CORPORATION

2009

Annual Report

Financial Highlights

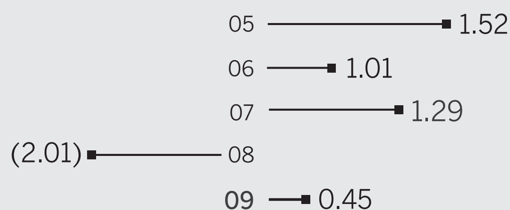
OPERATING RESULTS ($000)	2009	2008
Operating revenue	$1,451,259	$1,533,753
EBITDA (1)	191,801	213,186
Operating profit	95,253	118,190
Net income (loss)	35,645	(181,504)
Cash from operating activities	153,364	122,217
OPERATING RESULTS		
EBITDA – Percentage of revenue	13.2%	13.9%
Operating profit – percentage of revenue	6.6%	7.7%
Cash from operating activities – percentage of average shareholders' equity	22.8%	15.4%
PER CLASS A AND CLASS B SHARES		
Net income (loss)	$0.45	($2.30)
Dividends	$0.37	$0.74
Price range (high/low)	$8.84/3.93	$19.20/6.69
FINANCIAL POSITION ($000)		
Long-term debt	$552,976	$668,700
Shareholders' equity	$678,980	$665,034

The Annual Meeting of shareholders will be held Wed., May 5, 2010 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.

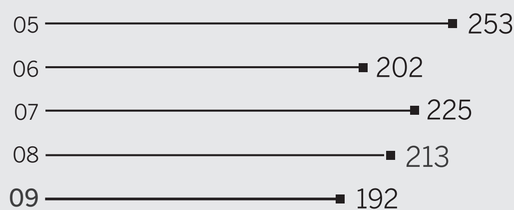
OPERATING REVENUE ($MILLIONS)

OPERATING PROFIT ($MILLIONS)

INCOME (LOSS) FROM CONTINUING OPERATIONS PER SHARE



EBITDA ($MILLIONS) (1)



(1) Consolidated operating profit, as presented on the consolidated statements of income, which is before charges for interest and taxes adjusted for depreciation and amortization of intangible assets. It also excludes restructuring and other charges. 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".

JOHN HONDERICH

Chair, Board of Directors

Message from the Chair

2009 was a year of transition, transformation and consolidation for Torstar. The transition began with the election of five new members to the Torstar Board: Joan Dea, former EVP Strategy at BMO Financial Group; Dan Jauernig, President and CEO of Classified Ventures, LLC.; Alnasir Samji, retired Principal of Towers Perrin and Chair of the United Way (Toronto); Paul Weiss, retired Senior Partner of KPMG; and Phyllis Yaffe, retired CEO of Alliance Atlantis. The goal of this director renewal was to provide a formidable diversity of strategic, digital, finance and media expertise for Torstar. These new directors have collectively brought skill, sophistication, experience and a clarity of purpose that has already proved invaluable. As part of the transition, the Board also introduced the position of Lead Director to which Ms Yaffe was elected.

The transition continued at the 2009 Annual Meeting with David Holland assuming the position of Interim President and Chief Executive Officer. Six months later - for the first time in 43 years at Torstar - the Board appointed someone from within the company as its permanent CEO. It would be the same David Holland, who has worked in every division of Torstar, including his previous position of Executive Vice-President and Chief Financial Officer. His integrity, deep strategic thinking and leadership skills have served him well as he has led the company through one of the most severe economic downturns in memory. At the same time, the Board approved the appointment of Lorenzo DeMarchi as Executive Vice-President and Chief Financial Officer. Most recently, he had served as Torstar's Vice-President, Corporate Development. Prior to that, he held several positions at Harlequin Enterprises, including Vice-President of Corporate Development.

At the operational business level, Torstar is superbly served by its four business leaders. Harlequin CEO Donna Hayes led the celebration of the publishing firm's 60th anniversary while posting strong results in the face of the economic downturn. John Cruickshank, Publisher of the Toronto Star and President of Star Media Group, introduced transformative changes at Canada's largest newspaper while forging a vibrant editorial revival. Ian Oliver, President of Metroland Media Group, introduced innovative approaches to maintaining quality service to readers and advertisers in the face of tough economic times. Finally, President Tomer Strolight continued to innovate and transform Torstar Digital as the division was buffeted by the economic headwinds.

Ultimately, Torstar is only as good as the thousands of employees who work for it. As is often said, adversity brings out the finest in people and I want to express my sincere appreciation for the dedication, loyalty and diligence of our workforce. It is the backbone of our success. Through this tough economic time, some very difficult decisions have had to be made, long-term employees let go and long-established practices eliminated. In this necessary time of downsizing, we honour the service and contribution of all those who have worked with us. We shall not forget their contribution.

2009 also marked my first year as Chair of the Board of this distinguished corporation. To my precedessor, the Hon. Frank Iacobucci, I extend my deep appreciation for a seamless transition. To my colleagues on the Board, I thank them for their patience, guidance and inspiration. Finally, to David Holland, the senior team, and the entire staff, I continue to be dazzled by their joint purpose in making Torstar succeed.

DAVID HOLLAND

President and Chief Executive Officer

To Our Shareholders

1. Operating Results

2009 was a good year for Torstar despite difficult conditions in the economy. While our revenues were affected by the downturn in the economy, described by many experts as the worst since the Great Depression, we were disciplined on capital employment and cost containment and at the same time maintained our commitment to numerous strategic initiatives.

Overall, Torstar earned EBITDA of $192 million compared to $213 million a year ago. Total revenues were down 5.4% to $1.45 billion, with revenues from our Newspapers and Digital businesses falling 9.7% while revenues from Harlequin increased 4.3%. The decline in EBITDA can be attributed to an increase in pension expense of approximately $21 million. Excluding the increased pension expense, results from the operations were stable, which we consider an accomplishment given the tough economic climate of 2009.

We were particularly pleased with the significant progress we achieved in reducing our net borrowings by $111 million from $627 million to $516 million by the end of 2009. In addition to using cash flow to reduce our net borrowings, we also paid our dividend and funded restructuring efforts. In achieving this debt reduction, we want to acknowledge that we did benefit from the impact of the strengthening of the Canadian dollar on the translation of our U.S. dollar debt and favourable working capital movement. Most importantly, though, this progress reflects the resilience and strong cash flow characteristics of our franchises and management's discipline in approaching the employment of capital.

Harlequin was a real anchor for Torstar as it confronted the economic headwinds of 2009 and the negative implications for our economically sensitive revenue base in the Newspapers and Digital Division. As in previous years, Torstar benefited in 2009 from the diversity of its operation as Harlequin delivered 22% growth in earnings (13% excluding foreign exchange). This was the third successive year of growth and reflects Harlequin's excellence in execution against its short-term and long-term strategies, including its efforts to be at the leading edge of digital developments. This growth in operating results was achieved while continuing to invest in international expansion and the build-out of a non-fiction program.

Harlequin is fully committed to being a leading publisher of great reading entertainment for women. It has four strategic themes that guide the pursuit of this vision: relevant portfolio of reading for women; leading consumer brand; optimal channel and market management; and cost reduction and superior execution.

2009 marked a significant milestone for Harlequin: its 60th anniversary in North America. The anniversary provided an opportunity to celebrate Harlequin's heritage, thank its loyal readers and introduce new readers around the world to the Harlequin brand. In appreciation for their commitment to Harlequin, readers received nearly 2 million free print editions and were able to download more than 3 million free eBook samples.

It was a more difficult year in the Newspapers and Digital Division. Revenues were down, but the impact was mitigated by restructuring efforts over the past two years. The impact of these initiatives has reduced our cost base by $58 million. It is never easy to undertake restructuring of this magnitude, however we view it as a necessary step in our evolution as a media company. As we continue these restructuring efforts, we are making every effort to improve both the quality of the content that we publish in print and online for our audiences and the level of service that we offer to our advertisers.

We are also ensuring we continue to pursue opportunities in the media environment critical to our future, including building out our digital offerings and investing in the expansion of the Metro commuter newspaper across Canada.

The Star Media Group, which includes the Toronto Star, Metro, Sing Tao and many of our digital properties, responded aggressively to the weak economic conditions we saw in 2009. Earnings were down just $12 million, although revenues fell $44 million compared to a year earlier. The substantial efforts on the cost side mitigated the majority of the revenue decline. Despite the poor economy, especially in Southern Ontario, Star Media Group continued to make key strategic investments in print and digital properties with the aim of stabilizing financial performance in the short term and at the same time developing sustainable business models for the coming years.

The Toronto Star, our flagship newspaper, remained the most-read and most-circulated newspaper in Toronto and across Canada. At the same time, thestar.com recorded an increase of 37% in the number of unique visitors in January 2010 over January 2009, strengthening its position as the top newspaper website destination in the GTA. The Star also increased its share of the advertising linage in the GTA, a significant achievement in one of North America's largest and most competitive media markets.

Torstar Digital, which is central to online activities of Torstar's Newspapers and Digital segment, also showed encouraging results in 2009. Workopolis, Canada's top recruitment website,

maintained a significant lead in job-search traffic over its nearest competitor, despite major declines in recruitment advertising. Olive Media, a leading online advertising solutions provider, continued to invest in technology and experienced strong revenue and profit growth. Also, eyeReturn Marketing, a leading provider of ad-serving services in Canada, enjoyed significant growth in 2009 in revenues, campaigns served and new customers.

Metroland Media Group is a leader in community newspaper operations. Its prompt actions to contain costs helped lessen the impact of the $59-million decline in revenues experienced in 2009, resulting in earnings down just $27 million. Lower employment and real estate advertising accounted for more than half of the decline in advertising revenue during the year. On a positive note, advertising revenue declines moderated in the fourth quarter as the economy started to show signs of improvement.

We have great confidence in the community newspaper model. Metroland's emphasis on innovation, creativity and execution in providing solutions to advertisers and service to its readers is the foundation on which Metroland has built its strong track record in the past. This will make a difference for the company when the economy recovers.

Despite the decline in revenues, Metroland's three daily newspapers and more than 100 community newspapers continued to provide award-winning local news coverage as well as strong readership for advertisers throughout 2009. The year also saw continued expansion and upgrades of Metroland's digital properties, including its first-class automotive, real estate, announcements and local employment websites.

Torstar has investments in two associated businesses: CTVglobemedia and Black Press. The broadcast landscape is undergoing significant change and the regulatory model is being revisited. The senior management team at CTVglobemedia is experienced and is very capable of navigating through the challenges they are facing. With our partners at CTVglobemedia, we remain committed to our investment and seizing the opportunities that lie ahead to enhance value.

Black Press, like other media companies in North America, was challenged by the economic conditions in 2009. Black Press is primarily a community newspaper operation and is well led by David Black. We believe it is nicely positioned going forward.

2. Looking Forward

Our businesses are highly dependent on the economy. Although there are signs of economic improvement, it is too early to suggest we are back on a solid footing. We are not counting on a rapid and significant recovery in the Canadian economy, particularly in areas such as employment.

We are fortunate, though, to have leading operations with strong brands. They have proven to be leaders in innovation and continue to listen and react to the needs of their readers and their advertisers.

Harlequin continues to pursue new opportunities and is committed to being at the forefront of the emerging digital opportunity.

Within our newspapers and digital operations, we are in the midst of major transformation. The media environment continues to evolve at a rapid pace and we need to evolve with it. Our success in the years ahead will depend on our willingness to be innovative and our continued commitment to serving both readers and advertisers.

The competitive landscape for newspapers is changing. The competition will be greater. We will need to raise our game. Our advantage lies in the quality of our content, the strength of our brands and the depth of our relationships with audiences and advertisers. Our goal is to exploit those advantages to their fullest benefit.

3. A First Year

It is a great honour to be asked to serve as President and Chief Executive Officer of Torstar. I have been fortunate enough to be with this organization for 24 years. During that time, I have worked in the corporate office, the newspaper operations and at Harlequin.

What has made a huge impression on me throughout my years at Torstar and in my various positions throughout this company has been the quality of people at all levels of the organization with whom I have had the opportunity to work. It is the commitment and passion that people have for their job, whether a salesperson at Metroland, a marketer at Harlequin, a reporter at the Star or a developer at Torstar Digital that is so impressive and universal throughout Torstar. It is our greatest strength and is nurtured by tremendous leadership across the company.

At Torstar, we are fortunate to have great executive operating leadership. Donna Hayes at Harlequin continues to demonstrate her leadership and ranks in the top echelon of global book publishing executives. Ian Oliver at Metroland, a veteran community newspaper operator, is both an outstanding business leader and one of North America's top innovative thinkers when it comes to community newspapers. John Cruickshank, Publisher of the Toronto Star and President of Star Media Group, is drawing on his vast experience as a newspaper executive in Canada and the U.S. and his understanding of the changing media landscape to effect substantial transformation. Tomer Strolight, the founding president of Torstar Digital, is well known for his thought leadership in the online media sector and is a significant contributor to the development of Torstar's overall digital strategy.

In this initial year of my serving as CEO, I want to express my gratitude to Rob Prichard, who stepped down as President and Chief Executive Officer of Torstar at the 2009 Annual General Meeting, for the effort he put into ensuring the transition in leadership went smoothly. I would also acknowledge the support and encouragement of our Chair, John Honderich, and the Board of Directors as we worked through this past year.

I look forward to the Board's support and wise counsel for years to come.

At Torstar, we are all focused on seizing opportunity, dealing with economic challenges and confronting the structural realities that face our businesses. Because of this, I have great confidence in our future. Given the strength and advantages that our businesses enjoy and the quality of the 6,600 employees throughout Torstar, I look forward to the years ahead with optimism.

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For the year ended December 31, 2009

Dated: March 2, 2010

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, 2009.

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's operations 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 as presented on the consolidated statements of income which is before charges for interest and taxes, adjusted for 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, results of impairment tests, 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, confidential information, 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 publishes over 100 newspapers including the Toronto Star, Canada's largest daily newspaper, The Mississauga News, Oshawa This Week and The Hamilton Spectator. It also includes leading digital properties such as thestar.com, toronto.com, Insurance Hotline, Wheels.ca, flyerland.ca, goldbook.ca, Workopolis, Olive Media and eyeReturn Marketing. The 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 Star Media Group and Metroland Media Group.

Star Media Group includes the Toronto Star, Canada's largest daily newspaper which is read in print and online (thestar.com) by more than 2.8 million readers every week. Online, thestar.com is one of the most-visited newspaper websites in Canada. Star Media Group also includes Torstar Syndication Services (provides editorial content to newspapers and other media), Wheels.ca, parentcentral.ca, healthzone.ca, yourhomes.ca, insurancehotline.com, toronto.com (an online destination for events and attractions in the Greater Toronto Area), eyeReturn Marketing (a leading provider of online marketing services) and the Torstar Digital corporate group.

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, a leader in the online advertising market in Canada with the ability to reach over 15 million unique Canadian visitors monthly on its portfolio of top-tier sites including thestar.com, nytimes.com, CNET.com, cyberpresse.ca, 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 including The Mississauga News and Oshawa This Week and three daily newspapers – The Hamilton Spectator, the Waterloo Region Record and the Guelph Mercury. Its online properties include Wheels.ca, flyerland.ca, HomeFinder.ca, gottarent.com, insurancehotline.com and 50% interests in Save.ca and LeaseBusters.com. Metroland Media Group also publishes the Gold Book print and online directories, a number of specialty publications, operates several consumer shows throughout Ontario and Torstar Media Group Television (a 24-hour direct response television business and commercial production house). Metroland Media Group has eight web press facilities which print the Metroland newspapers but also engage in commercial printing.

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 (which includes direct mail, Internet and digital sales) and Overseas. In 2009 Harlequin published books in 32 languages in 114 international markets.

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 is 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 of CTV, a Canadian television network, and the national daily newspaper, The Globe and Mail. CTVgm owns and operates 27 conventional television stations across Canada, with interests in 30 specialty channels. CTVgm also owns the CHUM Radio Division, which operates 34 radio stations throughout Canada.

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 16 press centres in Western Canada, Washington State, Ohio and Hawaii.

OPERATING RESULTS – YEAR ENDED DECEMBER 31, 2009

Overall Performance

Total revenue was $1,451.3 million in 2009, down $82.5 million or 5.4% from $1,533.8 million in 2008. Newspapers and Digital revenue was $958.0 million in 2009, down $102.8 million or 9.7% from $1,060.8 million in 2008 as the weak Ontario economy caused significant declines in advertising revenue. Book Publishing revenue was $493.3 million in 2009, up $20.4 million from $472.9 million in 2008 including a $16.5 million increase from the weaker year over year Canadian dollar. Overseas revenues were up in the year, more than offsetting declines in North America Retail. North America Direct-To-Consumer revenues were flat in the year.

Operating profit before restructuring and other charges was $139.0 million in 2009, down $20.9 million from $159.9 million in 2008. Including the $43.7 million of restructuring and other charges, operating profit was $95.3 million in 2009, down $22.9 million from $118.2 million in 2008 (which included $41.7 million of restructuring and other charges). Newspapers and Digital Segment operating profit was $70.2 million in 2009, down $39.1 million from $109.3 million in 2008 as labour and newsprint cost savings offset only a portion of the revenue decline and higher pension costs. Book Publishing operating profit was $83.8 million in 2009, up $16.3 million from $67.5 million in 2008 including a $5.8 million increase from the impact of foreign exchange. Operating profits were up in all three Book Publishing divisions in the year. Corporate costs were $15.0 million in 2009, down $1.9 million from $16.9 million in 2008 primarily reflecting lower compensation costs.

EBITDA[1], excluding restructuring and other charges, was $191.8 million in 2009, down $21.4 million from $213.2 million in 2008.

