TORSTAR CORPORATION

2010 ANNUAL REPORT

OPERATING RESULTS ($000)	**2010**	2009
Operating revenue	**$1,479,588**	$1,451,259
EBITDA (1)	**233,578**	191,801
Operating profit	**153,877**	95,253
Net income	**60,906**	35,645
Cash from operating activities	**157,374**	153,364
EBITDA – Percentage of revenue	**15.8%**	13.2%
Operating profit – percentage of revenue	**10.4%**	6.6%
Cash from operating activities – percentage of average shareholders' equity	**22.5%**	22.8%
PER CLASS A AND CLASS B SHARES		
Net income	**$0.77**	$0.45
Dividends	**$0.37**	$0.37
Price range (high/low)	**$13.23/5.92**	$8.84/3.93
FINANCIAL POSITION ($000)		
Long-term debt	**$404,727**	$552,976
Shareholders' equity	**$720,959**	$678,980

The Annual Meeting of shareholders will be held Wed., May 4, 2011 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)

Year	Value
06	1,528
07	1,547
08	1,534
09	1,451
10	1,479

OPERATING PROFIT ($MILLIONS)

Year	Value
06	123
07	163
08	118
09	95
10	154

INCOME (LOSS) FROM CONTINUING OPERATIONS PER SHARE

Year	Value
06	1.01
07	1.29
08	(2.01)
09	0.45
10	0.77

EBITDA ($MILLIONS) (1)

Year	Value
06	202
07	225
08	213
09	192
10	234

(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".

MESSAGE FROM THE CHAIR

John Honderich
Chair, Board of Directors

2010 was a turnaround year for Torstar as all its divisions weathered the economic recession and showed both revenue growth and the benefits of the ongoing restructuring process.

Overall, Torstar registered one of its best financial years ever, once foreign exchange fluctuations are factored out. The company's market capitalization now exceeds $1 billion and its long-term debt has been significantly reduced. Record years were recorded by Harlequin's Overseas Division, the Metro Newspaper Group, Sing Tao and the Hamilton Spectator.

It was also a year in which both our revenue and investment in digital across the company continued to grow significantly. Indeed, by year's end, Torstar had more than 600 employees working for its various digital businesses. While structural pressures on the newspaper and publishing industries continue unabated, Torstar has taken a leadership position in Canada in forming new digital enterprises and alliances.

As in the past, Torstar has been the beneficiary of an exceptionally strong leadership team. President and Chief Executive Officer David Holland, working in close conjunction with Executive Vice-President and Chief Financial Officer Lorenzo DeMarchi, has led the company's overall turnaround. Under their superb stewardship, a new dynamic of collaboration has evolved among the divisions that has produced tangible results. Torstar's debt levels have been significantly reduced and overall revenues are growing, contributing to a significant rise in Torstar's share price. Harlequin, under the leadership of CEO Donna Hayes, posted excellent results in 2010 and is now one of the world's leading digital publishers. John Cruickshank, Publisher of the Toronto Star and President of Star Media Group, spearheaded a transformational year that led to almost doubling profit for his division. Ian Oliver, President of Metroland Media Group, led a strong turnaround for his division, while significantly expanding the group's digital initiatives. Finally, Torstar Digital President Tomer Strolight continued to be at the forefront of all of Torstar's digital thinking, leading to groundbreaking results.

One of the major events of 2010 was Torstar's bid, in conjunction with Fairfax Financial Holdings Limited, for the former CanWest newspaper group. Torstar judged that this acquisition would fit its long-term strategic initiatives and consequently marshalled an exceptional cross-company team to conduct the due diligence on the initiative. Ultimately our bid was unsuccessful, but it is a credit to our team, the Board of Directors and ultimately all shareholders that our financial discipline and commitment not to overpay were brought to bear. On behalf of Torstar, I would like to express my appreciation to Fairfax CEO Prem Watsa and his entire team for their unwavering support throughout this process.

What particularly distinguishes Torstar is the high quality of leadership and employee commitment across the entire company. There is a combined dedication to excellence and a loyalty to the company and what it represents. Throughout the year, I was continually dazzled by the innovation and excitement that have been shown. As before, however, the combination of tough economic times and industry pressures forced some painful decisions and restructuring. While we herald a strong future, we also pay tribute to those who formerly worked with us, many of them for significant stretches of time. Their efforts will not be forgotten.

2010 also marked a year of consolidation for the Board of Directors. We were delighted to welcome Linda Hughes, the former Edmonton Journal Publisher and current Chancellor of the University of Alberta, as our newest Board member. We will also be saying our farewells in 2011 to Roy Romanow and Peter Armstrong, both of whom have served on the Board with élan and distinction. Their individual commitments to Torstar generally – and the Atkinson Principles in particular – have been huge. Torstar has been richly served by its Board of Directors and I want to express my appreciation for their collective diligence, wisdom and bonhomie.

TO OUR SHAREHOLDERS

David Holland
President and Chief Executive Officer

2010 was a very good year for Torstar from many standpoints, including achieving good operating results, strengthening our financial foundation and continuing to make progress on our strategic agenda.

Operating Results

At the beginning of 2010, Torstar was seeing signs of economic improvement, but we were not counting on a rapid and significant recovery in the Canadian economy. The pace of the recovery was critical to Torstar because our businesses are highly dependent on the state of the economy. That early forecast proved to be true.

Against a backdrop of only a modest recovery in the Canadian economy, Torstar earned EBITDA of $234 million, a significant increase over the $192 million earned in 2009 and an increase over the 2008 result of $213 million. Total revenues were $1.48 billion, up 1.9% versus the prior year. The growth in total revenue was driven by the recovery in Canadian media revenues, which were up 5.6% to $1.01 billion. This revenue recovery, coupled with ongoing efforts to control costs, resulted in EBITDA in the media operations increasing substantially to $161 million, up $42 million versus the prior year. Harlequin revenue was down 5% to $468 million, but it is important to note that the impact of the strengthening Canadian dollar on translation of international revenues was responsible for the decline. Harlequin EBITDA was $88 million. Adjusting for the impact of the strengthening Canadian dollar on results, Harlequin posted another year of earnings growth.

Our focus on debt reduction has been ongoing and we continued to make good progress in 2010. Net borrowings closed the year at $369 million, $147 million lower than the $516 million at December 31, 2009. The reduction includes a $40-million receipt in respect of the CTVglobemedia transaction. The remaining reduction of $107 million resulted from the solid operating results and is indicative of the strong cash flow characteristics of the business and management's discipline in approaching the employment of capital.

Harlequin enjoyed another solid year in 2010, recording its fourth consecutive year of profit growth excluding the negative effect of foreign exchange. Revenue of $468 million in 2010 was $8 million higher than in 2009, after excluding the effect of foreign exchange, representing an increase of 1.8 per cent. Harlequin authors reached new levels of achievement in 2010. Collectively, Harlequin authors enjoyed a record high 257 weeks on the New York Times Bestseller Lists, up 10% over 2009. With terrific brands, a strong foundation in series romance publishing and the continued success of the single title publishing program, Harlequin continued to invest in longstanding retail channel partner relationships, emerging digital channels and its unique Direct-To-Consumer and Overseas channels.

The most important development in 2010 for Harlequin, and for all other book publishers, was the explosive growth in digital publishing as millions of e-readers drove strong demand for eBooks. Indeed, the entire book publishing landscape is rapidly shifting with the increase in digital reading. Harlequin has been preparing for some time and is very well positioned to adapt to this changing environment, having released all of its new titles in North America in electronic formats since 2007. That foresight is starting to show significant benefits. In 2010, Harlequin more than tripled its North American digital revenues. What is unclear is the impact of this shift in the publishing environment on retail book publishing and the infrastructure that now supports publishing and marketing of print books.

In addition to executing on its digital strategy, Harlequin remained committed to other strategic initiatives, including continuing to develop its recently created non-fiction program and continuing its geographic expansion by acquiring full ownership of its German operation, establishing a landed business in Turkey and partnering with licensees in Vietnam and the Philippines.

In the Media division in 2010, we continued to make progress on the cost base, which we see as an ongoing initiative in our drive to improve the efficiency of the operations. We are very committed to ensuring that the changes to the cost base do not compromise the high standard of publishing and service that our audiences and advertisers have come to expect. At the same time, we remained committed to investing in initiatives that improved the quality and relevance of the content that we offered to our audiences, both in print and online, and providing innovative opportunities and compelling solutions for advertisers.

