the Toronto Star, The Hamilton Spectator and the Waterloo Region Record. Digital operations include Workopolis, Olive Media, eyeReturn Marketing, thestar.com and toronto.com. Metroland publishes over 100 community newspapers and Gold Book Directories. This segment also includes the operations of Transit TV.

Book publishing – The publishing and distribution of Harlequin's women's fiction through retail outlets, by direct mail and through the Internet.

Segment profit or loss has been defined as operating profit which corresponds to operating profit as presented in the Consolidated Statements of Income but before restructuring and other charges.

SUMMARY OF BUSINESS AND GEOGRAPHIC SEGMENTS OF THE COMPANY:

Business Segments	Operating Revenue		Depreciation and Amortization		Operating Profit	
	2008	2007	**2008**	2007	**2008**	2007
Newspapers and Digital	**$1,063,117**	$1,083,828	**$50,549**	$50,246	**$104,007**	$128,675
Book publishing	**472,917**	462,709	**4,961**	4,833	**67,450**	60,640
	1,536,034	1,546,537	**55,510**	55,079	**171,457**	189,315
Corporate			**63**	55	**(16,903)**	(19,028)
Restructuring & other charges					**(59,214)**	(7,507)
Consolidated	**$1,536,034**	$1,546,537	**$55,573**	$55,134	**$95,340**	$162,780

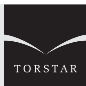
	Identifiable Assets		Additions to Capital Assets		Additions to Goodwill & Intangible Assets	
	2008	2007	**2008**	2007	**2008**	2007
Newspapers and Digital	**$1,138,895**	$1,159,570	**$27,872**	$36,155	**$25,601**	$3,748
Book publishing	**411,493**	350,743	**4,217**	1,997		
	1,550,388	1,510,313	**32,089**	38,152	**25,601**	$3,748
Corporate	**35,648**	16,230	**44**	127		
Investment in associated businesses	**201,571**	434,294				
Consolidated	**$1,787,607**	$1,960,837	**$32,133**	$38,279	**$25,601**	$3,748

Geographic Segments	Operating Revenue		Capital Assets and Goodwill	
	2008	2007	**2008**	2007
Canada	**$1,085,297**	$1,107,757	**$766,529**	$764,888
United States	**240,356**	237,645	**80,472**	93,395
Other (a)	**210,381**	201,135	**28,590**	27,833
Segment Totals	**$1,536,034**	$1,546,537	**$875,591**	$886,116

(a) Principally – United Kingdom, Japan, Germany, Australia, Sweden and France.

29. SUBSEQUENT EVENT

On February 26, 2009, the Company announced that as part of a planned transition, Robert Prichard will step down as President and Chief Executive Officer effective May 6, 2009. The Company expects to record a provision of approximately $11.0 million (approximately $8.0 million net of tax) in the first quarter in connection with this transition.



ANNUAL OPERATING HIGHLIGHTS CONTINUING OPERATIONS (Unaudited)

	2008	2007	2006	2005	2004	2003	2002
(thousands of dollars)							
Operating revenue							
Newspapers and Digital	**$1,063,117**	$1,083,828	$1,056,462	$1,035,816	$1,003,473	$903,385	$856,956
Book Publishing	**472,917**	462,709	471,808	521,072	538,376	584,924	618,093
Total	**$1,536,034**	$1,546,537	$1,528,270	$1,556,888	$1,541,849	$1,488,309	$1,475,049
Operating profit & Income from continuing operations							
Newspapers and Digital	**$104,007**	$128,675	$107,849	$120,288	$127,601	$110,116	$105,495
Book Publishing	**67,450**	60,640	56,277	95,381	97,182	124,121	119,168
Corporate	**(16,903)**	(19,028)	(18,475)	(19,001)	(15,555)	(14,166)	(12,764)
Restructuring provisions	**(59,214)**	(7,507)	(22,319)	(2,119)	(8,399)	(11,015)	
Operating profit	**95,340**	162,780	123,332	194,549	200,829	209,056	211,899
Interest	**(28,225)**	(34,432)	(20,761)	(10,463)	(10,916)	(12,806)	(12,751)
Foreign exchange	**2,205**	(1,873)	70	(2,723)	(1,723)	(4,011)	973
Gain (loss) on sale of assets	**9,170**			12,415	(3,883)	10,342	(5,924)
Income (losses) of associated businesses	**(136,948)**	20,416	16,000	565	496	134	504
Investment write-down and loss	**(99,797)**						
Unusual items							2,624
Income before taxes	**(158,255)**	146,891	118,641	194,343	184,803	202,715	197,325
Income and other taxes	**(22,200)**	(45,500)	(39,500)	(75,500)	(72,100)	(79,200)	(72,000)
Income from continuing operations	**($180,455)**	$101,391	$79,141	$118,843	$112,703	$123,515	$125,325
Cash from continuing operating activities	**$122,217**	$136,152	$111,591	$124,140	$178,598	$162,976	$167,732
Average number of shares outstanding (thousands)	**78,837**	78,620	78,250	78,214	79,168	77,645	76,329
Per share Data							
Income from continuing operations	**($2.29)**	$1.29	$1.01	$1.52	$1.42	$1.59	$1.64
Dividends – Class A and Class B shares	**0.74**	0.74	0.74	0.74	0.70	0.64	0.58
Rate of Return on Revenue							
Operating profit	**6.2%**	10.5%	8.1%	12.5%	13.0%	14.0%	14.4%
Return on equity							
Cash from operating activities as a percentage of average shareholders' equity	**15.4%**	15.2%	13.0%	15.2%	23.2%	23.5%	28.5%
Financial position							
Total Assets	**$1,787,607**	$1,960,837	$2,001,473	$1,561,682	$1,510,027	$1,511,767	$1,480,721
Long-term debt	**668,700**	650,798	724,193	334,317	317,829	387,800	448,390
Shareholders' equity	**672,577**	917,761	872,746	841,652	793,661	745,055	643,506
Property, plant and equipment (net)	**298,475**	330,391	349,842	365,665	392,141	401,172	391,521

TORSTAR

Board of Directors (as of February 26, 2009)

The Honourable Frank Iacobucci
Chairman, Torstar Corporation
Former Justice of the Supreme Court of Canada

Director since 2004

Campbell R. Harvey
Professor of International Business, Duke University

Director since 1992

J. Robert S. Prichard
President and Chief Executive Officer, Torstar Corporation

Director since 2002

Martin E. Thall
President and Chief Executive Officer
Thall Group of Companies

Director since 2002

J. Spencer Lanthier
Former Chair and Chief Executive, KPMG Canada
Corporate Director

Director since 2002

Sarabjit S. Marwah
Vice Chairman and Chief Operating Officer
The Bank of Nova Scotia

Director since 2003 (Retired March 2009)

Ronald W. Osborne
Chairman, Sun Life Financial Inc

Director since 2003 (Retired March 2009)

John A. Honderich
Former Publisher, Toronto Star

Director since 2004

Donald Babick
Past President, Southam Publications
Corporate Director

Director since 2004

Jack Fuller
Past President, Tribune Publishing Company
Corporate Director

Director since 2004

Elaine B. Berger
Corporate Director

Director since 2006

Peter A. Armstrong
President and Chair, Board of Trustees
The Atkinson Charitable Foundation

Director since 2006

The Honourable Roy J. Romanow
Former Premier of Saskatchewan
Corporate Director

Director since 2007

Daniel A. Jauernig
President and Chief Executive Officer
Classified Ventures, LLC

Director since January 16, 2009

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