	2009	2008[2]
Newspapers and Digital	$118,527	$157,554
Book Publishing	88,187	72,472
Corporate	(14,913)	(16,840)
EBITDA, excluding restructuring and other charges	$191,801	$213,186

Restructuring and other charges

Restructuring and other charges of $43.7 million were recorded in 2009 including restructuring provisions of $43.0 million and a $0.7 million impairment loss on certain community newspapers mastheads. The restructuring provisions in 2009 included $12.8 million related to the transition in leadership at Torstar Corporate, $28.8 million for restructuring provisions in the Newspapers and Digital Segment and $1.4 million related to the closure of a distribution centre in Harlequin's U.K. operation. In 2008, the restructuring and other charges of $41.7 million included restructuring provisions in the Newspapers and Digital Segment of $39.3 million and a $2.4 million impairment loss on certain community newspapers mastheads and customer relationship intangible assets.

Both Star Media Group and Metroland Media Group have undertaken several restructuring initiatives in 2008 and 2009 in order to reduce ongoing operating costs. Total annualized savings from the 2009 restructuring activities are expected to be approximately $27.6 million (with approximately $12.7 million realized during 2009, $13.3 million to be realized in 2010 and $1.6 million to be realized in 2011) and a reduction of approximately 452 positions. Total annualized savings from the 2008 restructuring activities were approximately $30.0 million ($8.3 million realized in 2008 and $21.7 million realized in 2009) and a reduction of approximately 506 positions.

Late in the first quarter of 2009, Harlequin announced the decision to close its direct-to-consumer distribution centre in the U.K. and to outsource that function. This will result in annual savings of $0.6 million (with $0.2 million realized during 2009) and a reduction of approximately 16 positions.

Interest

Interest expense was $21.0 million in 2009, down $7.2 million from $28.2 million in 2008. 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 $587.8 million in 2009, down $41.1 million from $628.9 million in 2008. Torstar's effective interest rate was 3.6% in 2009 and 4.5% in 2008.

Net debt was $515.8 million at December 31, 2009, down $111.5 million from $627.3 million at December 31, 2008.

Foreign exchange gain (loss)

Torstar reported a non-cash foreign exchange loss of $0.5 million in 2009. This loss 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 2008, a non-cash foreign exchange gain of $0.4 million was reported.

Income (loss) from associated businesses

Income (loss) from associated businesses was a loss of $18.0 million in 2009 down from a loss of $136.9 million in 2008.

Torstar's share of CTVgm's net loss was $17.8 million in 2009 compared with a loss of $110.6 million in 2008. Excluding the impact of non-operating and non-recurring items, Torstar would have reported a loss of $4.3 million in 2009 and income of $9.8 million in

[1]EBITDA is calculated as operating profit as presented on the consolidated statements of income which is before charges for interest and taxes, adjusted for depreciation and amortization of intangible assets. It also excludes restructuring and other charges. See "non-GAAP measures".

[2]The Newspapers and Digital 2008 EBITDA has been restated to reflect Transit TV as a discontinued operation and the Book Publishing 2008 EBITDA has been restated for the retrospective adoption of CICA Handbook Section 3064.

2008. The lower results in 2009 reflected the impact the soft Canadian economy had on the media industry, and in particular, on advertising revenue. CTVgm was able to offset a portion of the revenue decline through cost reductions. Higher amortization and interest expenses also reduced net earnings in 2009.

CTVgm's non-operating and non-recurring items included impairment losses on intangible assets and goodwill, a recovery in 2009 (provision in 2008) related to Canadian Radio-television and Telecommunications Commission ("CRTC") Part II licence fees, a gain on the change in the fair value of financial liabilities, a $4.2 million positive earnings impact as future income tax liabilities related to intangible assets were reduced to reflect the reduction in future provincial income tax rates and a $26.3 million valuation allowance (negative earnings impact) that was provided against certain of CTVgm's future income tax assets.

The impairment losses related to intangible assets and goodwill were $16.5 million in 2009 and $124.2 million in 2008. 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. The 2009 impairment losses related to certain of CTVgm's television and radio intangible assets while the 2008 impairment losses also included an impairment loss on goodwill. The larger losses in 2008 reflected the impact the economy was having on the media industry in Canada and the outlook for CTVgm's businesses at that time.

The issue of the legality of the Part II fees has been on-going for several years. In April 2008, the Federal Court of Appeal reversed a prior decision of the Federal Court and found that the fees were a valid regulatory charge. In the second quarter of 2008, CTVgm provided for the Part II licence fees for fiscal 2007 and year to date fiscal 2008. In December 2008, the Supreme Court of Canada granted the Canadian Association of Broadcasters ("CAB") leave to appeal the Part II licence fee case and in January 2009 the CAB's notice of appeal was filed. During this period CTVgm continued to accrue Part II fees and the CRTC had issued a notice indicating that they would not collect any Part II fees until the matter was resolved. During the summer of 2009, preliminary discussions were held between the CAB and the Federal Government regarding a negotiated settlement to the case. In early October 2009, the Canadian Federal Government announced that they had reached an agreement with the CAB regarding the Part II licence fees. Under the settlement, past amounts owing by the broadcasters for fiscal 2007, 2008 and 2009 will be forgiven, a new, forward-looking fee regime will be developed and the CAB agreed to discontinue its court action. As a result of the settlement, CTVgm reversed all its accruals related to Part II fees.

During the fourth quarter, Torstar completed its annual impairment testing for the CTVgm intangible assets including broadcast licences, masthead and customer relationships, that were identified on the investment by Torstar. Torstar also completed an assessment of the value of its investment in CTVgm to determine if there has been an other than temporary decline in the value relative to its carrying value. An impairment loss of $2.3 million was recorded in the fourth quarter of 2009 in relation to certain broadcast licences (included in the $16.5 million discussed above). Torstar determined that there was not an other than temporary decline in the value of its investment in CTVgm in 2009 and therefore no impairment loss was required to be recorded. In 2008, an impairment loss of $96.6 million was recorded in relation to certain broadcast licences and masthead (included in the $124.2 million discussed above) and a $95.7 million write-down was recorded to reflect an other than temporary decline in the carrying value.

Torstar is not currently recording its share of Black Press's results. Torstar's carrying value in Black Press was reduced to nil in the fourth quarter of 2008 as a result of impairment losses related to Black Press's U.S. newspaper operations. While under Canadian GAAP a negative carrying value is not recorded, any deficit must be recovered prior to the reporting of any further results. Excluding the impact of the impairment losses, Torstar's share of Black Press's income would have been $2.5 million in 2009, compared with a loss of $4.5 million in 2008. The improvement in Black Press's net income was related to lower interest expense, net gains on the mark to market of financial derivatives and lower tax expense. Operating results were lower in 2009 as the weak North American economy reduced advertising revenues that were not fully offset by cost reductions.

Gain on sale of land

Torstar recognized a gain of $0.2 million in 2009 related to the sale of a small property in Cambridge. In 2008, Torstar recognized a gain of $9.2 million on the disposition of excess land in Vaughan. The proceeds from the 2008 sale included a $6.2 million mortgage which was originally scheduled to mature in December 2009 but has been extended to September 2010.

Investment write down and loss

During 2009 Torstar recognized an investment write-down of $2.4 million, reducing the carrying value of its portfolio investment in Vocel Inc. to nil. In 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 investment in Vocel Inc. These write-downs in both years represented an other than temporary decline in the carrying value of these investments. 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's effective tax rate was 33.6% in 2009. This included the negative impact of not tax affecting the $18.0 million loss from associated businesses offset by a $5.1 million benefit from changes in statutory tax rates. During 2009, the Ontario provincial 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 impact of these two items, Torstar's effective tax rate would have been 32.2%. In 2008, Torstar reported a 2008 tax provision of $21.5 million on a loss before taxes of $137.2 million. Torstar's effective tax rate was 28.8% in 2008 (excluding the impact of the loss from associated businesses and investment write-down and loss, which were not fully tax affected and a one-time positive adjustment of $1.3 million for a recovery of prior period taxes). The effective tax rate was higher in 2009 primarily from the impact of permanent differences in calculating income taxes year over year.

Income (loss) from continuing operations

Torstar reported income from continuing operations of $35.6 million or $0.45 per share in 2009 compared with a loss from continuing operations of $158.7 million or $2.01 per share in 2008. Impairment losses and investment write-downs related to associated businesses were $16.5 million or $0.21 per share in 2009 and $236.2 million or $2.99 per share in 2008. Excluding these items, Torstar had income from continuing operations of $52.1 million or $0.66 per share in 2009 and $77.5 million or $0.98 per share in 2008.

Discontinued operations

Transit TV ceased operations in early 2009 and the two Transit TV subsidiaries filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code. Accordingly, the Transit TV results for 2008 have been restated to be shown as discontinued operations.

Net income (loss)

Torstar reported net income of $35.6 million or $0.45 per share in 2009 compared with a net loss of $181.5 million or $2.30 per share in 2008. The average number of Class A and Class B non-voting shares outstanding was 79.0 million in 2009 up slightly from 78.8 million in 2008.

The following chart provides a continuity of earnings per share from 2008 to 2009:

Net loss per share 2008		($2.30)
Discontinued operations		0.29
Loss from continuing operations 2008		($2.01)
Changes		
• Operations	(0.12)	
• Restructuring provisions	(0.03)	
• Income (loss) from associated businesses		
o Impairments	1.57	
o Other	(0.13)	
• Investment write-down and loss		
o Associated businesses	1.21	
o Other	0.02	
• Gain on sale of land	(0.09)	
• Impairment of intangible assets	0.02	
• Non-cash foreign exchange	(0.03)	
• Change in statutory tax rates	0.04	
Net income per share 2009		$0.45

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 years ended December 31, 2009 and 2008.

	2009			2008[3]		
	Metroland Media	Star Media	Total	Metroland Media	Star Media	Total
Operating revenue	$513,298	$444,658	$957,956	$572,433	$488,403	$1,060,836
EBITDA	$86,917	$31,610	$118,527	$114,219	$43,335	$157,554
Depreciation & amortization	16,501	31,872	48,373	15,926	32,323	48,249
Operating profit	$70,416	($262)	$70,154	$98,293	$11,012	$109,305
EBITDA margin	16.9%	7.1%	12.4%	20.0%	8.9%	14.9%
Operating profit margin	13.7%	n/a	7.3%	17.2%	2.3%	10.3%

[3] *2008 results have been restated for the transfer of TMGTV from Star Media Group to Metroland Media Group and to reflect Transit TV as a discontinued operation.*

Total revenue of the Newspapers and Digital Segment was $958.0 million in 2009, down $102.8 million or 9.7% from $1,060.8 million in 2008. Over 52% of the decline in advertising revenue in the year related to two categories that are especially vulnerable to the economic cycle, employment and real estate advertising. The Ontario economy was weak throughout most of 2009 with some signs of improvement in the fourth quarter. Digital revenues grew only 1.6% in 2009, as online employment advertising revenues were negatively impacted by the economy offsetting other digital revenue growth. Digital revenues were 6.9% of the total Newspapers and Digital revenue in 2009, up from 6.2% in 2008.

EBITDA was down $39.1 million in the year as lower revenues, $21.8 million of higher pension costs and investment in the digital operations more than offset savings in labour costs of $34.4 million from restructuring initiatives and lower newsprint costs. Newsprint consumption was down in the year from a combination of reduced copies and paging. Newsprint prices were 5.0% lower year over year. Operating profit was down $39.1 million in the year.

Metroland Media Group

Metroland Media Group revenues were $513.3 million in 2009, down $59.1 million from $572.4 million in 2008. Revenues were lower at both the community and daily newspapers in 2009 as the weak Ontario economy had a negative impact on advertising revenues. Lower employment and real estate advertising accounted for approximately 58% of the decline in advertising revenue during the year. Advertising revenue declines improved in the fourth quarter as the economy showed some signs of improvement. Distribution revenues were up slightly in the year as higher rates more than offset slightly lower volumes. Metroland Media Group distributed just under 3.5 billion pieces during 2009. Metroland's digital revenues were up $5.8 million in the year as existing sites' revenues continued to grow and several new sites were launched and acquired.

Metroland Media Group expenses were down in 2009 as labour cost savings of $20.8 million realized from restructuring efforts and lower newsprint costs (both volume and pricing) more than offset $4.7 million of higher pension costs and the continued investment in the digital properties.

Metroland Media Group's EBITDA was $86.9 million in 2009 down $27.3 million from $114.2 million in 2008 as net cost savings of $31.8 million were not sufficient to offset the $59.1 million revenue decline. Metroland Media Group's operating profit was $70.4 million in 2009 down $27.9 million from $98.3 million in 2008.

Star Media Group

Star Media Group revenues were $444.7 million in 2009, down $43.7 million or 8.9% from $488.4 million in 2008 as the weak Ontario economy had a negative impact on advertising revenue. This was particularly true for employment and real estate advertising which accounted for 49% of the decline in total advertising revenues for the year. The declines were lower in the fourth quarter across the Star Media Group businesses.

Toronto Star print advertising revenues were down 14.1% in 2009. This is an improvement from the third quarter year to date decline of 17.0% as the rate of decline decreased in the fourth quarter to 6.5%. The annual declines were realized across most categories with the most significant declines in the retail and classified categories. Categories such as classified continued to be affected by structural pressures. Toronto Star circulation revenues were up in the year. Revenues at Star Media Group's digital properties were down in the year as declines in employment advertising (primarily Workopolis) more than offset growth in Olive Media and eyeReturn Marketing.

Revenues for the jointly-owned Metro newspapers were up in the year with growth in advertising revenue in all markets. Sing Tao revenues were down in the year as it faced similar advertising revenue challenges that the Star faced including weak employment and real estate advertising.

Star Media Group expenses were down in 2009 as lower newsprint costs, labour savings of $13.6 million from restructuring efforts and general cost-containment efforts more than offset $17.1 million of higher pension costs and the continued investment in the digital businesses.

Star Media Group EBITDA was $31.6 million in 2009, down $11.7 million from $43.3 million in 2008 as net cost savings of $32.0 million offset a significant portion of the $43.7 million revenue decline. Star Media Group reported an operating loss of $0.3 million in 2009, compared with an operating profit of $11.0 million in 2008.

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, 2009 and 2008.

	2009	2008[4]
Revenue	$493,303	$472,917
EBITDA	$88,187	$72,472
Depreciation & amortization	4,390	4,961
Operating profit	$83,797	$67,511
EBITDA margin	17.9%	15.3%
Operating profit margin	17.0%	14.3%

Reported revenue, prior year	$472,917
Impact of currency movements and foreign exchange contracts	16,539
Change in underlying revenue	3,847
Reported revenue, current year	$493,303
Reported operating profit, prior year	$67,511
Impact of currency movements and foreign exchange contracts	5,777
Change in underlying operating profit	10,509
Reported operating profit, current year	$83,797

Book Publishing revenues were up $3.8 million in 2009 excluding the impact of foreign exchange. North America Retail was down $3.6 million, North America Direct-To-Consumer was flat and Overseas was up $7.4 million.

Book Publishing operating profits were up $10.5 million in 2009 excluding the impact of foreign exchange. North America Retail was up $1.0 million, North America Direct-To-Consumer was up $5.9 million and Overseas was up $3.6 million.

North America Retail operating profits were up $1.0 million in 2009 despite a $3.6 million decline in revenue. The year over year revenue decline included a lower positive adjustment to prior year returns provisions in 2009 compared with 2008 and a reduction in the number of books sold (partially related to market disruptions from the bankruptcy of a distributor and U.S. retail store closings). Offsetting the revenue declines were cost savings including lower advertising and promotional spending, freight and overheads.

North America Direct-To-Consumer operating profits were up $5.9 million in 2009 on flat revenues. Digital revenues were up $4.0 million in the year while direct mail revenues were flat with volume declines offset by higher prices. Offsetting the digital revenue growth was a decline related to a product line that was discontinued at the end of 2008. Operating profits benefited from lower customer acquisition costs in the direct mail business and the higher digital revenues.

Overseas operating profit was up $3.6 million in 2009 on $7.4 million of revenue growth. The revenue growth included higher digital revenues in Japan from the 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 and higher revenues in the Nordic and Holland operations. These revenue increases were partially offset by lower revenues in Japan's print book business and challenges in the U.K.'s direct mail and retail series businesses. Operating profits benefited from the higher contribution from the digital sales in Japan as well as from lower advertising and promotional costs and reduced overheads across most of the markets.

OPERATING RESULTS – THREE MONTHS ENDED DECEMBER 31, 2009

Overall Performance

Total revenue was $394.8 million in the fourth quarter of 2009, down $17.6 million or 4.3% from $412.4 million in the fourth quarter of 2008. Newspapers and Digital revenue was $272.6 million, down $13.5 million or 4.7% from $286.1 million in the same period last year. The fourth quarter was the strongest revenue performance in 2009 with some signs that the Ontario economy may be improving. Book Publishing revenues were $122.2 million in the fourth quarter of 2009, down $4.0 million from $126.2 million in

[4] ***2008 results have been restated for the retrospective adoption of CICA Handbook Section 3064.***

the same period last year. This included a decrease of $6.6 million from the impact of the strengthening Canadian dollar partially offset by an increase in underlying revenues of $2.6 million. The North America Direct-To-Consumer and Overseas divisions had revenue growth in the fourth quarter while North America Retail was down slightly.