Our Media division is comprised of Star Media Group, Torstar Digital and Metroland Media Group. Each of these operations has unique strengths and capabilities. Across these operations, we have significant brands, access to significant print and digital audiences, a content capability, a distribution capability, promotional power and very committed, talented and passionate employees. We embrace and are proud of every aspect of our operations.

We are especially proud of the many honours received by our newspapers and journalists in 2010. Toronto Star journalists won six prestigious National Newspaper Awards (NNA) for reporting and photography and the Guelph Mercury won an NNA in the local reporting category. Also, Torstar newspapers swept the 2010 Canadian Journalism Foundation awards, with the Toronto Star receiving the Excellence in Journalism Award in the large or national media category and the Metroland Durham Region winning the Excellence in Journalism Award in the small, medium or local market category. Metroland publications also won 93 editorial and 77 advertising and promotion awards from Suburban Newspapers of America.

The Star Media Group, which includes the Toronto Star, Metro, Sing Tao, EyeWeekly and many of our digital properties, experienced a very good year in 2010, growing EBITDA substantially from $32 million to $61 million. The group benefited from a recovery in revenues coupled with very hard work on the cost base as the restructuring that began several years ago continued in earnest throughout the year.

The voice of the Toronto Star remains strong. Our flagship newspaper continued as the most-read and most-circulated daily newspaper in the Greater Toronto Area and across Canada. The quality of the print journalism continues to yield benefits as print readership remained stable in 2010. We were also pleased by the strong growth of thestar.com, which continued to attract a growing number of unique visitors in 2010, further solidifying its position as the top newspaper website destination in the GTA.

Star Media Group is increasingly diversifying. The Metro commuter newspaper franchise, operating in the major markets across Canada, continued to build on its reputation as an effective advertising medium. The Chinese-language daily, Sing Tao, with editions in Toronto, Vancouver and Calgary, also had a strong year.

Torstar Digital, which showed positive results once again in 2010, is central to the online activities of Torstar's Media division. In addition to operating a number of digital businesses, Torstar Digital is also responsible for helping to develop online solutions across the media operation to meet the needs of online advertisers, consumers and readers. The portfolio of digital businesses includes: Workopolis, Canada's foremost career website, which remains ahead of its major competitors in job-search traffic and is benefiting from increases in recruitment advertising after major declines in 2009; and Olive Media, a leading online advertising solutions provider which continued to build on its reputation for quality, service and innovation. In 2010, Torstar Digital also acquired WagJag, a new digital marketing platform that features deep discounts to Canadians on local services such as restaurants, spas and attractions, with a new deal featured every day. Although it is early days, we are pleased with our progress and our position to date in this evolving space.

Metroland Media Group is a leader in community newspaper operations, publishing three daily and 103 community papers. It has also evolved into a diversified business in addition to publishing of the papers, with operations in flyer distribution, magazines, specialty publications, consumer shows, commercial printing, television, directories and numerous digital businesses.

2010 was a year of solid growth for Metroland. It benefited from a recovery in revenues as the Southern Ontario economy slowly improved and from good cost control. EBITDA at Metroland grew to $99 million, up $12 million from 2009. Newspaper advertising revenue, which had declined in 2009, was stable in 2010, while revenues from flyer delivery, online business and product sales through Metroland's television division all rose during the year.

The year also saw continued expansion of Metroland's community newspaper operations, with the launch of Ottawa This Week. Residents in Ottawa now have neighbourhood news and information delivered every week right to their doors. We believe Metroland, with its strong connection to its communities through its community papers and digital presence, extensive distribution services, its continual investment in new digital offerings and its expansion into new markets is well positioned going forward.

In September 2010, Torstar announced it had entered into agreements to sell its 20% share in CTVglobemedia Inc. for aggregate cash proceeds of approximately $345 million. The first transaction closed in December 2010 and with the approval by the CRTC on March 7, 2011, the remaining transaction is expected to close early in the second quarter of 2011. We were pleased to participate in the transactions, which were attractive and beneficial to all of the CTVglobemedia shareholders. The resulting strengthening of Torstar's financial position will be an asset as we continue to build from our core and seek out the opportunities that are emerging in the increasingly digital world.

Torstar also has an investment in Black Press, which experienced a modest recovery in 2010 along with the market generally. Black Press, well led by David Black, is primarily a community newspaper operation and is nicely positioned in this area going forward.

Looking Forward

Torstar's businesses remain highly dependent on the economy. Like 2010, we are not anticipating or counting on a robust Canadian economic recovery in 2011, especially in the Southern Ontario market where many of our businesses operate.

We remain fully committed, though, to seeking opportunities and continuing to invest in the Canadian media operation. Harlequin continues to pursue new opportunities and is well positioned to adapt to the increasingly digital book publishing landscape.

Within our media operation, we must continue to adapt and evolve to meet the increasingly diverse media environment in which readers want content relevant to them delivered in print, online and through mobile devices. Not surprisingly, marketers' requirements are evolving as the behaviour of audiences evolves. We see opportunity in the evolution that is occurring.

Our goal as Torstar is to be a growing progressive media organization that takes advantage both of the breadth of the assets currently at our disposal and the depth and quality of talent throughout our many businesses.

We will continue to benefit from the diversity and strength of our brands. We are focused on developing and enhancing products across a variety of media and platforms for both our current and potential audiences and customers. Our success in the future will require us to be innovative and to move quickly when opportunities arise, whether within the book publishing operations of Harlequin or our Canadian media operations.

To ensure our success, we will aggressively seek to broaden and diversify Torstar's revenue base building from within, acknowledging that sustained future growth will at times require investment in areas that may lie further from our traditional core.

Torstar has a long history of developing world-class content that appeals to audiences and serves our customers effectively. We are fully committed to continuing that tradition.

Our Greatest Strength - People

We are fortunate to have talented and committed employees throughout Torstar who will give us a competitive advantage moving forward. I am always amazed at the depth of skills and experience of people in all aspects of our businesses. The need for talented people at all levels of our organization has never been greater due to the sheer diversity of the activities in which Torstar is now involved. The quality and passion of our people will benefit the company as we move forward. Our employees care about our company and are committed to our future.

Providing the leadership to our talented and committed employees in the operations is a terrific group of executives. By guiding Harlequin so effectively as it adapts to the increasingly digital book publishing environment, Donna Hayes has once again demonstrated why she is one of the world's top book publishing executives. At Metroland Media Group, Ian Oliver is an experienced and successful leader who has a great record of growth in community-based media driven by his focus on developing effective solutions for his customers. John Cruickshank, drawing on his considerable experience, has provided outstanding leadership and is achieving substantial positive transformation as he positions Star Media Group for the future. Tomer Strolight at Torstar Digital is succeeding in building digital franchises and continues to show why he is considered a thought leader in Canada in the online media business. Lorenzo DeMarchi, in his first full year as Chief Financial Officer, made numerous important contributions including being a valued partner to me.

I would also like to acknowledge the support I have received as CEO from our Chair, John Honderich, and the Board of Directors in the past year. I look forward to the Board's counsel as we develop and execute on our strategies intended to secure a prosperous future for Torstar.

At Torstar, we are committed to being progressive, adapting quickly to the fast-paced business environment in which our businesses exist. Given the quality of the more than 6,000 Torstar employees, their dedication and hard work, and our ability to be innovative and aggressive in pursuing opportunities, I am confident that Torstar will thrive in the years ahead.

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For the year ended December 31, 2010

Dated: March 1, 2011

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, 2010.

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 MD&A. 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 MD&A. 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.

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 not to 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. 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 and media platforms;*
- *the Company's ability to attract and retain advertisers;*
- *the Company's ability to retain and grow its digital audience and further develop its digital businesses;*
- *cyclical and seasonal variations in the Company's revenues;*
- *labour disruptions;*
- *newsprint costs;*
- *the Company's ability to reduce costs;*
- *foreign exchange fluctuations;*
- *credit risk:*
- *closing conditions, termination rights and other risks and uncertainties related to the timing and completion of the proposed CTVglobemedia Inc. transaction;*

- *restrictions imposed by existing credit facilities, debt financing and availability of capital;*
- *pension fund obligations;*
- *results of impairment tests;*
- *reliance on its printing operations;*
- *reliance on technology and information systems;*
- *risks related to business development;*
- *interest rates;*
- *availability of insurance;*
- *litigation;*
- *environmental regulations;*
- *dependence on key personnel;*
- *loss of reputation;*
- *privacy and confidential information;*
- *product liability;*
- *intellectual property rights;*
- *control of the Company by the Voting Trust; 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 which the Company believes are reasonable as of the date of 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; rates of return and discount rates relating to pension expense and pension plan obligations; royalty rates, expected future revenues, expected future cash flows and discount rates relating to valuation of goodwill and intangible assets; and successful development of new products. There is a risk that some or all of these assumptions may prove to be incorrect.

When relying on our forward-looking statements to make decisions with respect to the Company and its securities, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. 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.

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OVERVIEW

Torstar Corporation is a broadly based media and book publishing company listed on the Toronto Stock Exchange (TS.B). Torstar reports its operations in two segments: Media and Book Publishing. The Media 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, InsuranceHotline.com, 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"), Canadian Press Enterprises Inc. ("Canadian Press"), Q-ponz Inc. and Black Press Limited ("Black Press").

Media Segment

The Media 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 3.0 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 (which provides editorial content to newspapers and other media), Wheels.ca, InsuranceHotline.com, moneyville.ca, parentcentral.ca, healthzone.ca, yourhome.ca, toronto.com (an online destination for events and attractions in the Greater Toronto Area), eyeReturn Marketing (a leading provider of online marketing services), wagjag.com (a daily deal website), travelalerts.ca (an online publisher of travel and entertainment deals) 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 online advertising sales in Canada with the ability to reach over 17 million unique Canadian visitors monthly on a portfolio of top-tier sites including thestar.com, nytimes.com, CNET.com, cyberpresse.ca, and auFeminin.ca. Square Victoria Digital Properties (a subsidiary of Power Corporation) is Torstar's partner in both of these partnerships.

Metroland Media Group publishes in print and online more than 100 weekly 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 flyerland.ca, HomeFinder.ca, gottarent.com, and 50% interests in save.ca and LeaseBusters.com. Metroland Media Group also participates in Wheels.ca, InsuranceHotline.com and wagjag.com. Metroland Media Group publishes the Gold Book print and online directories, a number of specialty publications and operates several consumer shows throughout Ontario. Metroland Media Group also operates Torstar Media Group Television ("TMGTV" - a teleshopping channel 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, including digital. Harlequin sells books through the retail channel, in stores and online, and directly to the consumer through its direct mail businesses and from its Internet sites (in North America – eharlequin.com). Harlequin's publishing operations are comprised of two divisions: North America and Overseas. In 2010 Harlequin published books in 31 languages in 111 international markets.

Harlequin sells books under several imprints including Harlequin, Silhouette, MIRA, HQN, LUNA, Spice, Kimani Press and Carina 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.

Associated Businesses

Torstar has a 33.33% equity investment in Canadian Press, a 19.35% equity investment in Black Press and a 30% equity investment in Q-ponz Inc. Canadian Press was established by Torstar, Square Victoria Communications Group (a subsidiary of Power Corporation) and The Globe and Mail in late 2010 to acquire the operations of The Canadian Press news agency. Black Press

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. Q-ponz produces and delivers unaddressed co-op direct mail.

Other Investment

Torstar has a 20% interest in CTVgm, a Canadian multi-media company that owns and operates 28 conventional television stations across Canada, with interests in 29 specialty channels and the CHUM Radio Division, which operates 33 radio stations throughout Canada. Up until December 31, 2010, CTVgm also owned the national daily newspaper The Globe and Mail.

On September 10, 2010, Torstar announced that it had entered into agreements to sell its 20% interest in CTVgm for aggregate cash proceeds of approximately $345 million. On December 31, 2010, Torstar received $40 million in connection with CTVgm's sale of The Globe and Mail. This payment, combined with an estimate of certain costs associated with closing the transaction, has reduced the cash proceeds expected on the sale to approximately $290 million. The sale of Torstar's 20% interest in CTVgm remains subject to customary approvals and closing conditions, including approval by the Canadian Radio-television and Telecommunications Commission ("CRTC"), and is expected to close by mid 2011.

Torstar accounted for its investment in CTVgm as an associated business through September 10, 2010. The investment is currently being reported at the September 10, 2010 carrying value increased by $2.5 million on the reallocation of cumulative other comprehensive losses (treated as realized on the loss of significant influence) and reduced by the $40 million of cash received on December 31, 2010.

Future Accounting Changes

Torstar currently reports its financial results under Canadian generally accepted accounting principles ("Canadian GAAP"). As a Canadian public company, Torstar will be required to adopt International Financial Reporting Standards ("IFRS") for its interim and annual financial statements for fiscal years beginning on January 1, 2011. These fiscal 2011 financial statements will require Torstar to present the comparative 2010 results in accordance with IFRS. The transition to IFRS will also require adjustments to be recorded to Torstar's consolidated balance sheets as of January 1, 2010.

This MD&A has been prepared to provide explanations for Torstar's 2010 results as reported under Canadian GAAP. However, in several areas it also includes guidance on the impact to Torstar's consolidated balance sheets and statements of income from the adoption of IFRS.

OPERATING RESULTS – YEAR ENDED DECEMBER 31, 2010

Overall Performance

Total revenue was $1,479.6 million in 2010 up $28.3 million or 1.9% from $1,451.3 million in 2009. Media Segment revenue was $1,011.4 million in 2010, up $53.4 million or 5.6% from $958.0 million in 2009. The Media Segment revenue growth came from digital, print advertising and distribution revenues along with $12.7 million of product sales in Metroland Media Group's TMGTV operations. Excluding the TMGTV product sales, the Media Segment revenue was up $40.7 million or 4.2% in 2010. Book Publishing revenue was $468.2 million in 2010, down $25.1 million from $493.3 million in 2009 including a $33.2 million decline from the stronger year over year Canadian dollar. Excluding the impact of foreign exchange and the $12.9 million benefit from the acquisition at the beginning of the second quarter of 2010 of the half of the German business that Harlequin had not previously owned, Book Publishing revenue was down $4.8 million or 1.0% in the year. North America digital revenues were up in the year, but were more than offset by lower North America retail and direct-to-consumer and Overseas revenues.

Operating profit before restructuring and other charges was $187.3 million in 2010, up $48.3 million from $139.0 million in 2009. Including the $33.5 million of restructuring and other charges, operating profit was $153.9 million in 2010, up $58.6 million from $95.3 million in 2009 (which included $43.7 million of restructuring and other charges). Media Segment operating profit was $118.8 million in 2010, up $48.6 million from $70.2 million in 2009. Book Publishing operating profit was $83.4 million in 2010, down $0.4 million from $83.8 million in 2009 as a $3.9 million decline due to foreign exchange more than offset growth in the underlying operations. Corporate costs were $14.9 million in 2010, down $0.1 million from $15.0 million in 2009.

EBITDA[1] , excluding restructuring and other charges, was $233.6 million in 2010, up $41.8 million from $191.8 million in 2009.

(in $000's)	2010	2009
Media	$160,754	$118,527
Book Publishing	87,652	88,187
Corporate	(14,828)	(14,913)
EBITDA, excluding restructuring and other charges	$233,578	$191,801

Restructuring and other charges

Restructuring and other charges of $33.5 million were recorded in 2010 including $29.1 million of restructuring provisions, $2.8 million of costs related to Torstar's bid to purchase the newspaper and digital businesses of Canwest Limited Partnership and its related entities, a $1.1 million adjustment to a provision for litigation in the Media Segment and a $0.5 million impairment loss on intangible assets in the Media Segment.

The restructuring provisions in 2010 included $14.6 million related to a voluntary separation program at the Toronto Star's Vaughan Press Centre. This program was offered as part of the collective agreement covering approximately 275 employees at the Press Centre that was reached during the third quarter of 2010. The collective agreement provided for a substantial restructuring of job categories with wage reductions over time for a number of junior classifications. Existing employees were given the option of accepting a severance package or transitioning to the new wage rates. The financial benefits from the program are from the lower pay rates as the total staff complement is expected to be stable. The staff departures will take place over the next four years which will result in the benefits also being realized over a number of years. The charge of $14.6 million reflects the discounted value of the future severance obligations.