Operating profit before restructuring and other charges was $55.8 million in the fourth quarter of 2009, up $7.7 million from $48.1 million in the fourth quarter of 2008. Including the $13.0 million of restructuring and other charges, operating profit was $42.8 million in the fourth quarter of 2009, up $7.8 million from $35.0 million in the fourth quarter of 2008 (which included $13.1 million of restructuring and other charges). Newspapers and Digital Segment operating profit was $39.2 million in the fourth quarter of 2009, up $1.6 million from $37.6 million in the same period last year as net cost savings more than offset the impact of lower revenues. Book Publishing operating profits were $20.7 million in the fourth quarter, up $6.4 million from $14.3 million in the same period last year. The increase included $0.7 million from the impact of foreign exchange and $5.7 million from operating profit increases in all three Book Publishing divisions. Corporate costs were $4.1 million in the fourth quarter of 2009, up $0.3 million from $3.8 million in the fourth quarter of 2008 reflecting higher variable compensation costs.

EBITDA, excluding restructuring and other charges, was $69.6 million in the fourth quarter, up $8.3 million from $61.3 million in the same period last year.

	Fourth Quarter 2009	Fourth Quarter 2008[5]
Newspapers and Digital	$51,985	$49,514
Book Publishing	21,701	15,581
Corporate	(4,081)	(3,754)
EBITDA, excluding restructuring and other charges	$69,605	$61,341

Restructuring and other charges

Restructuring and other charges of $13.0 million were recorded in the fourth quarter of 2009 including restructuring provisions of $12.3 million in the Newspapers and Digital Segment and a $0.7 million impairment loss on certain community newspapers mastheads. In 2008, the restructuring and other charges of $13.1 million included $10.7 million of restructuring provisions and a $2.4 million impairment loss on certain community newspapers mastheads and customer relationship intangible assets.

Total annualized savings from the fourth quarter 2009 restructuring activities are expected to be approximately $7.2 million (with approximately $5.6 million to be realized in 2010 and $1.6 million to be realized in 2011) with a reduction of approximately 117 positions.

Interest

Interest expense was $5.1 million in the fourth quarter of 2009, down $1.5 million from $6.6 million in the fourth quarter of 2008. The lower expense reflects lower average levels of debt and lower effective interest rates during the fourth quarter of 2009. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $534.5 million in the fourth quarter of 2009, down $89.8 million from $624.3 million in 2008. Torstar's effective interest rate was 3.8% in the fourth quarter of 2009 and 4.2% in the fourth quarter of 2008.

Foreign exchange gain (loss)

Torstar reported a non-cash foreign exchange loss of $0.5 million in the fourth quarter of 2009. This loss 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 2008, a non-cash foreign exchange gain of $0.4 million was reported.

Income (loss) from associated businesses

Income (loss) from associated businesses was income of $30.4 million in the fourth quarter of 2009 compared with a loss of $137.7 million in the fourth quarter of 2008.

Torstar's share of CTVgm's net income was $30.3 million in the fourth quarter compared with a loss of $114.2 million in the same period last year. Excluding the impact of non-operating and non-recurring items, Torstar would have reported income of $10.5 million in the fourth quarter of 2009 and income of $9.7 million in 2008. The higher results in 2009 reflected improved revenue trends and operating cost reductions that were partially offset by higher amortization and interest expense.

CTVgm's non-operating and non-recurring items included impairment losses on intangible assets and goodwill, a gain on the change in the fair value of financial liabilities, a partial recovery of the valuation allowance against certain of CTVgm's future income tax assets, a gain on the sale of CTVgm's interest in Maple Leaf Sports and Entertainment Ltd., and a $4.2 million positive earnings impact as future income tax liabilities related to intangible assets were reduced to reflect the reduction in future provincial income tax rates.

[5] The Newspapers and Digital 2008 EBITDA has been restated to reflect Transit TV as a discontinued operation and the Book Publishing 2008 EBITDA has been restated for the retrospective adoption of CICA Handbook Section 3064.

The impairment losses related to intangible assets and goodwill were $2.3 million in the fourth quarter of 2009 and $124.2 million in the fourth quarter of 2008. 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. The 2009 impairment losses related to certain of CTVgm's television assets while the 2008 impairment losses also included an impairment loss on goodwill. The larger losses in 2008 reflected the impact the economy was having on the media industry in Canada and the outlook for CTVgm's businesses at that time.

During the fourth quarter, Torstar completed its annual impairment testing for the CTVgm intangible assets including broadcast licences, masthead and customer relationships, that were identified on the investment by Torstar. Torstar also completed an assessment of the value of its investment in CTVgm to determine if there has been an other than temporary decline in the value relative to its carrying value. An impairment loss of $2.3 million (as noted above) was recorded in the fourth quarter in relation to certain broadcast licences. Torstar determined that there was not an other than temporary decline in the value of its investment in CTVgm in 2009 and therefore no impairment loss was required to be recorded. In the fourth quarter of 2008, an impairment loss of $96.6 million was recorded in relation to certain broadcast licences and a masthead (included in the $124.2 million discussed above) and a $95.7 million write-down was recorded to reflect an other than temporary decline in the carrying value.

Torstar is not currently recording its share of Black Press's results. Torstar's carrying value in Black Press was reduced to nil in the fourth quarter of 2008 as a result of impairment losses related to Black Press's U.S. newspaper operations. While under Canadian accounting rules a negative carrying value is not recorded, the deficit must be recovered prior to the reporting of any further results. Torstar's share of Black Press's income would have been $0.9 million in the fourth quarter of 2009, compared with a loss of $1.4 million in 2008 (excluding the impact of the impairment loss of $21.8 million recorded in 2008). Operating results were higher in 2009 as cost reductions and net gains on the mark to market of financial derivatives more than offset lower revenues.

Investment write-down and loss

During the fourth quarter of 2009, Torstar recognized an investment write-down of $2.4 million reducing the carrying value of its portfolio investment in Vocel Inc. to nil. In 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 investment in Vocel Inc. These write-downs in both years represented an other than temporary decline in the carrying value of these investments.

Income and other taxes

Torstar's effective tax rate was 12.0% in the fourth quarter of 2009. This included the positive impact of not tax affecting the $30.4 million income from associated businesses and a $5.1 million benefit from changes in statutory tax rates. During 2009, the Ontario provincial 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 impact of these two items, Torstar's effective tax rate would have been 37.1% in the fourth quarter. In 2008, Torstar reported a fourth quarter tax provision of $5.4 million on a loss before taxes of $206.3 million. Torstar's effective tax rate was 38.0% 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). The effective tax rate was lower in the fourth quarter of 2009 primarily from the impact of permanent differences in calculating income taxes year over year.

Income (loss) from continuing operations

Torstar reported income from continuing operations of $57.4 million or $0.73 per share in the fourth quarter of 2009 compared with a loss from continuing operations of $211.7 million or $2.68 per share in the fourth quarter of 2008. Impairment losses and investment write-downs related to associated businesses were $2.3 million or $0.03 per share in the fourth quarter of 2009 and $236.2 million or $2.99 per share in the same period last year. Excluding these items, Torstar had income from continuing operations of $59.7 million or $0.76 per share in the fourth quarter of 2009 and $24.5 million or $0.31 per share in 2008.

Discontinued operations

Transit TV ceased operations in early 2009 and the two Transit TV subsidiaries filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code. Accordingly, the Transit TV results for 2008 have been restated to be shown as discontinued operations.

Net income (loss)

Torstar reported net income of $57.4 million or $0.73 per share in the fourth quarter of 2009 compared with a net loss of $213.9 million or $2.71 per share in the fourth quarter of 2008. The average number of Class A and Class B non-voting shares outstanding was 79.0 million in the fourth quarter of 2009 up slightly from 78.9 million in the fourth quarter of 2008.

The following chart provides a continuity of earnings per share from 2008 to 2009:

Net loss per share fourth quarter 2008		($2.71)
Discontinued operations		0.03
Loss from continuing operations fourth quarter 2008		($2.68)
Changes		
• Operations	0.09	
• Restructuring provisions	(0.01)	
• Income (loss) from associated businesses		
o Impairments	1.75	
o Other	0.31	
• Investment write-down and loss		
o Associated businesses	1.21	
o Other	(0.01)	
• Impairment of intangible assets	0.02	
• Non-cash foreign exchange	(0.02)	
• Change in statutory tax rates	0.07	
Net income per share fourth quarter 2009		$0.73

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 three months ended December 31, 2009 and 2008.

	2009			2008[6]		
	Metroland Media	Star Media	Total	Metroland Media	Star Media	Total
Operating revenue	$143,594	$128,966	$272,560	$151,626	$134,519	$286,145
EBITDA	$28,993	$22,992	$51,985	$32,952	$16,562	$49,514
Depreciation & amortization	4,194	8,589	12,783	4,102	7,817	11,919
Operating profit	$24,799	$14,403	$39,202	$28,850	$8,745	$37,595
EBITDA margin	20.2%	17.8%	19.1%	21.7%	12.3%	17.3%
Operating profit margin	17.3%	11.2%	14.4%	19.0%	6.5%	13.1%

Newspapers and Digital revenues were down $13.5 million or 4.7% in the fourth quarter of 2009. This was an improvement over the first three quarters of 2009 (when revenues were down 11.5% year to date) as the Ontario economy started to show some signs of improvement which was reflected in improved advertising revenue trends. Over 75% of the decline in advertising revenue in the fourth quarter related to employment and real estate advertising categories. Digital revenues grew 12.7% in the fourth quarter as the growth in several new sites more than offset lower revenues related to online employment advertising. Digital revenues were 7.6% of the total Newspapers and Digital revenue in the fourth quarter of 2009, up from 6.4% in the fourth quarter of 2008.

EBITDA was up $2.5 million in the fourth quarter as savings in labour costs of $8.2 from restructuring initiatives and lower newsprint costs more than offset lower revenues, $5.5 million of higher pension costs and investment in the digital operations. Newsprint consumption was down in the quarter from a combination of reduced copies and paging. Newsprint prices were 19.0% lower compared with the fourth quarter of 2008. Operating profit was up $1.6 million in the quarter.

Metroland Media Group

Metroland Media Group revenues were $143.6 million in the fourth quarter of 2009 down $8.0 million or 5.3% from $151.6 million in the fourth quarter of 2008. This was an improvement from the third quarter when revenues were down 12.1% year to date. The decline was the result of lower print advertising revenues partially offset by higher distribution and digital revenues. The community newspapers continued to see weakness in the classified (particularly employment), real estate and local retail categories during the fourth quarter but the declines were less significant than in the previous three quarters. The daily newspapers had a similar experience during the fourth quarter but had improved results for national advertisers including automotive and government.

[6] 2008 results have been restated for the transfer of TMGTV from Star Media Group to Metroland Media Group and to reflect Transit TV as a discontinued operation.

Metroland Media Group's expenses were lower in the fourth quarter with lower newsprint costs (volume and pricing) and labour cost savings of $5.2 realized from restructuring efforts more than offsetting $1.3 million of higher pension costs and the ongoing investment in Metroland's digital properties.

Metroland Media Group's EBITDA was $29.0 million in the fourth quarter of 2009 down $4.0 million from $33.0 million in the fourth quarter of 2008 as the net cost savings were not quite sufficient to offset the revenue declines. The 12.1% decline in EBITDA from the fourth quarter of last year was the strongest quarterly performance in 2009. Metroland Media Group's operating profit was $24.8 million in the fourth quarter of 2009 down $4.1 million from $28.9 million in 2008.

Star Media Group

Star Media Group revenues were $129.0 million in the fourth quarter of 2009, down $5.5 million from $134.5 million in the fourth quarter of 2008 as advertising revenue declines moderated with some signs that the Ontario economy was improving. This 4.1% decline was an improvement over the 10.8% year to date decline realized through the first three quarters.

Toronto Star print advertising revenues were down 6.5% in the fourth quarter which was the best performance of 2009. Print advertising revenues were down 17.0% year to date through the third quarter. National advertising was up year over year in the fourth quarter while the Retail and Classified categories continued to be weak. Categories such as classified continued to be affected by structural pressures. Revenues at Star Media Group's digital properties were flat in the fourth quarter as the lower declines in online employment advertising were offset by growth in Olive Media and other digital properties. This was an improvement from the first three quarters of 2009 when the larger declines in employment advertising more than offset the growth in the other properties.

Revenues for the jointly-owned Metro newspapers were up significantly in the quarter with strong growth in all markets. Sing Tao revenues were flat in the quarter reflecting an improvement in advertising revenue compared with the first three quarters of 2009.

Star Media Group expenses were down in the fourth quarter of 2009 as lower newsprint costs, labour savings of $3.0 million from restructuring efforts and general cost-containment efforts more than offset $4.2 million of higher pension costs and the continued investment in the digital businesses.

Star Media Group EBITDA was $23.0 million in the fourth quarter of 2009, up $6.4 million from $16.6 million in the fourth quarter of 2008 as the net cost savings more than offset the revenue declines. Star Media Group operating profit was $14.4 million in the fourth quarter of 2009 up $5.7 million from $8.7 million in the fourth quarter of 2008.

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, 2009 and 2008.

	2009	2008[7]
Revenue	$122,225	$126,206
EBITDA	$21,701	$15,581
Depreciation & amortization	1,048	1,264
Operating profit	$20,653	$14,317
EBITDA margin	17.8%	12.3%
Operating profit margin	16.9%	11.3%

	Fourth Quarter
Reported revenue, prior year	$126,206
Impact of currency movements and foreign exchange contracts	(6,604)
Change in underlying revenue	2,623
Reported revenue, current year	$122,225
Reported operating profit, prior year	$14,317
Impact of currency movements and foreign exchange contracts	658
Change in underlying operating profit	5,678
Reported operating profit, current year	$20,653

[7] ***2008 results have been restated for the retrospective adoption of CICA Handbook Section 3064.***

Book Publishing revenues were up $2.6 million in the fourth quarter of 2009 excluding the impact of foreign exchange. North America Retail was down $0.9 million, North America Direct-To-Consumer was up $1.6 million and Overseas was up $1.9 million.

Book Publishing operating profits were up $5.7 million in the fourth quarter of 2009 excluding the impact of foreign exchange. North America Retail was up $2.5 million, North America Direct-To-Consumer was up $1.5 million and Overseas was up $1.7 million.

North America Retail operating profit was up $2.5 million in the fourth quarter of 2009 on $0.9 million of lower revenues. The revenue decline is primarily related to the year over year impact of adjustments to prior period returns provisions in the quarter. Offsetting the revenue declines were cost savings including lower promotional spending, freight and overheads.

North America Direct-To-Consumer operating profits were up $1.5 million in the fourth quarter of 2009 on $1.6 million of higher revenues. The revenue growth was evenly split between direct mail and digital revenues and was partially offset by a decline related to a product line that was discontinued at the end of 2008. Operating profit growth was also evenly split between the direct mail and digital businesses.

Overseas operating profit was up $1.7 million in the fourth quarter of 2009 on $1.9 million of revenue growth. The revenue growth in the fourth quarter continued the full year trend of higher digital revenues in Japan from the agreement with SoftBank Creative Corp., and higher revenues in the Nordic and Holland operations offset by lower revenues in Japan's print book business and the U.K.'s direct mail and retail series businesses. Operating profits in the fourth quarter also continued to benefit from the contribution from the digital sales in Japan as well as from lower advertising and promotional costs and reduced overheads across most of the markets.

OUTLOOK

Torstar's outlook for 2010 is cautious given the continued uncertainty in the economy.

Revenue growth in the Newspapers and Digital Segment will be largely dependent on continued economic improvement. Should that occur, the businesses will benefit from the lower cost base achieved from restructuring efforts over the past two years. Revenue declines moderated during the fourth quarter of 2009, and early 2010 revenues are relatively flat compared to the weak start last year. This may signal a return to a more stable revenue performance in 2010. On the cost side, the Segment will benefit from $13.3 million of labour cost savings from restructuring activities undertaken in 2009, $9.7 million of lower pension expense and slightly lower newsprint pricing. Torstar has arrangements in place with its suppliers that will fix the price for the majority of Torstar's newsprint requirements in 2010.

After realizing significant growth in 2009, Harlequin's 2010 results are expected to be stable. Harlequin benefited from the Softbank digital agreement and cost reductions in all areas of the business in 2009. The Softbank contribution is expected to decline in 2010 but growth in other markets, both print and digital, is anticipated to offset this decline. Changes in the value of the U.S. dollar relative to the Canadian dollar will have an impact on Harlequin's 2010 earnings. In 2009, including the impact of the U.S. dollar contracts, Harlequin's U.S. dollar earnings were translated at a rate of approximately $1.13. For 2010, Torstar has U.S. dollar contracts for $45.6 million U.S. dollars at an average exchange rate of $1.17. The balance of Harlequin's U.S. earnings in 2010 will be translated at the average exchange rates realized during the year.

Torstar's effective interest rate will increase in 2010 due to the higher interest rate spread that will be applicable to borrowings under its long-term credit facility.

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 to January 2011 in late 2009 and has the ability to be extended at Torstar's option through January 2012. Torstar has $162.3 million of available credit under the long-term debt facility after providing for the refinancing of the $75.0 million medium term notes that will mature in 2010.

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 2009, $153.4 million of cash was generated by operations, $29.2 million was used for investing activities and $126.1 million was used for financing activities. Cash and cash equivalents net of bank overdraft decreased by $4.2 million in the year from $41.4 million to $37.2 million.

In the fourth quarter of 2009, $51.0 million of cash was generated by operations, $9.5 million was used for investing activities and $36.8 million was used for financing activities. Cash and cash equivalents net of bank overdraft increased by $4.6 million in the quarter from $32.6 million to $37.2 million.

Operating Activities

Operating activities provided cash of $153.4 million in 2009, up $31.2 million from $122.2 million in 2008. In the fourth quarter of 2009, operating activities provided cash of $51.0 million up $14.0 million from $37.0 million in the same period last year. The higher level of cash provided in 2009 reflected larger decreases in non-cash working capital and improved results in the fourth quarter of 2009 compared with the fourth quarter of 2008.