In 2009, the restructuring and other charges of $43.7 million included $12.8 million related to the transition in leadership at Torstar Corporate, $28.8 million for restructuring provisions in the Media Segment, $1.4 million related to the closure of a distribution centre in Harlequin's U.K. operation and a $0.7 million impairment loss on intangible assets in the Media Segment.

Both Star Media Group and Metroland Media Group have undertaken several restructuring initiatives in 2009 and 2010 in order to reduce ongoing operating costs. Total annualized net savings from the 2010 restructuring initiatives are expected to be approximately $20.8 million and a reduction of approximately 180 positions. Total annualized net savings from the 2009 restructuring activities were approximately $23.7 million and a reduction of approximately 450 positions.

The following chart provides the realized and expected net savings by year:

(in $000's)	2009 Initiatives	2010 Initiatives	Combined
Realized net savings:			
2009	$12,700		$12,700
2010	10,200	$4,700	14,900
Expected net savings:			
2011	800	10,700	11,500
2012		2,100	2,100
2013		1,400	1,400
2014		1,500	1,500
2015		400	400
Annualized net savings	$23,700	$20,800	$44,500

[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".***

Interest

Interest expense was $23.8 million in 2010, up $2.8 million from $21.0 million in 2009. The higher expense reflects higher effective interest rates partially offset by a lower level of average net debt outstanding in 2010. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $461.7 million in 2010, down $126.1 million from $587.8 million in 2009. Torstar's effective interest rate was 5.2% in 2010 and 3.6% in 2009. The higher rate reflected the impact of the higher interest rate spread that was effective starting at the beginning of 2010 for borrowings under Torstar's long-term credit facility.

Net debt was $368.8 million at December 31, 2010, down $147.0 million from $515.8 million at December 31, 2009. The reduction included the benefit of the $40 million received on December 31, 2010 from CTVgm.

Foreign exchange

Torstar reported a non-cash foreign exchange loss of $1.9 million in 2010. 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 2009, a non-cash foreign exchange loss of $0.5 million was reported.

Income (loss) of associated businesses

Income (loss) of associated businesses was a loss of $29.5 million in 2010 and a loss of $18.0 million in 2009.

Torstar's share of CTVgm's net loss was $29.1 million in 2010 compared with a loss of $17.8 million in 2009. The results are not directly comparable as the 2010 loss covers only the period through September 10, 2010 while the 2009 loss includes a full year's results. As a result, the 2010 results do not include CTVgm results for Torstar's fourth quarter, which is traditionally the strongest earnings quarter for CTVgm.

On September 10, 2010, Torstar announced that it had entered into agreements to sell its 20% interest in CTVgm for aggregate cash proceeds of approximately $345 million. On December 31, 2010, Torstar received $40 million in connection with CTVgm's sale of The Globe and Mail. The sale of Torstar's 20% interest in CTVgm remains subject to customary approvals and closing conditions, including approval by the CRTC, and is expected to close by mid 2011. Effective with the signing of the agreements, Torstar ceased to meet the accounting criteria for significant influence over the operations of CTVgm and as a result ceased to equity account for CTVgm's results as of September 10, 2010.

Torstar's share of CTVgm's 2010 loss through September 10, 2010 included an $18.2 million loss related to the impairment of intangible assets. Excluding the impairment loss, Torstar would have reported a net loss of $10.9 million in 2010. The full year 2009 loss included an intangible asset impairment loss of $16.5 million, a $26.3 million valuation allowance (negative earnings impact) that was provided against certain of CTVgm's future income tax assets, a recovery related to CRTC Part II licence fees, a 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. Excluding the impact of the above items, Torstar would have reported a net loss of $4.3 million in 2009 for its share of CTVgm's loss.

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. Under Canadian GAAP a negative carrying value is not recorded, but any deficit must be recovered prior to the reporting of any further results. Torstar's share of Black Press's net income would have been $0.1 million in 2010, including a $3.1 million impairment loss related to a customer-related intangible asset and goodwill associated with a printing operation. Excluding the impairment charge, Torstar's share of Black Press's net income would have been $3.2 million in 2010 compared with $2.5 million in 2009. Black Press's EBITDA has improved during 2010, partially offset by higher interest and restructuring costs.

Gain on sale of assets

Torstar recognized a gain on sale of assets of $4.1 million in 2010. This included $1.3 million on the sale of a small piece of excess land in Vaughan and $2.8 million realized on the formation of a joint venture with Rogers Media to manage and further develop the Total Online Publishing Solutions ("TOPS") system. The TOPS system is a highly scalable content management system for internet media publishers that had been developed by Torstar and used by its newspapers. In 2009, Torstar recognized a gain of $0.2 million related to the sale of a small property in Cambridge, Ontario.

Investment write-down

During 2010, Torstar recognized an investment write-down of $0.8 million related to two small portfolio investments. In 2009, Torstar recognized an investment write-down of $2.4 million, reducing the carrying value of its portfolio investment in Vocel Inc. to nil.

Income and other taxes

Torstar's effective tax rate was 31.3% in 2010 excluding the negative impact of not tax affecting the $29.5 million loss of associated businesses.

In 2009, Torstar's effective tax rate was 32.3% excluding the impact of not tax affecting the $18.0 million loss of associated businesses and excluding the $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.

The lower effective tax rate in 2010 reflected the lower Canadian statutory income tax rates and a $2.6 million benefit from the reduction of the valuation allowance that is recorded against Torstar's future income tax assets. These benefits were partially offset by foreign income that is now being taxed at rates that are higher than the Canadian statutory rate.

Net income

Torstar reported net income of $60.9 million or $0.77 per share in 2010, up $25.3 million or $0.32 per share from $35.6 million or $0.45 per share in 2009. Excluding the loss from CTVgm in both years, Torstar would have reported net income of $90.0 million or $1.14 per share in 2010, up $36.5 million or $0.46 per share from $53.5 million or $0.68 per share in 2009.

The average number of Class A and Class B non-voting shares outstanding was 79.1 million in 2010 up slightly from 79.0 million in 2009.

The following chart provides a continuity of earnings per share from 2009 to 2010:

Net income per share 2009		$0.45
Changes		
• Operations	0.41	
• Restructuring and other charges	0.07	
• Loss from CTVgm	(0.14)	
• Investment write-down	0.02	
• Gain on sale of assets	0.04	
• Change in statutory tax rates (2009)	(0.06)	
• Non-cash foreign exchange	(0.02)	
Net income per share 2010		$0.77

Segment Operating Results – Media

The following tables set out, in $000's, the results for the reporting units within the Media Segment for the years ended December 31, 2010 and 2009.

	2010			2009		
	Metroland Media	Star Media	Total	Metroland Media	Star Media	Total
Operating revenue	$541,735	$469,698	$1,011,433	$513,298	$444,658	$957,956
EBITDA	$99,272	$61,482	$160,754	$86,917	$31,610	$118,527
Depreciation & amortization	12,614	29,344	41,958	16,501	31,872	48,373
Operating profit	$86,658	$32,138	$118,796	$70,416	($262)	$70,154
EBITDA margin	18.3%	13.1%	15.9%	16.9%	7.1%	12.4%
Operating profit margin	16.0%	6.8%	11.7%	13.7%	n/a	7.3%

Total revenue of the Media Segment was $1,011.4 million in 2010, up $53.4 million or 5.6% from $958.0 million in 2009. The revenue growth came from digital, print advertising and distribution revenues along with $12.7 million of product sales in Metroland Media Group's TMGTV operations. Excluding the TMGTV product sales, the Media Segment revenue was up $40.7 million or 4.2% in 2010. Digital revenues grew $23.1 million (34.7%) in 2010 contributing 8.9% of the total Media Segment revenue in 2010, up from 6.9% in 2009.

The Media Segment expenses were up $11.1 million in 2010. This included higher product sales costs, distribution costs, commissions and incentives all related to the revenue growth as well as the continued investment in the digital businesses. Offsetting a portion of these higher costs was $14.9 million of net savings from restructuring initiatives, $11.3 million of lower pension costs and $4.6 million from lower newsprint pricing.

Metroland Media Group

Metroland Media Group revenues were $541.7 million in 2010 up $28.4 million from $513.3 million in 2009. The increase included $12.7 million of revenue from product sales in the TMGTV operations. Excluding the TMGTV product sales, revenues were up $15.7 million or 3.1% in 2010.