Other adjustments to operating cash flows were a source of cash of $14.2 million in the year and $2.8 million in the fourth quarter of 2009. This included $9.2 million ($1.0 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 adjustments for several non-cash expenses.

Torstar's investment in non-cash working capital decreased $33.5 million in 2009. This was a combination of lower accounts receivable (lower revenues year over year), receipt of income tax refunds and lower tax installments partially offset by lower accounts payable. The lower accounts payable included a $3.9 million reduction in restructuring provisions.

Torstar's investment in non-cash working capital decreased $7.4 million in the fourth quarter of 2009. This was a combination of higher accounts receivable (higher fourth quarter revenues relative to third quarter) offset by an increase in income taxes payable and higher accounts payable. The higher accounts payable included a $6.3 million increase in restructuring provisions.

Investing Activities

During 2009, $29.2 million was used for investments, down from $46.1 million in 2008. In the fourth quarter of 2009, $9.5 million was used for investments down from $11.2 million in the fourth quarter of 2008.

Additions to property, plant and equipment were $20.7 million in 2009, down from $26.1 million in 2008. Fourth quarter additions were $6.8 million and $10.3 million in 2009 and 2008 respectively. The 2009 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 investment in Harlequin's distribution centre in New York State. In 2008, additions included a web-width reduction at The Hamilton Spectator.

In 2009, $9.5 million was used primarily for digital acquisitions in the Newspapers and Digital Segment, including Gottarent.com, Rosebud Media and 50% of Lease Busters Inc. This also included $4.2 million for earn-out payments and installments on previous acquisitions and the acquisition of an approximate 14% interest in Travelwire Inc. 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. There is a further $6.3 million of purchase price installments owing over the next two years related to acquisitions made in 2008 and 2009.

In 2008, cash of $3.1 million was received from the sale of excess land. The balance of the proceeds ($6.2 million) was received in the form of a mortgage which was initially due to mature in December 2009 but has been extended to September 2010.

<u>2010 capital expenditures</u>

Capital expenditures in 2010 are expected to be approximately $25.0 million up from the $20.7 million spent in 2009. The 2010 capital expenditures are anticipated to include the second part of the 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 $126.1 million was used in financing activities during 2009, up from $68.7 million used in 2008. In the fourth quarter of 2009, $36.8 million was used in financing activities up from $18.9 million in the fourth quarter of 2008.

Torstar repaid $96.9 million of long-term debt during 2009 including $29.9 million in the fourth quarter. Torstar repaid $11.8 million in 2008 including $4.8 million in the fourth quarter.

Cash dividends paid to shareholders were $29.1 million in 2009, down $28.8 million from $57.9 million in 2008 reflecting the reduction in Torstar's dividend rate that was announced in early 2009. Cash dividends were approximately $7.3 million in the fourth quarter of 2009 down $7.2 million from $14.5 million in 2008.

Net Debt

Net debt was $515.8 million at December 31, 2009, down $111.5 million from $627.3 million at December 31, 2008. The $111.5 million included a decrease of $14.7 million from the strengthening of the Canadian dollar, $96.9 million of long-term debt repayments and an increase of $0.1 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, 2009, Torstar had long-term debt of $553.0 million outstanding. The debt consisted of U.S. dollar bankers' acceptances of $94.7 million, Canadian dollar bankers' acceptances of $381.8 million and Canadian dollar medium term notes of $75.0 million increased by $1.5 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 $310 million revolving 364-day operating loan. The revolving 364-day operating loan was established 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 operating loan was renewed in December 2009 to mature in January 2011 with the consent of all the parties. The renewal included changes in the

interest rate spread on the operating loan, the requirement to borrow from the operating loan in priority to the revolving loan and a change in covenants. The same terms for renewal in January 2011 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 for borrowings under the revolving loan (range of 0.4% and 1.5%) and on its net debt to operating cash flow ratio for borrowings under the operating loan (range of 3.0% to 4.5%). Effective January 2010, the interest rate spread is 0.6% on the $425 million revolving loan and 3.0% 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 2010.

The long-term credit facility for $735.0 million acts as a standby line in support of letters of credit. At December 31, 2009, $477.7 million was drawn under the facility and a $20.0 million letter of credit was outstanding relating to an executive retirement plan.

Torstar has a $75.0 million medium term note that will mature in September 2010. It is Torstar's intention to refinance the medium term note through the issuance of bankers' acceptances through its long-term credit facility. As of December 2009, the long-term credit facility had $237.3 million of available credit which would adequately cover the refinancing of the $75.0 million medium term note. Therefore, the $75.0 million medium term note continues to be classified as long-term debt on Torstar's balance sheet.

After providing for the refinancing of the $75.0 million medium term note, Torstar's credit facility has $162.3 million of available credit.

Contractual Obligations

Torstar has the following significant contractual obligations (in $000's[8]):

Nature of the Obligation	Total	Less than 1 Year (2010)	2 – 3 Years (2011–2012)	4 – 5 Years (2013–2014)	After 5 Years (2015 +)
Office leases	$154,947	$19,531	$35,207	$30,176	$70,033
Services	20,534	5,473	7,653	5,345	2,063
Acquisitions	8,534	4,867	3,667		
Equipment leases	2,638	1,000	1,172	464	2
Subtotal	186,653	30,871	47,699	35,985	72,098
Foreign currency forward contracts:					
- payments	52,958	47,725	5,233		
- receipts	(59,068)	(53,532)	(5,536)		
- net	(6,110)	(5,807)	(303)		
Cdn $ Interest rate swaps	18,349	10,693	7,656		
US $ Interest rate swaps	18,628	3,480	6,960	6,960	1,228
Long-term debt	551,506	75,000	476,506		
Total	$769,026	$114,237	$538,518	$42,945	$73,326

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 will expire in 2018. Equipment leases include office equipment and company vehicles.

The services include Olive Media's minimum revenue share obligations and purchase of advertising impressions on third party websites and a distribution contract for Harlequin's U.K. operations. The acquisition obligations relate to the 2008

[8]All foreign denominated obligations were translated at the December 31, 2009 spot rates.

purchase of eyeReturn Marketing, the 2009 purchase of Gottarent.com and a put obligation that, if exercised, would require Torstar to purchase the remaining interest of Travelwire that it does not already own.

The foreign currency forward contracts are the U.S. dollar contracts that Torstar uses to manage the exchange risk in Harlequin's U.S. operations. The interest rate swaps are used to manage the risk on variable interest rate debt. More details on these are provided in the Financial Instruments section that follows.

The full amount of the bank debt is included in the above chart as maturing in 2012 on the basis that the operating facility will either be extended through 2012 or Torstar can convert it to a 364-day term loan which would mature in 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.

As part of CTVgm's credit facility, the shareholders of CTVgm, including Torstar, could be required to purchase a portion of CTVgm's financial obligations to its lenders. Torstar's maximum exposure under the arrangement would be $45 million. To offset this exposure, Torstar has also entered into a separate arrangement with another CTVgm shareholder which allows Torstar to assign its purchase obligation. As a result of these two arrangements, Torstar anticipates no net exposure. Torstar's lenders have recognized the two arrangements as being an effective offset and have agreed, with certain conditions attached, not to treat this arrangement with CTVgm's lenders as a guarantee under the terms of Torstar's credit facility.

Funding of Post Employment Benefits

The most significant group of Torstar's defined benefit pension plans (in terms of assets and obligations) will be required to prepare actuarial reports as of December 31, 2009. Torstar expects to take advantage of the recent regulatory changes which will allow Torstar to defer increases in the funding of the defined benefit registered pension plans until 2011. The 2010 funding for Torstar's defined benefit pension plans is expected to be approximately $16.0 million, which is slightly lower than the level of funding in 2009. Funding for these plans could increase in 2011 depending on the results of the December 31, 2009 actuarial reports and changes in capital market conditions before the end of 2010.

FINANCIAL INSTRUMENTS

Foreign Exchange

Harlequin's international operations provide Torstar with approximately 32% 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 2009, Torstar sold U.S. $50.1 million under forward foreign exchange contracts at an average exchange rate of $1.12. In 2008 U.S. $41.5 million was sold at an average exchange rate of $1.08. The settlement of these contracts resulted in an exchange loss of $0.8 million in 2009 and $1.1 million in 2008. Torstar has entered into forward foreign exchange contracts to sell $45.6 million U.S. dollars during 2010 at an average rate of $1.17 and $5.0 million U.S. dollars in 2011 at an average rate of $1.11. 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.

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. The medium term notes were issued at fixed interest rates. Torstar's general practice is to have approximately 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 $75 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 $1.5 million favourable at December 31, 2009.

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) through September 2011. These swap agreements, which have been designated as cash flow hedges, had a fair value of $11.9 million unfavourable at December 31, 2009.

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) for seven years ending May 2015. These swap agreements, which have been designated as cash flow hedges, had a fair value of $4.8 million unfavourable at December 31, 2009.

As at December 31, 2009, approximately 60% of Torstar's long-term debt was at fixed interest rates.

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. and a non-registered, unfunded defined benefit pension plan that provides pension benefits to eligible senior management executives of Torstar. 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 actuarial valuations as of December 31, 2009. Torstar expects to take advantage of the recent regulatory changes which will allow Torstar to defer increases in the funding of the defined benefit registered pension plans resulting from the December 31, 2009 actuarial valuations until 2011.

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 2009 and 2008 were:

To determine the benefit obligation at the end of the year:	2009	2008
Discount rate	5.5% - 5.8%	5.6% - 6.3%
Rate of future compensation increase	3.0% - 4.0%	3.0% - 4.0%
To determine the pension benefit expense for the year:	**2009**	**2008**
Discount rate	5.6% - 6.3%	5.25%
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 15 years	8 to 16 years
To determine the pension benefit expense for the following year:	**2010**	
Discount rate	5.5% - 5.8%	
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 14 years	

The discount rates 5.5% - 5.8% were the yields at December 31, 2009 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, 2009 of $88.4 million and a decrease in the 2009 expense of $10.6 million. A discount rate that was one percent lower would have increased the total pension plan obligation at December 31, 2009 by $101.1 million and increased the 2009 expense by $11.3 million. The impact of a change in the discount rate would have a similar impact on the 2010 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 return 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 2009 pension expense would have been approximately $5.7 million lower (higher). The impact would be approximately $6.6 million for the 2010 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 $1.0 million. In 2009, Torstar's pension plan assets experienced a 17.9% return, as the general market improved from 2008 lows.

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 8-15 years as of December 31, 2009. 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 $73.4 million at December 31, 2009 compared with $100.1 million at the end of 2008. This balance includes $20.4 million ($23.8 million in 2008) 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 $53.0 million compared with a net unfunded position of $76.3 million in 2008. As noted earlier, the most significant group of Torstar's defined benefit pension plans will be required to prepare actuarial reports as of December 31, 2009. Torstar expects to take advantage of the recent regulatory changes which will allow Torstar to defer increases in the funding of the registered defined benefit pension plans until 2011. Funding for these plans could increase in 2011 depending on the results of the December 31, 2009 actuarial reports and changes in capital market conditions before the end of 2010.

Torstar's expense related to the registered defined benefit pension plans was $29.9 million in 2009, up from $8.2 million in 2008. For 2010, pension expense for the registered defined benefit plans is expected to be approximately $20.5 million. The lower 2010 expense reflects a lower discount rate at December 31, 2009 (compared with 2008) more than offset by the performance of the plan assets during 2009 above the expected long-term rate of return. Torstar's funding related to the registered defined benefit pension plans was $18.8 million in 2009, up slightly from $17.1 million in 2008. Funding for the registered defined benefit plans in 2010 is expected to be slightly lower than the 2009 levels.

Torstar's expense related to the unregistered executive retirement plan was $3.1 million in 2009 (excluding $4.2 million that was included in restructuring and other charges) and $4.6 million in 2008. 2010 expense is expected to be approximately $3.6 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 $10.9 million were made in 2009 and $6.2 million in 2008.

Torstar also has 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. This obligation is being funded as payments are made on behalf of the retirees. Torstar has recorded a liability of $59.2 million on its December 31, 2009 balance sheet and an annual expense of $3.8 million ($57.7 million and $3.7 million respectively in 2008). At December 31, 2009 the unfunded obligation for these benefits was $47.0 million, down from $53.2 million at December 31, 2008. 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 9.0% increase for the 2009 expense. For 2010, health care costs are estimated to increase by 8.5% 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, 2009 would be approximately $1.5 million higher (lower). The impact on the 2009 expense would have been less than $0.4 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 judgements and estimates as they relate to matters that are inherently uncertain. Changes in these judgements or estimates could have a significant impact on Torstar's financial statements. Critical accounting estimates that require management's judgements 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, 2009, the returns provision deducted from accounts receivable on the consolidated balance sheets was $98 million ($110 million in 2008). A one percent change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2009 would have resulted in a $3.8 million change in reported 2009 revenue.

Income (Loss) from Associated Businesses

As Torstar does not have coterminous quarter-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.

In the fourth quarter of 2009, Torstar recorded an estimate of $6.9 million for a gain on the change in the fair value of CTVgm's financial liabilities. The estimate was required as the terms of an agreement that created a financial liability were changed in December 2009, after CTVgm's quarter end but before Torstar's year end. CTVgm will calculate the revised fair value of the financial liability during its second quarter and Torstar will record any required adjustments during its first quarter of 2010. During the fourth quarter of 2008, Torstar recorded an estimate of $21.8 million for an impairment loss related to certain of Black Press's intangible assets and reporting unit goodwill in its loss from associated businesses. There was no adjustment required to be made by Torstar when Black Press finalized 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, 2009. No adjustment for impairment of goodwill was required for any of Torstar's reporting units. A write-down of $0.7 million was recorded in restructuring and other charges related to an impairment loss on certain community newspapers mastheads.

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 licences, masthead and customer relationships were identified. Torstar has completed its annual impairment testing for these intangibles during the fourth quarter of 2009 and has included an impairment loss of $2.3 million in the reported loss from associated businesses. In 2008, an impairment loss of $96.6 million was reported.

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 an assessment of whether its investments have realized an "other than temporary" decline in value below the carrying value during the fourth quarter of 2009. In connection with its investment in CTVgm, Torstar has determined there has not been an "other than temporary" decline in value below the carrying value in 2009 and therefore, no write-down is required. In 2008, Torstar recorded a write-down of $95.7 million which was included in the investment loss and write-down reported on the consolidated statements of income. As Torstar's carrying value in Black Press is nil, no assessment was required in 2009 or 2008.

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, 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.

The discount rate used in measuring the liability and expected health care 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 judgement 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, salary increases and health care costs 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

Torstar is subject to income taxes in Canada and foreign jurisdictions. Significant judgement is required in determining the world-wide provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Management uses judgement in interpreting tax laws and determining the appropriate rates and amounts in recording current and future taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

Future income taxes are recorded to account for the effects of future taxes on transactions occurring in the current period. Management uses judgement 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

Goodwill and Intangible Assets

On January 1, 2009, Torstar adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets". This new standard has been applied retrospectively with restatement of prior periods. The standard provides guidance on the criteria for recognition, measurement, presentation and disclosure of goodwill and intangible assets; and clarifies the accounting treatment for advertising and promotional activities. Direct-response advertising costs can no longer be capitalized and amortized against the related revenue. As a result Torstar expenses as incurred, customer acquisition and retention costs with respect to Harlequin's direct-to-consumer businesses. Upon initial application, advertising and promotional costs previously capitalized were expensed and certain assets were reclassified from prepaid expenses to inventory. The net impact to opening retained earnings as of January 1, 2008 was a decrease of $6.5 million.

This new standard also required Torstar to retroactively reclassify its computer software assets on its consolidated balance sheet from property, plant and equipment to intangible assets. The net book value of the computer software reclassified was $17.9 million as of January 1, 2008 and $17.5 million at December 31, 2008.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 1, 2009, Torstar adopted EIC-173 "Credit risk and the fair value of financial assets and financial liabilities". 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. This new guidance has been applied retrospectively without restatement of prior periods in accordance with the transitional provision. Torstar has determined that there was no significant impact on the consolidated financial statements.

Financial Instruments, Disclosures

Torstar has applied the amendments to CICA Handbook Section 3862 "Financial Instruments – Disclosures" to its annual financial statements as at December 31, 2009. The amendments include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures and are applicable for fiscal years ending after September 30, 2009. The amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. These amendments specifically affect disclosures, and as such do not have any impact on Torstar's results or financial position.

Future Accounting Changes – Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the Canadian Accounting Standards Board ("AcSB") released Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests", which replace Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Accounting Standard ("IAS") 27, "Consolidated and Separate Financial Statements". For Torstar, these sections will apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted but must be applied together with Section 1582 "Business Combinations". Torstar does not anticipate a significant impact from the adoption of these standards on its consolidated financial statements.

Future Accounting Changes – Business Combinations

In January 2009, the AcSB released Section 1582, which replaces Section 1581 "Business Combinations". It provides the Canadian equivalent to IFRS 3 (Revised) "Business Combinations". For Torstar, this section applies prospectively to business combinations for which the acquisition is on or after January 1, 2011. Earlier adoption is permitted but must be applied together with Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Under this standard, Torstar will be required to expense transaction costs and also make an initial determination of contingent purchase obligations. Any differences between the initial determination and actual payments will be recorded in net income.

Future Accounting Changes – Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC-175 "Multiple Deliverable Revenue Arrangements" which replaces EIC-142 "Revenue Arrangements with Multiple Deliverables" and may be applied prospectively and will apply to Torstar effective January 2011. The abstract includes updated guidance on whether multiple deliverables exist, how the deliverables in any arrangement should be separated, and the consideration allocated. Torstar is reviewing the guidance to assess the potential impact on its consolidated financial statements.

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. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures.

Torstar will be required to prepare financial statements in accordance with IFRS starting with the interim financial statements for the quarter ended March 31, 2011. These statements will require 2010 comparatives in accordance with IFRS. As a result, the financial statements that will be prepared under Canadian GAAP for 2010 will need to be restated to conform to IFRS for comparative purposes. Torstar's Transition Date is January 1, 2010.

In preparation for the change in accounting policies, Torstar has completed a review of the IFRS standards and has identified the areas that could have a significant, moderate or no impact on Torstar's financial reporting. The analysis of each IFRS standard included 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. As part of this process, Torstar has reviewed the mandatory and optional exemptions under IFRS 1 to determine which of the optional exemptions it may elect and the impact on the financial statements on all of the exemptions.

The following are some of the standards that have been identified to date as having a significant impact for Torstar. Torstar continues to assess the IFRS standards, including changes that are being made to those standards. Additional standards may be identified as having a significant impact on Torstar's financial reporting.

IFRS standards with a significant impact

Torstar is party to a number of joint arrangements and has identified that the proposed amendment to IAS 31 "Joint Ventures" is one IFRS standard that will have a significant impact on Torstar's financial reporting. This amended standard is expected to be published in the second quarter of 2010 and will require that Torstar's joint ventures be accounted for using the equity method. Under Canadian GAAP, Torstar proportionately consolidates its joint ventures. While the application of amended IAS 31 will have no effect on net income, it will

result in a number of presentation reclassifications. Under the equity method, joint venture results are reflected within one line in each of the statements of income, financial position and cash flow as part of income from associated businesses and investments in associated businesses.

Torstar has identified that some of Harlequin's foreign operations that are considered to be integrated under Canadian GAAP and therefore have the Canadian dollar as their functional currency will be considered to have the U.S. dollar as their functional currency under the "primary indicator" guidance in IAS 21 "The Effects of Changes in Foreign Exchange Rates". This will impact the classification of foreign exchange gains or losses between other comprehensive income and net income. There may also be an impact to opening retained earnings which has not yet been quantified.

Torstar has several defined benefit pension and other post employment plans which provided pension and other retirement benefits to its employees in Canada and the U.S. Under Canadian GAAP, actuarial gains and losses are recognized into income using the corridor approach. Under the corridor approach, the excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the estimated average remaining service life of active employees. Actuarial gains and losses below the 10% corridor are deferred. Under IAS 19, "Employee Benefits" Torstar will be allowed to either continue to use the corridor approach for actuarial gains and losses that arise subsequent to the transition date or to recognize them directly in the statement of recognized income and expense as part of other comprehensive income. It is Torstar's intention to recognize actuarial gains and losses in other comprehensive income.

Also under IAS 19, past service costs are expensed directly to income as the benefits vest. This differs from Canadian GAAP where the costs are amortized over the average remaining service life of the active employees. As a result, unrecognized prior service costs will be charged to opening retained earnings at the Transition Date.

For acquisitions which include an element of contingent consideration, IFRS unlike Canadian GAAP requires the contingent consideration to be recognized at fair value at the acquisition date. Management is currently reviewing the liabilities associated with these contingent liabilities and is in the process of determining the value at the Transition Date. Subsequent changes to the fair value of the contingent consideration will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

IFRS 1 – elections

Business combinations – IFRS 1 provides the option to apply IFRS 3, Business Combinations retrospectively or prospectively from the Transition Date. Torstar will elect to not apply IFRS 3 to acquisitions of subsidiaries or interests in associates or joint ventures that occurred before the Transition Date. As a result of this election, the classification and accounting treatment of business combinations prior to the Transition Date will not be restated.

Employee benefits – IFRS 1 provides the option to recognize all cumulative unamortized actuarial gains or losses which had been deferred under Canadian GAAP in opening retained earnings. For Torstar's defined benefit pension and other post employment benefit plans, Torstar will elect to recognize all cumulative unamortized actuarial gains or losses that exist at the Transition Date in opening retained earnings. Actuarial valuations are in the process of being completed as at the Transition Date for Torstar's defined benefit pension plans and post employment benefit plans. Once those valuations have been completed the impact on opening retained earnings will be quantified.

Deemed cost – IFRS 1 allows the option to elect to measure an item of property, plant and equipment at its fair value at the date of transition. Torstar expects to elect to measure certain items of property, plant and equipment at their fair values at the Transition Date. Torstar has completed valuations of various property and equipment as at the Transition Date and is in the process of analyzing the data to determine the impact on opening retained earnings. Any fair value adjustments and changes to the assessment of the related useful lives of the individual components of property, plant and equipment could impact the depreciation charges subsequent to the Transition Date.

Borrowing costs – IAS 23, "Borrowing Costs", requires an entity to capitalize the borrowing costs related to all qualifying assets. IFRS 1 permits the effective date of applying IAS 23 to be the later of January 1, 2009 or the Transition Date. Torstar intends to elect this IFRS 1 exemption and apply IAS 23 prospectively from January 1, 2010. In applying this election, Torstar will revise the carrying amount of its property, plant and equipment for unamortized borrowing costs which were previously capitalized under Canadian GAAP with an adjustment to opening retained earnings at the Transition Date. This adjustment will additionally have an impact on the subsequent depreciation charges.

Cumulative translation differences – In accordance with IFRS 1, Torstar will elect to reset the cumulative translation gains or losses from its foreign operations that exist at the Transition Date to zero and recognize any previously recorded amounts in opening retained earnings.

Share-based payment transactions – IFRS 1 allows first-time adopters to apply IFRS 2, Share-based Payment to equity instruments that were granted after November 7, 2002 and that have vested before the Transition Date. Torstar will elect to not apply IFRS 2 to awards that vested prior to the Transition Date.

Income taxes

In addition to having to account for income taxes under IAS 12 "Income Taxes", many of the other adjustments being recorded on the adoption of IFRS will have a related tax effect that will need to be recorded at the Transition Date. Torstar is currently working on reviewing the changes required for IAS 12 as well as the tax effect for the other IFRS adjustments.

IFRS impact on information technology

Torstar has identified that in order to meet the new IFRS reporting standards, modifications will be required to some of its reporting systems. Torstar is in the process of identifying, designing and implementing the required modifications.

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 66% of Torstar's consolidated operating revenue in the year ended December 31, 2009. The majority of Torstar's Newspapers and Digital revenue is from advertising. Torstar's newspapers and digital business is cyclical in nature, and advertising revenue in Torstar's newspapers and digital properties is affected by a variety of factors, including prevailing economic conditions and the level of consumer confidence. Adverse economic conditions generally, and downturns in the Southern Ontario economy specifically, have a negative impact on the advertising industry and on Torstar's operations. Local downturns in the general economic environment may cause Torstar's customers to reduce the amounts they spend on advertising which could result in a decrease in demand for advertising and lower advertising rates.

Torstar's advertising revenue is also dependent on the prospects of its advertising customers. Certain of Torstar's advertising customers operate in industries that are cyclical or are particularly sensitive to general economic conditions, such as the automobile, technology, retail, food and beverage, telecommunications, travel, packaged goods, real estate and entertainment industries. Advertising customers could alter their spending priorities and reduce their advertising budgets in the event of a downturn in their business or prospects, which could have an adverse effect on the revenue Torstar generates from advertising.

Circulation levels can also be sensitive to prevailing economic conditions. Although circulation accounts for less of Torstar's newspaper revenue when compared to advertising, a substantial decrease in circulation not only affects circulation revenue but can also result in a substantial decrease in readership which could potentially have a 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 is characterized by relatively high fixed costs that do not vary significantly with the increase or decrease in advertising revenue. Accordingly, a relatively small change in advertising revenue could have a disproportionate effect on Torstar's results from operations.

Revenues for the Newspapers and Digital segment's Internet-related activities also are susceptible to changes in the strength of the economy. Workopolis is affected by the level of available jobs in the economy. Olive Media can be impacted by an overall decline in the advertising spend related to low levels of consumer confidence.

Revenue from Torstar's Book Publishing segment accounted for approximately 34% of Torstar's consolidated operating revenue in the year ended December 31, 2009. In 2009, 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 U.K., 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, regional and national 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 and volume, employee and distribution costs. In particular, the Toronto Star is part of an intense circulation battle with six other daily newspapers in the GTA, including three free daily papers.

Torstar's newspapers have experienced and expect to continue to experience significant seasonality due to seasonal advertising patterns and other factors. Typically, revenue is lowest during the third quarter of the fiscal year and highest during the fourth.

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 print circulation

and readership. 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 relative appeal 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 newsworthiness 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 attractive to advertisers 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 appealing to readers and advertisers, 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.

Book Publishing Environment

There are shifts occurring in the book publishing environment including the number of books sold over the Internet and the increasing popularity of digital formats. Some online retailers have successfully capitalized on these developments while some traditional book store chains have seen their positions decline. To date, Harlequin has been successful with its digital publishing initiatives, however these developments could have a negative impact on Harlequin's operating profit in the future.

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 associated with 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 could impact the ability of Torstar to respond quickly to downturns in the economy that negatively impact revenue.

The Toronto Star has approximately 985 staff covered by seven collective agreements. The largest agreement covers approximately 620 employees at One Yonge Street. This agreement was negotiated in January 2008 and will expire in December 2010. There are six agreements covering approximately 365 employees at the Toronto Star's Vaughan Press Center. One agreement covering

approximately 5 employees will expire in December 2010 and the other five agreements covering approximately 360 employees will expire in December 2011.

Sing Tao has two collective agreements covering approximately 125 employees that expired at the end of 2009. Negotiations commenced in early 2010. Metro's Toronto operations have a collective agreement covering approximately 65 employees that will expire in March of 2010.

Metroland Media Group has a total of 21 collective agreements covering approximately 780 employees. There are ten collective agreements covering approximately 280 employees within the community newspapers. Two agreements covering approximately 150 editorial employees were scheduled to expire at the end of 2009 but were extended with no changes for one year. In early 2010, settlements were reached for two other agreements that cover approximately 25 employees that expired earlier in 2009. Four of the remaining agreements covering approximately 85 employees will expire during 2010 and two covering approximately 20 employees will expire in 2011.

At the Metroland Media Group daily newspapers there are 11 agreements covering approximately 500 employees. One agreement covering approximately 80 employees in the advertising department at The Hamilton Spectator expired at the end of 2008. Negotiations commenced in the fourth quarter of 2009 and are ongoing. Two agreements covering approximately 150 employees in the editorial and mailroom at the Hamilton Spectator expired at the end of 2009. Negotiations are expected to commence during the second quarter of 2010. Five of the remaining agreements covering approximately 170 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. Newsprint is priced as a commodity with the price varying widely from time to time. In 2009, newsprint prices decreased during the year and Torstar's newsprint price was on average 5% lower than in 2008. Torstar's newspapers consume approximately 120,000 tonnes of newsprint each year. A $10 change in the price per tonne affects operating profits by $1.2 million. There can be no assurance that Torstar's newspapers will not be exposed in the future to volatile or increased newsprint costs which could have a material adverse effect on Torstar's operating results.

The pulp and paper industry has faced difficulties over the past few years with some newsprint suppliers experiencing financial instability. Two of Torstar's four newsprint suppliers are currently under creditor protection. Should there be a reduction in the number of suppliers, Torstar could face a risk in supply of newsprint and/or increased prices. Torstar primarily sources newsprint from two main suppliers, one of whom is currently under creditor protection. Pursuant to arrangements with these two suppliers, Torstar has fixed the price of the majority of its newsprint requirements for 2010 at prices that are similar to that realized in 2009. There can be no assurance that Torstar will be able to extend these arrangements in future years.

Foreign Exchange

As an international publisher, approximately 95% of Harlequin's revenues (approximately 32% 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. 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. A change in CTVgm's operations could have a significant impact on the value of Torstar's investment which could require Torstar to record its share of any asset or goodwill impairment recorded by CTVgm and to possibly take a further charge to earnings in order to reduce its carrying value. In the fourth quarter of 2008 both of these occurred, and the carrying value of Torstar's investment in CTVgm was reduced by $214.4 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. These include restriction on

the payment of dividends other than on a basis consistent with Torstar's current dividend policy (which does not include extraordinary dividends). The agreements also require compliance with certain financial covenants in order for Torstar's debt to remain outstanding and impose restrictions on Torstar in circumstances where Torstar is in default pursuant to its credit facilities. These covenants include the requirement to meet a minimum fixed charge coverage ratio and to not exceed 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.

Torstar's long-term debt facility matures in January 2012. The ability of Torstar to raise capital and the price of such capital may be negatively affected by global and Canadian financial conditions. Failure to obtain such additional financing at a reasonable price 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.

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. Torstar expects to take advantage of the recent regulatory changes which will allow Torstar to defer increases in the funding of the registered pension plans until 2011. Funding for these plans could increase in 2011 depending on the results of the December 31, 2009 actuarial reports and changes in capital market conditions before the end of 2010.

Impairment Tests

Under Canadian GAAP, Torstar must regularly test the carrying value of its long-lived assets, intangible assets and goodwill for impairment in value. When an impairment test results in an asset or goodwill devaluation, it is recorded as a non-cash charge that reduces Torstar's reported earnings.

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 Torstar.

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 has and is continuing to experience 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 needs 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. Torstar's ability to successfully manage the implementation of new technologies 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. This long-term debt is issued at market rates plus a spread specific to Torstar. In addition to the exposure to changes in Torstar's credit rating or businesses that would impact the specific spread, 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 or that expenditures will not be required to meet future legislation.

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.

Confidential Information

Torstar obtains and uses customers' confidential information primarily through its sales processes. The potential dissemination of such information to the wrong individuals could cause damage to Torstar's relationships with its customers and could result in legal actions.

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:

	2009	2008[9]	2007[9]
Revenue	$1,451,259	$1,533,753	$1,544,287
Net income (loss) from continuing operations	$35,645	($158,715)	$114,358
Per share (basic)	$0.45	($2.01)	$1.45
Per share (diluted)	$0.45	($2.01)	$1.45
Net income (loss)	$35,645	($181,504)	$104,283
Per share (basic)	$0.45	($2.30)	$1.33
Per share (diluted)	$0.45	($2.30)	$1.32
Average number of shares outstanding during the year (in 000's)			
Basic	78,964	78,837	78,620
Diluted	78,989	78,837	78,707
Cash dividends per share	$0.37	$0.74	$0.74
Total assets	$1,638,442	$1,778,733	$1,954,917
Total long-term debt	552,976	668,700	650,798

Total revenues have declined slightly over the past three years as growth in certain businesses was offset by declines in others. In 2009 and 2008, print advertising revenues were lower in the Newspapers and Digital segment more than offsetting growth in the digital properties and market expansions. The decline was worsened by the weak Ontario economy in late 2008 and through most of 2009. 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 $3.8 million in 2009 and $9.6 million in 2008 excluding the impact of foreign exchange.

Net income from continuing operations has declined over the three years from a combination of lower results in the Newspapers and Digital Segment and significant losses related to investments in associated businesses that were recorded in 2008. The Newspapers and Digital Segment has realized significant labour cost savings from restructuring programs in 2008 and 2009 but has faced cost increases in other areas including significantly higher pension costs. Newsprint pricing was lower in 2009 than in 2008 but higher in 2008 than in 2007. The loss from associated businesses in 2008 was related to the accounting for impairment losses on intangible assets and goodwill as well as a write-down of the carrying value of Torstar's investment in CTVgm.

The decrease in total assets in 2009 was spread across most of the assets and was offset by lower liabilities. The 2008 decrease primarily related to the write-down of the investment in associated businesses discussed above.

[9] 2008 and 2007 have been restated to reflect Transit TV as a discontinued operation and for the retrospective adoption of CICA Handbook Section 3064.

SUMMARY OF QUARTERLY RESULTS
(In thousands of dollars except for per share amounts)

	2009 Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Revenue	$394,785	$343,734	$373,733	$339,007
Net income (loss) from continuing operations	$57,355	$4,037	($4,362)	($21,385)
Net income (loss)	$57,355	$4,037	($4,362)	($21,385)
Net income (loss) from continuing operations per Class A voting and Class B non-voting share				
Basic	$0.73	$0.05	($0.06)	($0.27)
Diluted	$0.73	$0.05	($0.06)	($0.27)
Net income (loss) per Class A voting and Class B non-voting share				
Basic	$0.73	$0.05	($0.06)	($0.27)
Diluted	$0.73	$0.05	($0.06)	($0.27)

	2008[10] Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Revenue	$412,351	$371,299	$398,823	$351,280
Net income (loss) from continuing operations	($211,661)	$16,566	$37,548	($1,168)
Net income (loss)	($213,917)	($748)	$36,178	($3,017)
Net income (loss) from continuing operations per Class A voting and Class B non-voting share				
Basic	($2.68)	$0.21	$0.48	($0.02)
Diluted	($2.68)	$0.21	$0.48	($0.02)
Net income (loss) per Class A voting and Class B non-voting share				
Basic	($2.71)	($0.01)	$0.46	($0.04)
Diluted	($2.71)	($0.01)	$0.46	($0.04)

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 and 2009 have masked some of the cyclical impact. Book Publishing revenues will vary depending on the publishing schedule and the impact of foreign exchange rates.

The lower revenues in the Newspapers and Digital Segment have had a negative impact on net income over the two year period. In addition, restructuring and other charges have impacted the level of net income in several quarters. In 2009, the first, second, third and fourth quarters had restructuring and other charges of $25.9 million, $3.8 million, $1.1 million and $13.0 million respectively. In 2008, the first, second, third and fourth quarters had restructuring and other charges of $20.8 million, $4.4 million, $3.4 million and $13.1 million respectively.

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 related to the accounting for impairment losses on intangible assets and goodwill.

[10] ***2008 has been restated to reflect Transit TV as a discontinued operation and for the retrospective adoption of CICA Handbook Section 3064.***

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, 2009, 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, 2009, 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, 2009.