Digital and distribution revenues were the contributors of the revenue growth in the year. Digital revenue was up $10.9 million in the year with revenue growth across most of Metroland Media Group's sites. Distribution revenues were up $8.1 million with volumes growing almost 7% in the year. Print advertising revenue from directories, magazines and supplementary newspaper sections was down in the year while in-paper advertising revenues were relatively flat. National advertising had strong growth in the year which offset most of the continued softness in classified and local retail.

Metroland Media Group expenses were up $16.0 million in 2010. This included increased costs related to the TMGTV product sales (which have a lower margin than the newspaper and digital businesses) and from the higher distribution volumes. Realized labour cost savings of $5.4 million from restructuring efforts and $2.6 million of lower defined benefit pension costs were more than offset by wage increases and higher commission and incentive expense and increased staffing for the digital operations. Newsprint pricing was about 8% lower in the year, contributing $2.6 million of cost savings.

Metroland Media Group's EBITDA was $99.3 million in 2010 up $12.4 million from $86.9 million in 2009. Metroland Media Group's operating profit was $86.7 million in 2010 up $16.3 million from $70.4 million in 2009.

Star Media Group

Star Media Group revenues were $469.7 million in 2010, up $25.0 million or 5.6% from $444.7 million in 2009. The revenue growth was evenly split between the print and digital properties.

Toronto Star print advertising revenues were up 2.6% in 2010 with national advertising revenue up throughout the year. The retail and classified categories trended positive as the year progressed but were still down on a full-year basis. Retail advertising was up in the fourth quarter. The classified category continued to be affected by structural pressures.

The jointly-owned Metro newspapers had significant revenue growth in the year, benefiting from improved national advertising as well as continued growth in the newer markets. Sing Tao revenues were also up in the year with the growth split evenly between newspapers and magazine revenues.

Star Media Group digital revenues were up $12.2 million in 2010 with strong growth for Olive Media, Workopolis and thestar.com. Digital revenues also benefited from the TOPS partnership with Rogers Media and the acquisitions of travelalerts.ca and wagjag.com.

Star Media Group expenses were down $4.9 million in 2010 as net savings of $9.5 million from restructuring efforts, $8.7 million of lower pension costs and $2.0 million of lower newsprint pricing more than offset the continued investment in staff and marketing expenses in the digital businesses.

Star Media Group EBITDA was $61.5 million in 2010, up $29.9 million from $31.6 million in 2009. Star Media Group operating profit was $32.1 million in 2010 compared with an operating loss of $0.3 million in 2009.

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, 2010 and 2009.

	2010	2009
Revenue	$468,155	$493,303
EBITDA	$87,652	$88,187
Depreciation & amortization	$4,230	$4,390
Operating profit	$83,422	$83,797
EBITDA margin	18.7%	17.9%
Operating profit margin	17.8%	17.0%

Reported revenue, prior year	$493,303
Impact of currency movements and foreign exchange contracts	(33,246)
Change in underlying revenue	8,098
Reported revenue, current year	$468,155
Reported operating profit, prior year	$83,797
Impact of currency movements and foreign exchange contracts	(3,851)
Change in underlying operating profit	3,476
Reported operating profit, current year	$83,422

North American division revenues were up $1.3 million and operating profit was up $1.0 million in 2010 excluding the impact of foreign exchange. Digital revenues were up $16.1 million in 2010 reflecting the strong growth of the e-book market. Sales of print books declined in the year. Retail revenues were down $10.7 million as fewer books were sold through that channel reflecting continued weakness in the U.S. economy (and its effect on consumer spending) as well as a shift in format from physical to digital books. Direct-to-consumer revenues were down $4.1 million as lower volumes were only partially offset by higher prices. The lower volumes in the direct-to-consumer channel were consistent with the long-term decline in the direct mail industry.

Overseas division revenues were up $6.8 million and operating profit was up $2.5 million in 2010 excluding the impact of foreign exchange. Excluding the benefit from the acquisition of the other half of the German business at the beginning of the second quarter, Overseas revenues were down $6.1 million and operating profit was up $1.5 million. The Japanese operation accounted for most of the revenue decline in 2010, the result of a combination of lower digital revenues as well as continued challenges in its print book business. The digital revenue shortfall included the expected decline in 2010 from the agreement between Harlequin's Japanese operation and 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. Revenues were lower in 2010 in accordance with the agreed upon delivery schedule of titles to Softbank. Modest revenue declines were also experienced in several other Overseas markets in 2010 due to lower volumes. The German operation provided most of the operating profit growth (after excluding the portion from the acquisition) as a result of strong revenues and cost savings. Several other markets including Australia, the U.K. and the Netherlands also reported operating profit growth in 2010.

OPERATING RESULTS – THREE MONTHS ENDED DECEMBER 31, 2010

Overall Performance

Total revenue was $416.1 million in the fourth quarter of 2010, up $21.3 million or 5.4% from $394.8 million in the fourth quarter of 2009. Media Segment revenue was $296.1 million, up $23.5 million or 8.6% from $272.6 million in the same period last year.

The Media Segment revenue growth came from digital, distribution revenues and print advertising along with $8.7 million of product sales in Metroland Media Group's TMGTV operations. Excluding the TMGTV product sales, the Media Segment revenue was up $14.8 million or 5.4% in the fourth quarter of 2010. Book Publishing revenues were $120.0 million in the fourth quarter of 2010, down $2.2 million from $122.2 million in the same period last year. The $4.3 million decrease from the strengthening of the Canadian dollar was offset by the $4.3 million benefit from the acquisition of the other half of the German business. North America digital revenues were up in the quarter, but were more than offset by lower North America retail and direct-to-consumer and Overseas revenues.

Operating profit before restructuring and other charges was $60.2 million in the fourth quarter of 2010, up $4.4 million from $55.8 million in the fourth quarter of 2009. Including the $17.9 million of restructuring and other charges, operating profit was $42.3 million in the fourth quarter of 2010, down $0.5 million from $42.8 million in the fourth quarter of 2009 (which included $13.0 million of restructuring and other charges). Media Segment operating profit was $46.6 million in the fourth quarter of 2010, up $7.4 million from $39.2 million in the same period last year. Book Publishing operating profits were $17.3 million in the fourth quarter, down $3.4 million from $20.7 million in the same period last year. The decline included $0.7 million from the negative impact of foreign exchange. Corporate costs were $3.7 million in the fourth quarter of 2010, down $0.4 million from $4.1 million in the fourth quarter of 2009 benefiting from lower professional fees.

EBITDA, excluding restructuring and other charges, was $71.5 million in the fourth quarter, up $1.9 million from $69.6 million in the same period last year.

(in $000's)	**Fourth Quarter 2010**	Fourth Quarter 2009
Media	$56,852	$51,985
Book Publishing	18,330	21,701
Corporate	(3,709)	(4,081)
EBITDA, excluding restructuring and other charges	$71,473	$69,605

Restructuring and other charges

Restructuring and other charges of $17.9 million were recorded in the fourth quarter of 2010 including restructuring provisions of $17.4 million and a $0.5 million impairment loss on intangible assets, both in the Media Segment.

The restructuring provision in the fourth quarter of 2010 included $14.6 million related to a voluntary separation program at the Toronto Star's Vaughan Press Centre. This program was offered as part of the collective agreement covering approximately 275 employees at the Press Centre that was reached during the third quarter of 2010. The collective agreement provided for a substantial restructuring of job categories with wage reductions over time for a number of junior classifications. Existing employees were given the option of accepting a severance package or transitioning to the new wage rates. The financial benefits from the program are from the lower pay rates as the total staff complement is expected to be stable. The staff departures will take place over the next four years which will result in the benefits also being realized over a number of years. The charge of $14.6 million reflects the discounted value of the future severance obligations.

In 2009, the restructuring and other charges of $13.0 million included restructuring provisions of $12.3 million and a $0.7 million impairment loss on intangible assets, both in the Media Segment.

Total annualized net savings from the fourth quarter 2010 restructuring initiatives are expected to be approximately $10.8 million with a reduction of approximately 30 positions.