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 2009, the most recent interim period, that have materially affected, or are reasonably likely to materially affect, Torstar's internal controls over financial reporting.

OTHER

At January 31, 2010, Torstar had 9,875,407 Class A voting shares and 69,129,979 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, 2010, Torstar had 4,277,158 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.

David P. Holland

President and Chief Executive Officer

March 2, 2010

Lorenzo DeMarchi

Executive Vice-President and Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF TORSTAR CORPORATION

We have audited the consolidated balance sheets of Torstar Corporation as at December 31, 2009 and 2008 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, 2009 and 2008 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,
March 2, 2010

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

TORSTAR CORPORATION

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

(thousands of dollars)

Assets	2009	2008
Current:		*(note 1(r))*
Cash and cash equivalents	**$39,238**	$45,787
Receivables (note 2)	**253,306**	273,658
Inventories (note 11)	**33,953**	41,075
Prepaid expenses and other current assets	**51,501**	59,814
Prepaid and recoverable income taxes	**2,997**	13,719
Future income tax assets (note 16)	**19,540**	25,716
Total current assets	**400,535**	459,769
Property, plant and equipment (net) (note 3)	**251,817**	280,996
Investment in associated businesses (note 4)	**178,828**	201,571
Intangible assets (note 5)	**51,619**	52,146
Goodwill (net) (note 6)	**581,842**	577,116
Other assets (note 7)	**140,108**	156,543
Future income tax assets (note 16)	**33,693**	50,592
Total assets	**$1,638,442**	$1,778,733
Liabilities and Shareholders' Equity		
Current:		
Bank overdraft	**$2,052**	$4,425
Accounts payable and accrued liabilities	**218,971**	238,600
Income taxes payable	**19,158**	10,057
Total current liabilities	**240,181**	253,082
Long-term debt (note 8)	**552,976**	668,700
Other liabilities (note 13)	**103,408**	119,827
Future income tax liabilities (note 16)	**62,897**	72,090
Shareholders' equity:		
Share capital (note 14)	**391,626**	390,978
Contributed surplus	**11,901**	11,018
Retained earnings	**292,306**	288,934
Accumulated other comprehensive loss (note 12)	**(16,853)**	(25,896)
Total shareholders' equity	**678,980**	665,034
Total liabilities and shareholders' equity	**$1,638,442**	$1,778,733

Contingencies (note 24)

(See accompanying notes)

ON BEHALF OF THE BOARD

John Honderich
Director

Paul Weiss
Director

Consolidated Statements of Income
Years ended December 31, 2009 and 2008

(thousands of dollars except per share amounts)	2009	2008
Operating revenue		*(notes 1(r); 29)*
Newspapers and digital	**$957,956**	$1,060,836
Book publishing	**493,303**	472,917
	$1,451,259	$1,533,753
Operating profit		
Newspapers and digital	**$70,154**	$109,305
Book publishing	**83,797**	67,511
Corporate	**(14,969)**	(16,903)
Restructuring and other charges (note 20)	**(43,729)**	(41,723)
	95,253	118,190
Interest (note 8(e))	**(21,036)**	(28,225)
Foreign exchange gain (loss)	**(458)**	395
Income (loss) of associated businesses (note 4)	**(17,953)**	(136,948)
Gain on sale of land (note 21)	**239**	9,170
Investment write-down and loss (note 22)	**(2,400)**	(99,797)
Income (loss) before taxes	**53,645**	(137,215)
Income and other taxes (note 16)	**(18,000)**	(21,500)
Income (loss) from continuing operations	**35,645**	(158,715)
Discontinued operations (note 29)		(22,789)
Net income (loss)	**$35,645**	($181,504)
Earnings (loss) per Class A and Class B share (note 14(c))		
Income (loss) from continuing operations – Basic and Diluted	**$0.45**	($2.01)
Net income (loss) – Basic and Diluted	**$0.45**	($2.30)

(See accompanying notes)

Consolidated Statements of Comprehensive Income
Years ended December 31, 2009 and 2008

(thousands of dollars)	2009	2008
		(notes 1(r); 29)
Net income (loss)	**$35,645**	($181,504)
Other comprehensive income (loss), net of tax:		
Reclassification adjustment for foreign currency translation loss included in net income		3,372
Unrealized foreign currency translation adjustment	**(6,169)**	10,482
Reclassification adjustment for loss on available-for-sale financial assets included in net income		1,602
Unrealized loss on available-for-sale financial assets	**(426)**	(1,516)
Realized loss (gain) on cash flow hedges transferred to net income	**3,559**	(1,305)
Unrealized change in fair value of cash flow hedges	**13,814**	(25,344)
Realized loss on cash flow hedges for associated businesses transferred to net income	**3,935**	
Unrealized change in fair value of cash flow hedges for associated businesses	**(5,670)**	(279)
Other comprehensive income (loss) from continuing operations	**9,043**	(12,988)
Discontinued operations (note 29)		5,088
Other comprehensive income (loss)	9,043	(7,900)
Comprehensive income (loss)	**$44,688**	($189,404)

(See accompanying notes)

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2009 and 2008

(thousands of dollars)	**2009**	2008
Share capital (note 14)	**$391,626**	$390,978
Contributed surplus		
Balance, beginning of year	**$11,018**	$9,929
Stock-based compensation expense	**883**	1,089
Balance, end of year	**$11,901**	$11,018
Retained earnings		
Balance, beginning of year (note 1(r))	**$288,934**	$528,748
Transition impact of accounting changes relating to intangible assets for associated businesses (note 4)	**(3,055)**	
Net income (loss)	**35,645**	(181,504)
Dividends	**(29,218)**	(58,310)
Balance, end of year	**$292,306**	$288,934
Accumulated other comprehensive loss		
Balance, beginning of year	**($25,896)**	($15,446)
Transition impact of accounting changes relating to financial instruments for associated businesses (note 4)		(2,550)
Other comprehensive income (loss)	**9,043**	(7,900)
Balance, end of year (note 12)	**($16,853)**	($25,896)
Total shareholders' equity	**$678,980**	$665,034

(See accompanying notes)

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

(thousands of dollars)	**2009**	2008
		(notes 1(r); 29)
Cash was provided by (used in)		
Operating activities	**$153,364**	$122,217
Investing activities	**(29,151)**	(46,086)
Financing activities	**(126,078)**	(68,671)
Increase (decrease) in cash	**(1,865)**	7,460
Effect of exchange rate changes	**(2,311)**	3,422
Cash, beginning of year	**41,362**	30,480
Cash, end of year	**$37,186**	$41,362
Operating activities:		
Income (loss) from continuing operations	**$35,645**	($158,715)
Depreciation and amortization	**52,819**	53,273
Future income taxes	**(3,206)**	1,552
Loss of associated businesses	**17,953**	136,948
Dividends received from associated business		1,161
Investment write-down and loss	**2,400**	99,797
Other (note 23)	**14,248**	(14,145)
	119,859	119,871
Decrease in non-cash working capital	**33,505**	5,936
Discontinued operations (note 29)		(3,590)
Cash provided by operating activities	**$153,364**	$122,217
Investing activities:		
Additions to property, plant and equipment and intangible assets	**($20,706)**	($26,081)
Acquisitions and investments (note 17)	**(9,464)**	(24,651)
Proceeds on sale of land (note 21)	**239**	3,095
Other	**780**	1,599
Discontinued operations (note 29)		(48)
Cash used in investing activities	**($29,151)**	($46,086)
Financing activities:		
Issuance of bankers' acceptance	**$14,370**	$14,479
Repayment of bankers' acceptance	**(86,230)**	(26,291)
Repayment of medium term notes	**(25,000)**	
Dividends paid	**(29,076)**	(57,871)
Other	**(142)**	1,012
Cash used in financing activities	**($126,078)**	($68,671)
Cash represented by:		
Cash	**$29,004**	$22,256
Cash equivalents	**10,234**	23,531
Cash and cash equivalents	**39,238**	45,787
Bank overdraft	**(2,052)**	(4,425)
	$37,186	$41,362

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

(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.

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 recognizes embedded derivatives at their fair values on its consolidated balance sheet, when applicable.

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

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.

Interest rate swap contracts have been designated as hedges against interest expense. 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 has derivative instruments to manage 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. 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 Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 -Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair values of cash and cash equivalents and bank overdraft are classified within Level 1 because they are based on quoted prices for identical assets in active markets.

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's derivative financial instruments include foreign exchange forward contracts and interest rate swaps. The fair value of foreign exchange forward contracts is the difference between the forward exchange rate and the contract rate and is classified within Level 2 because they are based on foreign currency rates quoted by banks.

The Company determines the fair value for interest rate swaps as the net discounted future cash flows using the implied zero-coupon forward swap 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. The fair value for interest rate swaps is classified within Level 2 because they are based on forward yield curves which are observable inputs provided by banks and available in other public data sources.

The fair value of portfolio investments measured at fair value is classified within Level 2 because even though the security is listed, it is not actively traded. The fair values of the portfolio investments measured at cost and the CTVgm arrangements are classified within Level 3 because they are not quoted and the valuation inputs are not observable since they are not publicly available.

(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 and other current assets

Prepaid expenses and other current assets 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 are comprised of computer software assets, intangible assets with finite lives and intangible assets with indefinite lives.

Computer software is recorded at cost less accumulated amortization. Computer software assets are amortized on a straight line basis over 3 to 10 years.

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, the 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 (capital accumulation) 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.

• Prior 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 ("ESPP"), 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.

Eligible executives may be granted RSU awards equivalent in value to Class B non-voting shares of the Company. RSUs vest after three years and are settled in cash. RSUs are accrued over the three-year vesting period as compensation expense and a related liability. The liability is 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.

(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, 2009, the Company adopted EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" and the CICA Handbook Section 3064 "Goodwill and Intangible Assets".

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

EIC-173 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. This new guidance has been applied retrospectively without restatement of prior periods in accordance with the transitional provisions. The Company has determined that there was no significant impact on the consolidated financial statements.

Goodwill and Intangible Assets

Section 3064 replaces Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs” and has been applied retrospectively with restatement of prior periods. The standard provides guidance on the criteria for recognition, measurement, presentation and disclosure of goodwill and intangible assets; and clarifies the accounting treatment for advertising and promotional activities. Direct-response advertising costs can no longer be capitalized and amortized against the related revenue, hence the Company expenses as incurred, customer acquisition and retention costs with respect to its direct-to-consumer businesses in its Book Publishing segment’s operating results.

Upon initial application, advertising and promotional costs previously capitalized were expensed and there were certain balance sheet reclassifications. The comparative figures have been restated as follows:

	Reported as at December 31, 2008	Impact of Section 3064	Restated as at December 31, 2008
Retained earnings – beginning of year	$535,242	($6,494)	$528,748
Consolidated Statements of Income: increase (decrease)			
Operating profit, Book Publishing Segment	$67,450	$61	$67,511
Foreign exchange gain	2,205	(1,810)	395
Income and other taxes	(22,200)	700	(21,500)
Net income		(1,049)	
Retained earnings – end of year	$296,477	($7,543)	$288,934
Consolidated Balance Sheets:			
Inventory	$39,141	$1,934	$41,075
Prepaid expenses	71,922	(12,108)	59,814
Future income tax assets	24,416	1,300	25,716
Accounts payable and accrued liabilities	237,431	1,169	238,600
Current income taxes payable	12,557	(2,500)	10,057

There was no net impact on cash provided by operating activities.

In addition to the above, the adoption of this standard also required the Company to retroactively reclassify its computer software assets on its consolidated balance sheet from machinery and equipment (Note 3) to intangible assets (Note 5). The net book value of computer software reclassified as of December 31, 2008 was $17.5 million (January 1, 2008 - $17.9 million). In addition, the amortization of computer software has been reclassified from depreciation expense to amortization of intangible assets. The reclassification of amortization for the year ended December 31, 2008 was $7.9 million. As of December 31, 2009, computer software of $16.6 million is included within intangible assets. For the year ended December 31, 2009, amortization expense of $8.5 million has been recorded relating to computer software.

Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, “Financial Instruments – Disclosures”, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009.

The Company applied the amendments to this standard to its annual financial statements as at December 31, 2009 and are included in Notes 1(c) and 9. For this first year of application, comparative information is not required for the disclosures required by the amendments. Since these amendments specifically affect disclosures, they do not have any impact on the Company’s results or financial position.

Future accounting changes:

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the AcSB released Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests", which replace Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, "Consolidated and Separate Financial Statements". For the Company, these sections will apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted but must be applied together with Section 1582 "Business Combinations". The Company does not anticipate a significant impact from the adoption of these standards on its consolidated financial statements.

Business Combinations

In January 2009, the AcSB released Section 1582, which replaces Section 1581 "Business Combinations". It provides the Canadian equivalent to IFRS 3 (Revised) "Business Combinations". For the Company, this section applies prospectively to business combinations for which the acquisition is on or after January 1, 2011. Earlier adoption is permitted but must be applied together with Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Under this standard, the Company will be required to expense transaction costs and also make an initial determination of contingent purchase obligations. Any differences between the initial determination and actual payments will be recorded in net income.

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC-175 "Multiple Deliverable Revenue Arrangements" which replaces EIC-142 "Revenue Arrangements with Multiple Deliverables" and may be applied prospectively and will apply to the Company effective January 2011. The abstract includes updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated. The Company is reviewing the guidance to assess 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, 2009 amounted to $111 million (2008 - $129 million).

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Net
2009			
Land	**$7,176**		**$7,176**
Buildings and leasehold improvements	**218,594**	**$131,948**	**86,646**
Machinery and equipment	**625,406**	**467,411**	**157,995**
Total	**$851,176**	**$599,359**	**$251,817**
(notes 1(r); 29)			
2008			
Land	$7,278		$7,278
Buildings and leasehold improvements	232,684	$138,459	94,225
Machinery and equipment	659,616	480,123	179,493
Total	$899,578	$618,582	$280,996

Depreciation expense for the year ended December 31, 2009 was $41.1 million (2008 - $42.8 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:

	2009	2008
Balance, beginning of year	**$201,571**	$434,294
Income (loss) of associated businesses	**(17,953)**	(136,948)
Dividends received		(1,161)
Write-down of investment		(95,729)
Adjustment to opening retained earnings on adoption of new accounting standards for intangible assets	**(3,055)**	
Change in investees' accumulated other comprehensive loss	**(1,735)**	3,665
Adjustment to other comprehensive loss on adoption of new accounting standards for financial instruments		(2,550)
Balance, end of year	**$178,828**	$201,571

The Company 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, 2009 and 2008.

The 2009 Income (loss) of associated businesses included a $16.5 million intangible asset impairment loss, a $26.3 million valuation allowance that was recorded against certain CTVgm future income tax assets, a $6.9 million recovery related to Canadian Radio-television and Telecommunications Commission Part II licence fees, a $6.9 million gain on the change in the fair value of financial liabilities and a $4.2 million positive earnings impact as future income tax liabilities related to intangible assets were reduced to reflect the reduction in future provincial income tax rates.

In 2008, the Loss of associated businesses included the effect of goodwill and intangible asset impairment losses for CTVgm of $124.2 million (in respect of certain of its television, radio and print assets) and Black Press of $21.8 million (in respect of certain of its mastheads and reporting unit goodwill).

During the fourth quarter, the Company completed its annual impairment testing for the CTVgm intangible assets including broadcast licenses, masthead and customer relationships, that were identified on the investment by the Company. The Company also completed an assessment of the value of its investment in CTVgm to determine if there has been an other than temporary decline in the value relative to its carrying value. An impairment loss of $2.3 million was recorded in the fourth quarter of 2009 in relation to certain broadcast licenses (included in the $16.5 million discussed above). In the fourth quarter of 2008, an impairment loss of $96.6 million was recorded in relation to certain broadcast licenses and mastheads (included in the $124.2 million discussed above). The Company determined that there was not an other than temporary decline in the value of its investment in CTVgm in 2009 and therefore no impairment loss was required to be recorded. In 2008, a $95.7 million write-down was recorded.

At December 31, 2009, the Company's carrying value of its investment in CTVgm was $177.4 million (2008 - $200.0 million) and was nil for Black Press (2008 - nil).

Outlined below is summarized financial information for 100% of CTVgm, based on the Company's fair value adjustments on acquisition, as at November 30, 2009 and 2008 and for the twelve months ended November 30, 2009 and 2008. The Company's 2008 write-down due to an other than temporary decline in the value of the investment in CTVgm below carrying value was reflected as a deduction from goodwill and shareholders' equity in the summarized 2008 financial information below.

	2009	2008
Balance Sheet		
Current assets	**$582,042**	$737,396
Property, plant and equipment	**535,667**	550,649
Intangible assets	**2,255,913**	1,995,365
Goodwill	**298,325**	298,325
Other assets	**25,189**	255,493
	$3,697,136	$3,837,228
Current liabilities	**$447,523**	$530,936
Debt	**1,934,598**	1,934,627
Other liabilities and non-controlling interests	**428,019**	371,663
Shareholders' equity	**886,996**	1,000,002
	$3,697,136	$3,837,228
Statements of Income (Loss)		
Revenues[1]	**$2,110,278**	$2,183,203
Operating profit[1]	**$214,747**	$189,887
Impairment loss on goodwill and intangible assets[2]	**($84,320)**	($1,191,330)
Net income (loss)[2]	**($89,055)**	($1,031,805)
Statements of Comprehensive Income (Loss)		
Net income (loss)	**($89,055)**	($1,031,805)
Other Comprehensive Income (loss)	**(8,675)**	(1,392)
Comprehensive income (loss)	**($97,730)**	($1,033,197)

[1]CTVgm accounted for its investment in CHUM by the equity method until the end of June 2008 and accordingly the revenue and operating profit for the twelve month period ended November 30, 2008 only includes five months of CHUM's revenues and operating profit.

[2]The twelve month period ended November 30, 2008 includes the Company's write-down due to an other than temporary decline in the value of its investment in CTVgm below carrying value.

5. INTANGIBLE ASSETS

	2009	2008
Computer software assets:		*(notes 1(r); 29)*
Balance, beginning of year	**$17,479**	$17,858
Additions	**7,889**	7,031
Disposals	**(239)**	
Amortization	**(8,506)**	(7,944)
Foreign exchange difference and other	**(43)**	534
Balance, end of year	**$16,580**	$17,479
Intangible assets not subject to amortization:		
Balance, beginning of year	**$21,321**	$19,800
Additions	**2,395**	2,937
Write-down for impairment (note 20(b))	**(756)**	(1,416)
Balance, end of year	**$22,960**	$21,321
Intangible assets subject to amortization:		
Balance, beginning of year	**$13,346**	$8,973
Additions	**1,540**	7,213
Write-down for impairment (note 20(b))		(987)
Amortization	**(2,807)**	(1,853)
Balance, end of year	**$12,079**	$13,346
Total	**$51,619**	$52,146

Amortization expense for the year ended December 31, 2009 was $11.3 million (2008 - $10.5 million).

6. GOODWILL

	2009	2008
Balance, beginning of year	**$577,116**	$562,120
Recognized on acquisitions (note 17)	**5,299**	15,451
Foreign exchange difference and other	**(573)**	(455)
Balance, end of year	**$581,842**	$577,116

7. OTHER ASSETS

	2009	2008
Accrued benefit assets (note 18)	**$136,574**	$148,257
Portfolio investments	**883**	2,915
Derivative instruments (note 9)	**1,471**	3,363
Other	**1,180**	2,008
	$140,108	$156,543

8. LONG TERM DEBT

	2009	2008
Bankers' acceptance:		
Cdn. dollar denominated	**$381,819**	$441,745
U.S. dollar denominated	**94,687**	123,592
	$476,506	565,337
Medium Term Notes:		
Cdn. dollar denominated (note 8(b))	**75,000**	100,000
Fair value hedge	**1,470**	3,363
	$76,470	103,363
	$552,976	$668,700

(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 December 2009 to mature in January 2011 and can be extended with the consent of all parties for an additional 364-day period, or can be converted to a 364-day term loan at the Company's option, neither to extend beyond January 2012. The credit facilities may be drawn in Canadian or U.S. dollars, and must be drawn from the operating loan in priority to the revolving loan. The credit facilities are subject to financial tests and other covenants with which the company was in compliance at December 31, 2009.

(ii) Amounts borrowed under the bank credit facilities are primarily in the form of bankers' acceptance (or an equivalent) at varying interest rates and 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 for borrowings under the revolving loan (range of 0.4% and 1.5%), and on its net debt to operating cash flow ratio for borrowings under the operating loan (range of 3.0% to 4.5%). Effective January 2010, the interest rate spread is 0.6% on the $425 million revolving loan (January 2009 – 0.6%) and 3.0% on new borrowings under the $310 million operating loan (January 2009 – 1.2%). The interest rate spread at December 31, 2009 was a blended rate of 0.96% (2008 – 0.85%).

(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 $11.9 million unfavourable at December 31, 2009 (2008 - $20.2 million unfavourable).

(iv) The average rate on Canadian dollar bank borrowings outstanding at December 31, 2009 was 1.4% (December 31, 2008 – 2.6%). Including the effect of the interest rate swap noted in (8(a)(iii) the effective rate was 3.9% at December 31, 2009 (December 31 2008 – 4.0%).

(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, 2009 was $4.8 million unfavourable (2008 - $11.2 million unfavourable).

(vi) Bank debt outstanding at December 31, 2009 included U.S. dollar borrowings of U.S. $90.5 million (December 31, 2008 – U.S. $100.9 million) at an average rate of 1.2% (December 31, 2008 – 1.4%). Including the effect of the interest rate swap noted in 8(a)(v) the effective rate was 4.8% at December 31, 2009 (December 31, 2008 – 4.2%).

(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%. 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. During 2009, $25 million 3.7% medium term notes that were also issued in September 2005 matured.

The medium term notes that mature in September 2010 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, 2009, including the above noted swaps, was 0.9% (2008 – 2.4%). The fair value of the medium term notes at December 31, 2009 was $0.1 million favourable (2008 - $4.1 million favourable). The fair value of the interest rate swap agreements related to the medium term notes were

$1.5 million favourable at December 31, 2009 (2008 - $3.4 million favourable). In accordance with the accounting policy for a fair value hedge, the debt has been increased by $1.5 million to $76.5 million (2008 - increased by $3.4 million to $103.4 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 the Company and its subsidiaries considered on a consolidated basis. There were no such developments as at December 31, 2009.

(e) Interest expense includes interest on long-term debt of $21.7 million (2008 - $29.2 million).

(f) Interest of $21.6 million was paid during the year (2008 - $29.2 million).

9. FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

	2009	2008
Financial assets:		*(note 1(r))*
Held for trading, measured at fair value		
Cash and cash equivalents	**$39,238**	$45,787
Loans and receivables, measured at amortized cost		
Trade accounts receivable	**233,675**	253,014
Other receivables	**13,564**	20,644
	247,239	273,658
Derivatives included in Receivables	**6,067**	-
Receivables per Balance Sheet	**253,306**	273,658
Available for sale, measured at cost		
Portfolio investments[1]	**811**	2,400
Available for sale, measured at fair value		
Portfolio investments[1]	**72**	515
Derivatives designated as effective hedges, measured at fair value		
Foreign currency forward contracts[2]	**6,067**	(5,155)
Interest rate swaps – cash flow hedges[1]	**(16,632)**	(31,395)
Interest rate swaps – fair value hedges[1]	**1,470**	3,363
Derivatives		
Japanese Yen forward contracts[2]		(19)
Other[1,3]	**1**	
Other[1,3]	**(1)**	
Financial liabilities:		
Held for trading, measured at fair value		
Bank overdraft	**2,052**	4,425
Other financial liabilities:		
Long term debt, measured at amortized cost	**552,976**	668,700
Accounts payable and accrued liabilities:		
Measured at amortized cost	**218,971**	233,426
Derivatives included in Accounts payable and accrued liabilities		5,174
Accounts payable and accrued liabilities per Balance Sheet	**218,971**	238,600

[1] These amounts are included in Other assets or Other liabilities
[2] Included in Receivables or Accounts payable and accrued liabilities
[3] See section below on CTVgm arrangements

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 $36 million (U.S. $34 million) at December 31, 2009 (2008 - $39 million (U.S. $32 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 these financial assets.

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

	2009	2008
Gross accounts receivable:		
Current	**$249,297**	$272,241
Up to three months past due date	**84,962**	93,179
Three to twelve months past due date	**4,422**	8,480
Impaired	**6,051**	8,420
	344,732	382,320
Allowance for doubtful accounts	**(13,398)**	(18,939)
Book returns provision	**(97,659)**	(110,367)
	$233,675	$253,014

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, 2009 was approximately $162 million (2008 - $115 million), taking into account the $75 million medium term notes maturing in 2010 (2008 - $25 million medium term notes maturing in 2009). The maturity profile of the Company's financial liabilities based on contractual undiscounted payments is as follows:

	2010	2011	2012	2013	2014	2015+	**Total**
CTVgm arrangement	$45,000						$45,000
CTVgm arrangement	(45,000)						(45,000)
	-						-
Foreign currency hedges[1]:							
Outflows	47,725	$5,233					52,958
Inflows	(53,532)	(5,536)					(59,068)
	(5,807)	(303)					(6,110)
Cdn.$ Interest rate swaps	10,693	7,656					18,349
U.S.$ Interest rate swaps[1]	3,480	3,480	$3,480	$3,480	$3,480	$1,228	18,628
Accounts payable and accrued liabilities	218,971						218,971
Deferred payments		3,667					3,667
Long-term debt[1]	75,000		476,506				551,506
Total outflows	400,869	20,036	479,986	3,480	3,480	1,228	909,079
Total inflows	(98,532)	(5,536)					(104,068)
Net	$302,337	$14,500	$479,986	$3,480	$3,480	$1,228	$805,011

[1] All foreign currency denominated amounts were translated at the December 31, 2009 spot rates.

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. In 2009, including the impact of the foreign exchange contracts, Harlequin's U.S. dollar earnings were translated at a rate of approximately $1.13. A $0.05 higher (lower) average exchange rate would have increased (decreased) net income by approximately $0.8 million (2008 - $0.8 million).

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. In 2009, the non-cash foreign exchange loss recognized in earnings was $0.5 million (2008 – gain of $0.4 million). A $0.05 change in average exchange rate would not have had a significant impact on the consolidated financial statements.

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 the Company's short term borrowing rates during the year ended December 31, 2009 would have decreased net income by $1.8 million (2008 - $2.8 million), with an equal but opposite effect for an assumed 1% decrease in short term borrowing rates.

CTVgm arrangements

As part of the renegotiated CTVgm credit facility, the shareholders of CTVgm, including the Company, could be required to purchase a portion of CTVgm's financial obligations to its lenders. The Company's maximum exposure under the arrangement would be $45 million. To offset its exposure, the Company has also entered into a separate arrangement with another CTVgm shareholder which allows the Company to assign its purchase obligation. As a result of these two arrangements, the Company anticipates no net exposure. The Company's lenders have recognized the two arrangements as being an effective offset and have agreed, with certain conditions attached, not to treat this arrangement with CTVgm's lenders as a guarantee under the terms of the Company's credit facility.

Under Canadian GAAP, the Company separately values the two arrangements at their fair values at each reporting period. On inception, the Company's management determined that both arrangements had only a nominal value. As of December 31, 2009, the Company's management has determined that there is no evidence of deterioration of CTVgm's and the other CTVgm shareholder's credit quality, that would impact the assigned carrying value of both arrangements.

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:

	2009	2008
		(note 1(r))
Shareholders' equity	**$678,980**	$665,034
Long term debt	**552,976**	668,700
Bank overdraft	**2,052**	4,425
Cash and cash equivalents	**(39,238)**	(45,787)
	$1,194,770	$1,292,372

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, 2009.

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

The Company is not subject to any external capital requirements.

11. INVENTORIES

	2009	2008
		(note 1(r))
Finished goods	**$11,164**	$13,632
Work in progress	**11,292**	13,889
Raw materials	**11,497**	13,554
	$33,953	$41,075

The Company has expensed inventory costs of $218.9 million for the year ended December 31, 2009 (2008 - $233.9 million).

The Company recorded an inventory write-down of $4.0 million for the year ended December 31, 2009 (2008 - $4.1 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, 2008	($17,096)	$1,650			($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)
Other comprehensive income (loss)	(6,169)	17,373	(426)	(1,735)	9,043
As at December 31, 2009	($4,323)[1]	($7,626)[2]	($340)[3]	($4,564)	($16,853)

[1]Net of income tax benefit of $nil (2008 - $nil).
[2]Net of income tax benefit of $2,939 (2008 – $11,551).
[3]Net of income tax liability of $nil (2008 - $17)

13. OTHER LIABILITIES

	2009	2008
Employee future benefits (note 18)	**$69,135**	$71,499
Employees' shares subscribed (note 15(b))	**3,537**	4,146
RSU plan (note 15(c))	**1,375**	960
DSU plan (note 15(e))	**2,263**	2,818
Derivative instruments (note 9)	**16,633**	31,395
Deferred payments on acquisitions	**3,667**	4,333
Lease inducement	**2,393**	
Other	**4,405**	4,676
	$103,408	$119,827

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 during 2009 were the conversion to Class B shares of 17,260 shares with a stated value of $4,689 (2008 - 14,935 shares with a stated value of $4,058). Total Class A shares outstanding at December 31 were:

	Shares	Amount
2008	9,892,667	$2,688
2009	**9,875,407**	**$2,683**

Class B shares
The changes in the Class B shares were:

	Shares	Amount
January 1, 2008	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		710
December 31, 2008	**68,999,095**	**$388,290**
Converted from Class A	**17,260**	**5**
Issued under Employee Share Purchase Plan	**86,480**	**495**
Dividend reinvestment plan	**25,394**	**142**
Other	**1,700**	**11**
December 31, 2009	**69,129,929**	**$388,943**

Totals

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

	Shares	Amount
2008	78,891,762	$390,978
2009	**79,005,336**	**$391,626**

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.

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)	**2009**	2008
Weighted average number of shares outstanding, basic	**78,964**	78,837
Effect of dilutive securities		
- stock options	**1**	
- ESPP	**24**	
Weighted average number of shares outstanding, diluted	**78,989**	78,837

Outstanding stock options totaling 3,447,880 (2008 – 5,177,900), 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 9,232,839 shares have been granted (net of options cancelled) as of December 31, 2009 (2008 – 10,922,859).

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

	Options	Weighted average exercise price
January 1, 2008	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**
Granted	**539,656**	**8.18**
Forfeited or expired	**(2,229,676)**	**(21.34)**
December 31, 2009	**3,487,880**	**$20.10**

Options Outstanding			
Range of exercise price	Number outstanding December 31, 2009	Weighted average remaining contractual life	Weighted average exercise price
$5.75 – 8.37	539,656	9.0 years	$8.18
$15.75 – 19.61	603,801	6.4 years	$18.98
$20.30 – 22.20	1,735,586	2.7 years	$21.67
$25.50 – 29.01	608,837	3.1 years	$27.31
$5.75 – 29.01	3,487,880	4.4 years	$20.10

Options Exerciseable		
Range of exercise price	Number exercisable December 31, 2009	Weighted average exercise price
$15.75 – 19.61	253,782	$18.85
$20.30 – 22.20	1,652,516	$21.65
$25.50 – 29.01	608,837	$27.31
$15.75 – 29.01	2,515,135	$22.74

Subsequent to year-end, 854,678 stock options were granted at an exercise price of $6.33 per share.

In estimating the compensation expense for stock options granted in 2005 to 2009, 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:

	2009	2008	2007	2006	2005
Fair Value	**$1.19**	$2.24	$2.56	$3.08	$3.48
Risk-free interest rate	**2.2%**	4.1%	4.0%	4.2%	3.7%
Expected dividend yield	**4.4%**	3.9%	3.8%	3.3%	3.4%
Expected share price volatility	**24.3%**	15.1%	16.3%	16.8%	20.7%
Expected time until exercise (years)	**6**	6	6	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:

	2009		2008	
Maturing	**2010**	**2011**	2009	2010
Subscription price at entry date	**$15.66**	**$5.52**	$21.00	$15.66
Number of shares	**93,914**	**374,365**	102,564	127,189

(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 and are settled in cash.

The Company has entered into a derivative instrument in order to lock in the expense for 391,394 RSU's (2008 – 291,394). 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, 2009, 473,274 units were outstanding of which 96,573 units have been accrued in Accounts payable and accrued liabilities at a value of $0.6 million while 217,141 units have been accrued in Other liabilities at a value of $1.4 million (2008 - 300,070 units were outstanding of which 86,592 units were accrued in Accounts payable and accrued liabilities at a value of $0.7 million while 114,740 units were 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, 2008	190,503
Granted	117,223
Forfeited	(4,933)
Vested and paid	(2,723)
December 31, 2008	**300,070**
Granted	**355,057**
Forfeited	**(95,261)**
Vested and paid	**(86,592)**
December 31, 2009	**473,274**

Subsequent to year-end, 250,551 RSU's have been granted and 92,643 RSU's have vested and were paid.

(d) The Company has recognized in 2009, compensation expense totalling $3.0 million for the stock options granted in 2006 to 2009, RSUs granted in 2007 to 2009 and the employee share purchase plans originating in 2007 to 2009 (2008 - $3.0 million for the stock options granted in 2005 to 2008, RSU's granted in 2006 to 2008 and the employee share purchase plans originating in 2006 to 2008).

(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 plan in respect of part or all of his or her retainer and attendance fees. The terms of the director DSU plan are substantially the same as the executive DSU plan.

As at December 31, 2009, 357,490 units were outstanding at a value of $2.3 million (2008 – 336,772 units, value $2.8 million). There were 65,695 units redeemed during 2009 at an average price of $5.82 per unit (2008 – 26,576 units, average price $15.94 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, 2009, the derivative instrument offset 298,600 units (2008 – 298,600 units).

16. INCOME AND OTHER TAXES

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

	2009	2008
		(note 1(r))
Income (loss) before taxes	**$53,645**	($137,215)
Recovery of (provision for) income taxes based on		
Canadian statutory rate of 33.0% (2008 – 33.5%)	**($17,700)**	$46,000
(Increase) decrease in taxes resulting from:		
Income (loss) of associated businesses	**(5,900)**	(40,400)
Investment write-down and loss		(33,000)
Foreign income taxed at lower rates	**900**	1,200
Foreign losses not tax effected	**(200)**	(1,000)
Permanent differences	**(100)**	4,000
Other	**(100)**	400
Reduction in tax rates	**5,100**	1,300
	($18,000)	($21,500)
Effective income tax rate	**33.6%**	(15.7%)

In November 2009, the Ontario corporate income tax rate reductions announced in the 2009 Ontario Budget became substantively enacted. The combined federal and provincial statutory tax rate will be reduced from 33% to 25% by 2014. The Ontario tax rate change resulted in a reduction of income tax expense and future income tax liabilities of $5.1 million. In 2008, other enacted tax rate changes resulted in a reduction of income tax expense of $1.3 million.

Income taxes of $20.8 million were paid and refunds of $20.4 million were received during the year (2008 - $37.4 million paid).