Interest

Interest expense was $6.2 million in the fourth quarter of 2010, up $1.1 million from $5.1 million in the fourth quarter of 2009. The higher expense reflects higher effective interest rates partially offset by a lower level of average net debt outstanding in the fourth quarter of 2010. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $409.6 million in the fourth quarter of 2010, down $124.9 million from $534.5 million in 2009. Torstar's effective interest rate was 6.0% in the fourth quarter of 2010 and 3.8% in the fourth quarter of 2009. The higher rate reflected the impact of the higher interest rate spread that was effective starting at the beginning of 2010 for borrowings under Torstar's long-term credit facility. It also reflected the mix of debt outstanding with a larger proportion being the higher fixed-rate debt in the fourth quarter of 2010.

Foreign exchange

Torstar reported a non-cash foreign exchange gain of $0.2 million in the fourth quarter of 2010. This gain arose from the translation of foreign-currency (primarily U.S. dollars) denominated assets and liabilities into Canadian dollars. The amount of the gain or loss in any year will vary depending on the movement in relative value of the Canadian dollar and on whether Torstar has a net asset or net liability position in the foreign currency. In 2009, a non-cash foreign exchange loss of $0.5 million was reported.

Income (loss) of associated businesses

Income (loss) of associated businesses was a loss of $0.4 million in the fourth quarter of 2010 compared with income of $30.4 million in the fourth quarter of 2009.

Torstar ceased to equity account for its investment in CTVgm on September 10, 2010 and as a result did not include any amounts related to CTVgm in the income (loss) of associated businesses in the fourth quarter of 2010.

Torstar's share of CTVgm's net income was $30.3 million in the fourth quarter of 2009. The net income included the benefit of 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, partially offset by a $2.3 million impairment loss on intangible assets. Excluding the impact of the above items, Torstar would have reported income from CTVgm of $10.5 million in the fourth quarter of 2009.

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. Under Canadian accounting rules a negative carrying value is not recorded, but any deficit must be recovered prior to the reporting of any further results. Torstar's share of Black Press's income would have been $2.5 million in the fourth quarter of 2010 up from $0.9 million in the fourth quarter of 2009. The higher income in 2010 reflects the improvement in Black Press's revenues and EBITDA.

Gain on sale of assets

Torstar recognized a gain on sale of assets of $1.3 million in the fourth quarter of 2010 on the sale of a small piece of excess land in Vaughan.

Investment write-down

In the fourth quarter of 2010, Torstar recognized an investment write-down of $0.8 million related to two small portfolio investments. In 2009 Torstar recognized an investment write-down of $2.4 million, reducing the carrying value of its portfolio investment in Vocel Inc. to nil.

Income and other taxes

Torstar's effective tax rate was 26.1% in the fourth quarter of 2010 excluding the impact of not tax affecting the $0.4 million loss of associated businesses.

In the fourth quarter of 2009, Torstar's effective tax rate was 37.1% excluding the impact of not tax affecting the $30.4 million income of associated businesses and excluding the $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.

The lower effective tax rate in 2010 reflected the lower Canadian statutory income tax rates, a $2.6 million benefit from the reduction of the valuation allowance that is recorded against Torstar's future income tax assets and the impact of permanent differences in calculating income taxes in one period versus another.

Net income

Torstar reported net income of $26.7 million or $0.34 per share in the fourth quarter of 2010, down $30.7 million or $0.39 per share from $57.4 million or $0.73 per share in the fourth quarter of 2009. Excluding the income from CTVgm in the fourth quarter of 2009, Torstar's fourth quarter of 2010 would have been down $0.4 million compared with the fourth quarter of 2009.

The average number of Class A and Class B non-voting shares outstanding was 79.1 million in the fourth quarter of 2010 up slightly from 79.0 million in the fourth quarter of 2009.

The following chart provides a continuity of earnings per share from 2009 to 2010:

Net income per share fourth quarter 2009		**$0.73**
Changes		
• Operations	0.07	
• Restructuring and other charges	(0.05)	
• Income from CTVgm (2009)	(0.38)	
• Income (loss) of associated businesses	(0.01)	
• Investment write-down	0.02	
• Gain on sale of assets	0.01	
• Change in statutory tax rates (2009)	(0.06)	
• Non-cash foreign exchange	0.01	
Net income per share fourth quarter 2010		**$0.34**

Segment Results – Media

The following tables set out, in $000's, the results for the reporting units within the Media Segment for the three months ended December 31, 2010 and 2009.

	2010			2009		
	Metroland Media	Star Media	Total	Metroland Media	Star Media	Total
Operating revenue	$158,467	$137,631	$296,098	$143,594	$128,966	$272,560
EBITDA	$32,530	$24,322	$56,852	$28,993	$22,992	$51,985
Depreciation & amortization	2,866	7,370	10,236	4,194	8,589	12,783
Operating profit	$29,664	$16,952	$46,616	$24,799	$14,403	$39,202
EBITDA margin	20.5%	17.7%	19.2%	20.2%	17.8%	19.1%
Operating profit margin	18.7%	12.3%	15.7%	17.3%	11.2%	14.4%

Total revenue of the Media Segment was $296.1 million in the fourth quarter of 2010, up $23.5 million or 8.6% from $272.6 million in 2009. The revenue growth came from digital, distribution revenues and print advertising along with $8.7 million of product sales in Metroland Media Group's TMGTV operations. Excluding the TMGTV product sales, the Media Segment revenue was up $14.8 million or 5.4% in the fourth quarter of 2010. Digital revenues grew $6.4 million (31.0%) compared to the fourth quarter of 2009 contributing 9.2% of the total Media Segment revenue in the fourth quarter of 2010, up from 7.6% in the same period last year.

The Media Segment expenses were up $18.7 million in the fourth quarter of 2010. This included higher product sales costs, distribution costs, commissions and incentives all related to the revenue growth. It also included $1.1 million from higher newsprint pricing and the continued investment in the digital businesses. Offsetting a portion of these higher costs was $3.5 million of net savings from restructuring initiatives and $2.9 million of lower pension costs.

Metroland Media Group

Metroland Media Group revenues were $158.5 million in the fourth quarter of 2010 up $14.9 million or 10.4% from $143.6 million in the fourth quarter of 2009. The increase included $8.7 million of revenue from product sales in the TMGTV operations. Excluding the TMGTV product sales, revenues were up $6.2 million or 4.3% in the fourth quarter of 2010.

Digital and distribution revenues were the contributors of the revenue growth in the quarter. Digital revenue was up $2.1 million in the quarter with several of Metroland Media Group's digital properties, including some new initiatives, providing the revenue growth. Distribution revenues were up $3.7 million in the fourth quarter, primarily from strong volume growth. In-paper advertising revenues were lower in the fourth quarter. Multi-market retail advertising was up in the quarter but was more than offset by continued softness in classified revenue. Local retail advertising was only slightly down in the quarter, which was an improvement over the year to date performance of that category.

Metroland Media Group expenses were up $11.4 million in the fourth quarter of 2010. This included increased costs related to the TMGTV product sales costs (which have a lower margin than the newspaper and digital businesses) and from the higher distribution volumes. Realized labour cost savings of $0.8 million and $0.7 million of lower pension costs were more than offset by wage increases and higher commission and incentive expense and increased staffing for the digital operations. Newsprint pricing was about 7% higher in the quarter, increasing costs by $0.6 million.

Metroland Media Group's EBITDA was $32.5 million in the fourth quarter of 2010 up $3.5 million from $29.0 million in the fourth quarter of 2009. Metroland Media Group's operating profit was $29.7 million in the fourth quarter of 2010, up $4.9 million from $24.8 million in the same period last year.

Star Media Group

Star Media Group revenues were $137.6 million in the fourth quarter of 2010, up $8.6 million or 6.7% from $129.0 million in the fourth quarter of 2009. The revenue growth was evenly split between the print and digital properties.

Toronto Star print advertising revenues were up 4.2% in the fourth quarter of 2010. This was the strongest revenue growth quarter in 2010 with strength in both national and retail advertising. The classified revenues continued to be soft during the quarter.

The jointly-owned Metro newspapers had revenue growth in the fourth quarter of 2010 from strong national advertising revenues. Sing Tao's fourth quarter revenue growth was evenly split between newspapers and magazine revenues.

Star Media Group digital revenues were up $4.3 million in the fourth quarter of 2010 with strong growth from Olive Media, Workopolis and thestar.com. Digital revenues in the fourth quarter also benefited from the acquisitions of travelalerts.ca and wagjag.com.