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

	2009	2008
		(note 1(r))
Current tax provision	**$20,300**	$19,100
Future tax (recovery) provision	**(2,300)**	2,400
Total tax provision	**$18,000**	$21,500

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:

	2009	2008
		(note 1(r))
Current future income tax assets:		
Receivables	**$13,751**	$16,836
Other	**5,789**	8,880
	$19,540	$25,716
Non-current future income tax assets:		
Tax losses carried forward	**$25,195**	$36,256
Employee future benefits	**573**	1,958
Interest rate swaps	**4,820**	9,850
Other	**3,105**	2,528
	$33,693	$50,592
Non-current future income tax liabilities:		
Property, plant and equipment	**$25,880**	$29,409
Employee future benefits	**19,241**	24,867
Goodwill and other	**17,776**	17,814
	$62,897	$72,090

At December 31, 2009, the Company had net operating loss carryforwards of approximately U.S. $150.0 million for U.S. income tax purposes. No future income tax asset has been recognized for U.S. $83.7 million of these losses. U.S. $101.6 million of the U.S. loss carryforwards will expire between 2019 to 2021 and U.S. $48.4 million will expire between 2023 and 2028.

At December 31, 2009, the Company had Canadian non-capital losses available for carryforward of approximately $5.5 million that will expire between 2025 and 2029. The Company has Canadian capital losses available for carryforward of approximately $5.1 million for which no future income tax asset has been recognized.

17. ACQUISITIONS AND INVESTMENTS

The Company completed a number of acquisitions during 2009 in its Newspapers and Digital segment for cash of $6.5 million and deferred payments of $2.0 million, which included Gottarent.com, Rosebud Media and Lease Busters. The deferred payments of $2.0 million are due in the period May 2010 through May 2012. These acquisitions also contain potential performance payments, based on future revenues, which will be treated as additional purchase price if paid. The potential performance payments are capped at $2.3 million (of which $0.3 million was paid during the year) for one acquiree and open-ended for another. These acquisitions were accounted for by the purchase method. The allocation of the $8.5 million purchase price of these acquisitions (including the deferred payments), was $0.3 million to working capital, $2.4 million to non-amortizable intangible assets, $1.5 million to amortizable intangible assets, $5.3 million to goodwill and $1.1 million to future tax liabilities. These allocations are final. In addition, the $2.2 million first instalment for the eyeReturn Marketing purchase made in the prior year was paid during 2009.

The Company also acquired an approximate 14% interest in Travelwire Inc. for $0.8 million. This investment has been classified as available-for-sale and is accounted for by the cost method. The Company has a call right and a put obligation to purchase the remaining shares of Travelwire in the second half of 2010.

During 2008, the Company completed a number of acquisitions 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 the Company'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. These allocations are final. The Company also made a portfolio investment in Multimedia Nova of $0.4 million, which is 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 nil (2008 - $2.4 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 (capital accumulation) 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	
	2009	2008	**2009**	2008
Accrued benefit obligations				
Balance, beginning of year	**$682,551**	$754,233	**$53,232**	$59,160
Current service cost	**12,698**	18,406	**498**	652
Interest cost	**42,333**	39,881	**3,288**	3,065
Benefits paid	**(57,508)**	(42,327)	**(2,270)**	(2,234)
Actuarial losses (gains)	**45,779**	(105,532)	**(7,794)**	(7,411)
Participant contributions	**6,482**	7,320		
Prior service costs	**2,788**	6,471		
Foreign exchange	**(2,380)**	3,620		
Settlement	**1,943**			
Special termination benefits	**2,292**	479		
Balance, end of year	**$736,978**	$682,551	**$46,954**	$53,232
Plans' assets				
Fair value, beginning of year	**$582,470**	$750,250		
Return on plan assets	**103,992**	(158,658)		
Benefits paid	**(57,508)**	(42,327)		
Contributions to plan	**36,181**	30,623		
Foreign exchange	**(1,544)**	2,582		
Fair value, end of year	**$663,591**	$582,470		
Funded status – deficit	**($73,387)**	($100,081)	**($46,954)**	($53,232)
Unamortized losses (gains)	**174,125**	207,620	**(12,375)**	(4,580)
Unrecognized prior service costs	**25,885**	26,870	**145**	161
Accrued benefit asset (liability)	**$126,623**	$134,409	**($59,184)**	($57,651)
Recorded in:				
Other assets	**$136,574**	$148,257		
Other liabilities	**(9,951)**	(13,848)	**($59,184)**	($57,651)
Accrued benefit asset (liability)	**$126,623**	$134,409	**($59,184)**	($57,651)
Net benefit expense for the year				
Current service cost	**$12,698**	$18,406	**$498**	$652
Interest cost on benefit obligation	**42,333**	39,881	**3,288**	3,065
Actual return on plan assets	**(103,992)**	158,658		
Actuarial loss (gain) on benefit obligation	**45,779**	(105,532)	**(7,794)**	(7,411)
Prior service costs	**2,788**	6,471		
Settlement	**1,943**			
Special termination benefits	**2,292**	479		
Benefit expense before recognizing the long term nature of the benefit plans	**3,841**	118,363	**(4,008)**	(3,694)
Excess (shortfall) of actual return on plan assets over expected return, deferred to unamortized losses (gains)	**64,039**	(210,490)		
Portion of actuarial loss (gain) deferred to unamortized losses (gains)	**(31,392)**	108,307	**7,794**	7,411
Adjustment to prior service costs for amortization of (deferral to) unrecognized prior service costs	**735**	(3,366)	**16**	16
Net benefit expense	**$37,223**	$12,814	**$3,802**	$3,733

	Pension Plans		Post Employment Benefit Plans	
	2009	2008	**2009**	2008
Significant assumptions used				
To determine benefit obligation at end of year:				
Discount rate	**5.5% to 5.8%**	5.6% to 6.3%	**5.80%**	6.30%
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	**5.6% to 6.3%**	5.25%	**6.30%**	5.25%
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
Health care cost trend rates at end of year:				
Initial rate	**N/A**	N/A	**9.00%**	9.50%
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 15 years**	8 to 16 years	**11 years**	12 years

At December 31, 2009, long-term liabilities included $8.8 million (2008 - $12.2 million) related to an unfunded executive retirement plan which is supported by an outstanding letter of credit of $20.0 million (2008 - $27.5 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, 2009:

	Net Benefit Expense		Accrued Benefit Obligation	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Pension plans:				
Discount rate	(10,570)	11,313	(88,410)	101,058
Expected long-term rate of return on plan assets	(5,709)	5,709		
Rate of compensation increase	2,375	(2,188)	11,168	(10,923)
Post employment benefits plans:				
Discount rate	(513)	(45)	(4,793)	5,800
Per capita cost of health care	207	(390)	1,636	(1,427)

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

	2009	2008
Equity investments	**62%**	59%
Fixed income investments	**38%**	41%
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 actuarial valuations at December 31, 2009. As the Company expects to take advantage of the recent regulatory changes, the funding requirements determined by those valuations will become effective in 2011.

The total amount expensed for capital accumulation plans in 2009 was $2.9 million (2008 - $2.7 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, 2009 establish a rate of exchange of Canadian dollar per U.S. dollar of $1.17 for U.S. $45.6 million in 2010 and $1.11 for U.S. $5.0 million in 2011. At December 31, 2008, forward foreign exchange contracts established 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. These forward foreign exchange contracts have been designated as cash flow hedges and the net fair value of these contracts was $6.1 million favourable at December 31, 2009 (2008 - $5.2 million unfavourable).

Forward foreign exchange contracts settled in 2009 established a rate of exchange of Canadian dollar per U.S. dollar of $1.12 for U.S. $50.1 million in 2009 (2008 - $1.08 for U.S. $41.5 million).

20. RESTRUCTURING AND OTHER CHARGES

Restructuring and other charges of $43.7 million were recorded in 2009 (2008 - $41.7 million).

a) The Company recorded restructuring provisions of $28.8 million (2008 - $39.3 million) related to staff reductions in the Newspapers and Digital Segment and $1.4 million (2008 – nil) in the Book Publishing Segment for the closure of a distribution centre in the U.K. A provision of $12.8 million was recorded in 2009 related to the leadership transition at Corporate.

The following table indicates the change in the amount of restructuring provisions included in Accounts payable and accrued liabilities:

	2009	2008
Balance, beginning of year	**$29,390**	$10,718
Provision during the year	**42,973**	39,320
Payments during the year:		
Prior years' provision	**(23,196)**	(7,484)
Current year provision	**(23,704)**	(13,164)
Balance, end of year	**$25,463**	$29,390

b) During 2009, a write-down of $0.7 million (2008 - $2.4 million) was recorded related to impairment loss on certain non-amortizable community newspaper mastheads and amortizable customer relationship intangible assets in the Newspapers and Digital Segment. The fair value of the mastheads was calculated using a relief-from-royalty method.

21. GAIN ON SALE OF LAND

In 2009, the Company recognized a gain of $0.2 million related to the sale of a small property in Cambridge.

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 $3.1 million was received in 2008. The balance of the proceeds, $6.2 million, was a mortgage that was initially due to mature in December 2009 but has been extended to September 2010. The mortgage has been included in Receivables. The mortgage includes interest at a rate of 10.0% per annum and all or part of the principal may be prepaid by the purchaser at any time. Prior to the mortgage extension, the interest rate was 6.0% per annum until March 2009 and 9.5% per annum until December 2009.

22. INVESTMENT WRITE-DOWN AND LOSS

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

	2009	2008
Loss on sale of investment in LiveDeal, Inc.		($2,398)
Write-down of investment in Vocel, Inc.	**($2,400)**	(1,670)
Write-down of investment in CTVgm (note 4)		(95,729)
	($2,400)	($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

	2009	2008
		(note 1(r); 29)
Employee future benefits	**$9,209**	($7,532)
Stock-based compensation plans	**743**	(123)
Foreign exchange	**458**	(395)
Gain on sale of land	**(239)**	(9,170)
Lease inducement	**2,393**	
Other	**1,684**	3,075
	$14,248	($14,145)

24. COMMITMENTS AND 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.

The Company has guaranteed sub-lease payments to a third party of approximately U.S. $1 million for each of the next 9 years. In addition, the Company has the following significant contractual obligations:

Nature of the obligation	Total	2010	2011-2012	2013-2014	2015+
Office leases	$154,947	$19,531	$35,207	$30,176	$70,033
Services	20,534	5,473	7,653	5,345	2,063
Acquisitions	8,534	4,867	3,667		
Equipment leases	2,638	1,000	1,172	464	2
Total	$186,653	$30,871	$47,699	$35,985	$72,098

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 $137 million (2008 - $142 million) and operating profit is $16 million (2008 - $17 million).

27. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 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.

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 2009	Operating Revenue 2008	Depreciation and Amortization 2009	Depreciation and Amortization 2008	Operating Profit 2009	Operating Profit 2008
		(note 1(r); 29)		*(note 1(r); 29)*		*(note 1(r); 29)*
Newspapers and Digital	**$957,956**	$1,060,836	**$48,373**	$48,249	**$70,154**	$109,305
Book publishing	**493,303**	472,917	**4,390**	4,961	**83,797**	67,511
	1,451,259	1,533,753	**52,763**	53,210	**153,951**	176,816
Corporate			**56**	63	**(14,969)**	(16,903)
Restructuring and other charges					**(43,729)**	(41,723)
Consolidated	**$1,451,259**	$1,533,753	**$52,819**	$53,273	**$95,253**	$118,190

	Identifiable Assets 2009	Identifiable Assets 2008	Goodwill 2009	Goodwill 2008
		(note 1(r); 29)		*(note 1(r); 29)*
Newspapers and Digital	**$1,091,669**	$1,138,895	**$476,639**	$471,733
Book publishing	**351,986**	402,619	**105,203**	105,383
	1,443,655	1,541,514	**581,842**	577,116
Corporate	**15,959**	35,648		
Investment in associated businesses	**178,828**	201,571		
Consolidated	**$1,638,442**	$1,778,733	**$581,842**	$577,116

	Additions to Capital Assets 2009	Additions to Capital Assets 2008	Additions to Goodwill & Intangible Assets 2009	Additions to Goodwill & Intangible Assets 2008
		(note 1(r); 29)		*(note 1(r); 29)*
Newspapers and Digital	**$8,625**	$21,764	**$16,085**	$31,661
Book publishing	**4,205**	3,246	**1,038**	971
	12,830	25,010	**17,123**	32,632
Corporate	**6**	44		
Consolidated	**$12,836**	$25,054	**$17,123**	$32,632

Geographic Segments	Operating Revenue 2009	Operating Revenue 2008	Capital Assets and Goodwill 2009	Capital Assets and Goodwill 2008
		(note 1(r); 29)		*(note 1(r); 29)*
Canada	**$981,425**	$1,085,297	**$723,923**	$749,643
United States	**252,493**	238,075	**82,302**	80,472
Other (a)	**217,341**	210,381	**27,434**	27,997
Segment Totals	**$1,451,259**	$1,533,753	**$833,659**	$858,112

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

29. DISCONTINUED OPERATIONS

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. The Company's consolidated balance sheet as at December 31, 2008 did not include any amounts for Transit TV since a charge of $17.5 million was recorded during 2008 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. The Company's 2008 consolidated financial statements included the following amounts for Transit TV:

	2008
Statements of Income:	
Operating revenue	$2,281
Operating loss, Newspapers and Digital Segment	($5,298)
Restructuring and other charges	(17,491)
Net loss	($22,789)
Loss per Class A and Class B share (note 14(c)):	($0.29)
Statements of Comprehensive Loss:	
Net loss	($22,789)
Other comprehensive income:	
Reclassification adjustment for foreign currency translation loss included in net income	4,583
Unrealized foreign currency translation adjustment	505
Comprehensive loss	($17,701)
Statements of Cash Flow:	
Cash was used in:	
Operating activities:	
Net loss	($22,789)
Depreciation and amortization	2,300
Other (restructuring and other charges)	17,491
Increase in non-cash working capital	(592)
	($3,590)
Investing activities:	
Additions to property, plant and equipment	($48)

ANNUAL OPERATING HIGHLIGHTS CONTINUING OPERATIONS (Unaudited)

	2009	2008	2007	2006	2005	2004	2003
(thousands of dollars)		*(note)*	*(note)*	*(note)*	*(note)*	*(note)*	*(note)*
Operating revenue							
Newspapers and Digital	**$957,956**	$1,060,836	$1,083,828	$1,056,462	$1,035,816	$1,003,473	$903,385
Book publishing	**493,303**	472,917	462,709	471,808	521,072	538,376	584,924
Total	**$1,451,259**	$1,533,753	$1,546,537	$1,528,270	$1,556,888	$1,541,849	$1,488,309
Operating profit & Income from continuing operations							
(thousands of dollars)							
Newspapers and Digital	**$70,154**	$109,305	$128,675	$107,849	$120,288	$127,601	$110,116
Book publishing	**83,797**	67,511	60,640	56,277	95,381	97,182	124,121
Corporate	**(14,969)**	(16,903)	(19,028)	(18,475)	(19,001)	(15,555)	(14,166)
Restructuring and other charges	**(43,729)**	(41,723)	(7,507)	(22,319)	(2,119)	(8,399)	(11,015)
Operating profit	**95,253**	118,190	162,780	123,332	194,549	200,829	209,056
Interest	**(21,036)**	(28,225)	(34,432)	(20,761)	(10,463)	(10,916)	(12,806)
Foreign exchange	**(458)**	395	(1,873)	70	(2,723)	(1,723)	(4,011)
Gain on sale of assets	**239**	9,170			12,415	(3,883)	10,342
Income (losses) of associated businesses	**(17,953)**	(136,948)	20,416	16,000	565	496	134
Investment write-down and loss	**(2,400)**	(99,797)					
Income (loss) before taxes	**53,645**	(137,215)	146,891	118,641	194,343	184,803	202,715
Income and other taxes	**(18,000)**	(21,500)	(45,500)	(39,500)	(75,500)	(72,100)	(79,200)
Income (loss) from continuing operations	**35,645**	(158,715)	101,391	79,141	118,843	112,703	123,515
Discontinued operations		(22,789)					
Net income (loss)	**$35,645**	($181,504)	$101,391	$79,141	$118,843	$112,703	$123,515
Cash from continuing operating activities	**$153,364**	$122,217	$136,152	$111,591	$124,140	$178,598	$162,976
Average number of shares outstanding (thousands)	**78,989**	78,837	78,620	78,250	78,214	79,168	77,645
Per share Data							
Income (loss) from continuing operations	**$0.45**	($2.01)	$1.29	$1.01	$1.52	$1.42	$1.59
Net income (loss)	**0.45**	(2.30)	1.29	1.01	1.52	1.42	1.59
Dividends – Class A and Class B shares	**0.37**	0.74	0.74	0.74	0.74	0.70	0.64
Rate of Return on Revenue							
Operating profit	**6.6%**	7.7%	10.5%	8.1%	12.5%	13.0%	14.0%
Return on equity							
Cash from operating activities as a percentage of average shareholders' equity	**22.8%**	15.4%	15.2%	13.0%	15.2%	23.2%	23.5%
Financial position							
Total Assets	**$1,638,442**	$1,778,733	$1,960,837	$2,001,473	$1,561,682	$1,510,027	$1,511,767
Long-term debt	**552,976**	668,700	650,798	724,193	334,317	317,829	387,800
Shareholders' equity	**678,980**	665,034	917,761	872,746	841,652	793,661	745,055
Property, plant and equipment (net)	**251,817**	280,996	330,391	349,842	365,665	392,141	401,172

Note : 2008 results have been restated for the adoption of Section 3064 and treating Transit TV as discontinued operations. The results for 2003 to 2007 have not been restated.

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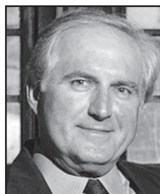

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