Star Media Group expenses were up $7.3 million in the fourth quarter of 2010 as net savings of $2.7 million from restructuring efforts and $2.2 million of lower defined benefit pension costs were more than offset by $0.5 million from higher newsprint pricing and the continued investment in staff and marketing expenses in the digital businesses.

Star Media Group EBITDA was $24.3 million in the fourth quarter of 2010, up $1.3 million from $23.0 million in 2009. Star Media Group operating profit was $17.0 million in the fourth quarter of 2010, up $2.6 million from $14.4 million in the same period last year.

Segment 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, 2010 and 2009.

	2010	2009
Revenue	$120,043	$122,225
EBITDA	$18,330	$21,701
Depreciation & amortization	1,056	1,048
Operating profit	$17,274	$20,653
EBITDA margin	15.3%	17.8%
Operating profit margin	14.4%	16.9%

	Fourth Quarter
Reported revenue, prior year	$122,225
Impact of currency movements and foreign exchange contracts	(4,321)
Change in underlying revenue	2,139
Reported revenue, current year	$120,043
Reported operating profit, prior year	$20,653
Impact of currency movements and foreign exchange contracts	(701)
Change in underlying operating profit	(2,678)
Reported operating profit, current year	$17,274

North American division revenues were down $0.3 million and operating profit was down $3.0 million in the fourth quarter of 2010 excluding the impact of foreign exchange. Digital revenues were up $5.5 million in the fourth quarter of 2010 reflecting the strong growth of the e-book market including the positive impact of the growing number of e-book readers. Sales of print books declined in the quarter. Retail revenues were down $3.0 million in the fourth quarter as fewer books were sold through that channel reflecting continued weakness in the U.S. economy (and its effect on consumer spending) as well as a shift in format from physical to digital books. Direct-to-consumer revenues were down $2.8 million in the fourth quarter from lower volumes. Higher costs in the fourth quarter, including advertising and promotional costs, incentives and inventory adjustments contributed to the lower operating profit.

Overseas division revenues were up $2.4 million and operating profit was up $0.3 million in the fourth quarter of 2010 excluding the impact of foreign exchange. Excluding the benefit from the acquisition of the other half of the German business earlier in the year, Overseas revenues were down $1.9 million and operating profit was up $0.2 million in the fourth quarter. The Japanese operation accounted for the revenue decline in the fourth quarter of 2010 as a result of lower digital revenues. The digital revenue shortfall included the expected decline in 2010 from the agreement between Harlequin's Japanese operation and 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. Revenues were higher in the same period last year in accordance with the delivery schedule of titles to Softbank. The U.K. and Germany both had higher revenues in the quarter that were offset by small declines in some of the other markets. Operating profit was up in Germany (after excluding the portion from the acquisition) as a result of revenue growth. France and the Nordic group also had operating profit growth in the fourth quarter which was primarily the result of higher non-recurring costs in the fourth quarter of 2009. Partially offsetting these improvements was the lower operating profit in Japan as a result of the lower digital revenues.

OUTLOOK

Given the uncertainty in the pace of recovery in the Ontario economy, it is difficult to predict the level of revenue growth anticipated in the Media Segment in 2011. During 2010, National advertising improved from 2009 levels, retail advertising continued to be soft and classified advertising continued to feel the impact of structural changes. If overall retail advertising strengthens during the year, Torstar would expect to realize that benefit in its daily and community newspapers. Digital revenue is expected to benefit from the 2010 acquisitions of travelalerts.ca and wagjag.com. Early indications in 2011 are that revenue growth has slowed compared to the growth experienced in the fourth quarter of 2010. Torstar anticipates increasing its investment in the Media Segment's digital operations in 2011 as well as experiencing increased pension costs of $1.6 million. These higher costs are expected to be mitigated by $11.5 million of savings from restructuring initiatives. Newsprint pricing is expected to be stable compared to 2010 due to agreements in place with newsprint suppliers.

The book publishing industry, and in particular the U.S. market, is undergoing significant changes from the rapid growth in digital books. As part of this trend, Harlequin anticipates continued growth in its e-book business with some resulting decline in print sales. In February 2011, Borders Group, Inc. (a U.S. book retailer) filed for Chapter 11 bankruptcy protection in the U.S. While Harlequin does not face a direct credit risk in relationship to Borders, the potential disruption to the U.S. retail book distribution network could result in lower sales. These changing trends make it more difficult to predict 2011 performance but on balance, Harlequin expects full-year 2011 operating results to be stable excluding the impact of foreign exchange. If the Canadian dollar remains at its current levels relative to the U.S. dollar and overseas currencies, Harlequin anticipates a year over year negative foreign exchange impact of approximately $7.0 million, including the impact of the U.S. dollar hedges currently in place.

In addition to the $40 million received in December 2010, subject to regulatory approval and customary closing conditions, Torstar expects to receive approximately $290 million of proceeds (this is net of an estimate of certain costs associated with closing the transaction) on the sale of its interest in CTVgm by mid 2011. This is expected to result in an estimated accounting gain of $189.6 million or $2.40 per share (the carrying value of CTVgm will be approximately $12.4 million lower under IFRS). Depending on the timing of the receipt and the use of the proceeds, there may also be costs associated with the early termination of some interest rate swap agreements.

Torstar's net debt was $368.8 million at December 31, 2010. It is anticipated that net debt levels will increase at least during the first quarter of 2011 due to movements in working capital, including the payment of final 2010 income tax installments and payments related to restructuring provisions. During the full year 2011, $18.1 million ($12.5 million net of tax) of payments are expected to be made related to restructuring provisions. In addition, in 2011 the funding for Torstar's registered defined benefit pension plans will increase to approximately $50.0 million from $16.8 million in 2010.

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.

Torstar's $600 million long-term debt facility will mature in January 2012. If the sale of Torstar's 20% interest in CTVgm closes during 2011, the amount of Torstar's long-term debt facility requirement is expected to decrease. Torstar will renegotiate its long-term debt facility during 2011 and anticipates that it will be able to obtain the required facility absent any significant changes in the financial markets. Pricing of the new facility will be at market prices at the time of the negotiation.

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

In 2010, $157.4 million of cash was generated by operations, $12.2 million was provided by investing activities and $170.0 million was used for financing activities. Cash and cash equivalents net of bank overdraft decreased by $1.3 million in the year from $37.2 million to $35.9 million.

In the fourth quarter of 2010, $58.7 million of cash was generated by operations, $27.3 million was provided by investing activities and $79.8 million was used for financing activities. Cash and cash equivalents net of bank overdraft increased by $5.6 million in the quarter from $30.3 million to $35.9 million.

Operating Activities

Cash provided by operating activities was $157.4 million in 2010 including no change in non-cash working capital. In 2009, cash provided by operating activities was $153.4 million including a $33.5 million decrease in non-cash working capital. The improved cash provided by operating activities, before the change in non-cash working capital reflected the improved operating results in 2010 as well as the $14.3 million of restructuring provisions that will not be payable until 2012 or later.

Torstar's investment in non-cash working capital did not change in 2010. This resulted from higher accounts receivable (improved revenues year over year) offset by higher income taxes payable (timing of installments) and higher accounts payable. Restructuring provisions (included in accounts payable) decreased by $7.4 million in 2010.

In 2009, Torstar's investment in non-cash working capital decreased $33.5 million. 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.

Cash provided by operating activities was $58.7 million in the fourth quarter of 2010 including a $10.5 million decrease in non-cash working capital. In 2009, cash provided by operating activities was $51.0 million including a $7.4 million decrease in non-cash working capital.

Investing Activities

Cash of $12.2 million was provided by investing activities during 2010 compared with a $29.2 million use of cash in 2009. Cash of $27.3 million was provided by investing activities during the fourth quarter of 2010 compared with a $9.5 million use of cash in the fourth quarter of 2009. The net receipt of cash in 2010 included $6.2 million on the collection of a mortgage receivable on the sale of excess land in Vaughan during 2008, $3.0 million on the formation of a joint venture with Rogers Media to manage and further develop the TOPS system, the fourth quarter $40.0 million return of capital by CTVgm and $1.3 million on the fourth quarter sale of a small piece of excess land in Vaughan.

Additions to property, plant and equipment and intangible assets were $26.9 million in 2010, up $6.2 million from $20.7 million in 2009. Fourth quarter additions were $11.7 million and $6.8 million in 2010 and 2009 respectively. The 2010 additions included investment in technology across the Media Segment to improve the utilization of information and the publication processes as well as investment in Harlequin's distribution centre in New York State. The increase in fourth quarter spending reflected the timing of projects during the year.

In 2010, Torstar used cash of $11.6 million on acquisitions and investments. This included $2.8 million for the first of three payments related to Harlequin's acquisition of full ownership of its German publishing business, $3.3 million for deferred purchase and performance payments in respect of prior year acquisitions in the Media Segment and $5.5 million for several acquisitions within the Media Segment. The German acquisition has $6.5 million of deferred purchase payments that will be made over the next two years. The Media Segment acquisitions included the remaining ownership of Travelwire Inc., wagjag.com and several other smaller businesses. Two of these acquisitions also have potential performance payments of up to $8.4 million based on future revenues.

In 2009, $9.5 million was used primarily for digital acquisitions in the Media 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.

2011 capital expenditures

Capital expenditures in 2011 are expected to be approximately $35.0 million up from the $26.9 million spent in 2010. The 2011 capital expenditures are anticipated to include the upgrading of presses and related production equipment as well as the continued investment in technology to improve the utilization of information across the Media Segment both in print and on the Internet.

Financing Activities

Cash of $170.0 million was used in financing activities during 2010, including $142.3 million for the repayment of long-term debt and $29.0 million for cash dividends paid to shareholders. In the fourth quarter of 2010, cash of $79.8 million was used in financing activities including $73.0 million for the repayment of long-term debt and $7.2 million for cash dividends paid to shareholders.

In 2009, cash of $126.1 million was used in financing activities, including $96.8 million for the repayment of long-term debt and $29.1 million for cash dividends paid to shareholders. In the fourth quarter of 2009, cash of $36.8 million was used in financing activities including $29.9 million for the repayment of long-term debt and $7.3 million for cash dividends paid to shareholders.

Net Debt

Net debt was $368.8 million at December 31, 2010, down $147.0 million from $515.8 million at December 31, 2009. The $147.0 million included $142.3 million of long-term debt repayments, a decrease of $3.7 million from the strengthening of the Canadian dollar and a decrease of $1.0 million from changes in cash, bank overdraft and the value of the fair value hedge related to the medium term notes that were repaid in the third quarter. The $142.3 million of long-term debt repayments included the benefit of the $40 million received on December 31, 2010 from CTVgm.

Long-term Debt

At December 31, 2010, Torstar had long-term debt of $404.7 million outstanding. The debt consisted of U.S. dollar bankers' acceptances of $83.7 million and Canadian dollar bankers' acceptances of $321.0 million.

Torstar has a long-term bank credit facility that consist of a $425 million revolving loan that will mature on January 4, 2012 and a $175 million revolving 364-day operating loan ("operating loan"). The operating loan was reduced to $175 million from $310 million at Torstar's request in November 2010. Torstar is required to borrow from the operating loan in priority to the revolving loan. The 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). The operating loan was renewed in December 2010 to mature in January 2012 with the consent of all the parties.

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% to 1.5%) and on its net debt to operating cash flow ratio for borrowings under the operating loan (range of 2.0% to 3.8%). Effective January 2011, the interest rate spread is 0.6% on the $425 million revolving loan and 2.25% on the $175 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.

If the long-term credit facility has not been renewed by March 31, 2011, Torstar will be required to report its outstanding debt as current on its first quarter financial statements. This classification will continue until a new long-term debt facility has been obtained.

Torstar has a policy of maintaining a sufficient level of U.S. dollar denominated debt in order to provide an economic hedge against its U.S. dollar assets. It is expected that the level of U.S. dollar debt will remain relatively constant during 2011.

The long-term credit facility for $600 million also acts as a standby line in support of letters of credit. At December 31, 2010, $405.5 million was drawn under the facility and a $21.9 million letter of credit was outstanding relating to an executive retirement plan, leaving $172.6 million of available credit.

Contractual Obligations

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

Nature of the Obligation	Total	Less than 1 Year (2011)	2 – 3 Years (2012–2013)	4 – 5 Years (2014–2015)	After 5 Years (2016 +)
Office leases	$141,270	$18,166	$34,874	$31,890	$56,340
Services	13,864	4,034	5,574	3,360	896
Acquisitions	10,327	5,997	4,330		
Equipment leases	1,887	792	885	210	
Subtotal	167,348	28,989	45,663	35,460	57,236
Foreign currency forward contracts:					
- payments	54,205	35,308	18,897		
- receipts	(58,082)	(37,811)	(20,271)		
- net	(3,877)	(2,503)	(1,374)		
Cdn $ Interest rate swaps	7,656	7,656			
US $ Interest rate swaps	14,395	3,307	6,614	4,474	
Long-term debt	404,727		404,727		
Total	$590,249	$37,449	$455,630	$39,934	$57,236

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 distribution contracts for some of the Star Media Group properties and Harlequin's U.K. operations. The acquisition obligations relate to the 2008 purchase of eyeReturn Marketing, the 2009 purchase of Gottarent.com and the 2010 purchase of the other half of Harlequin's German publishing business.

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 outstanding long-term debt is included in the above chart as maturing in 2012, consistent with the maturity of Torstar's long-term debt facility.

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

Funding of Post Employment Benefits

During 2010, the most significant group of Torstar's defined benefit registered pension plans (in terms of assets and obligations) completed the preparation of actuarial reports as of December 31, 2009. The result of the report is that Torstar's funding for these defined benefit registered pension plans will be approximately $50.0 million per year from 2011 through 2016, up significantly from $16.8 million in 2010. However, Torstar will be required to prepare another set of actuarial reports for that group of plans as of December 31, 2010 and the results of those reports will determine the actual funding required. The funding that will ultimately be required starting in 2011 based on those reports could be different from the $50.0 million.

FINANCIAL INSTRUMENTS

Foreign Exchange

Harlequin's international operations provide Torstar with approximately 30% 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 2010, Torstar sold U.S. $51.6 million under forward foreign exchange contracts at an average exchange rate of $1.16. In 2009 U.S.

[2] All foreign denominated obligations were translated at the December 31, 2010 spot rates.

$50.1 million was sold at an average exchange rate of $1.12. The settlement of these contracts resulted in an exchange gain of $7.1 million in 2010 and a loss of $0.8 million in 2009. Torstar has entered into forward foreign exchange contracts to sell $35.5 million U.S. dollars during 2011 at an average rate of $1.07 and $19.0 million U.S. dollars in 2012 at an average rate of $1.07. These 2011 and 2012 forward foreign exchange contracts had a $3.4 million favourable fair value at December 31, 2010. 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 11 of the consolidated financial statements.

In order to offset the exchange risk on its balance sheet from U.S. dollar denominated assets, Torstar maintains a certain level of U.S. dollar denominated debt. These assets are primarily current in nature, and to the extent that the amount of 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.

Under IFRS, the accounting treatment for a significant portion of these U.S. dollar denominated assets will change and the foreign exchange on their translation into Canadian dollars will be reported through other comprehensive income rather than net income. The accounting treatment for the translation of the U.S. dollar debt will not change under IFRS and the foreign exchange on its translation into Canadian dollars will continue to be reported through net income.

In order to have the foreign exchange on the translation of the U.S. dollar debt be reported through other comprehensive income, reflecting the economic effectiveness of the hedge, Torstar will need to designate a portion of its U.S. dollar debt as a hedge against its net investment in the Book Publishing U.S. businesses. Torstar will make this designation effective January 1, 2011 on $80.0 million of its U.S. dollar debt. To the extent that Torstar has U.S. dollar debt in excess of $80.0 million, the translation on the excess amount will be reported in net income.

Interest Rates

Torstar has long-term debt in the form of 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.

Torstar's general practice has been to have approximately one half of its debt at floating interest rates but the exact split will vary from time to time. As at December 31, 2010, approximately 80% of Torstar's long-term debt was at fixed interest rates. Since Torstar uses interest rate swap agreements (which are in place for a set number of years) to fix its interest rate, any debt repayment is applied against the floating rate debt. Therefore as Torstar has been repaying its long-term debt, the percentage of fixed-rate long-term debt has increased.

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 $4.9 million unfavourable at December 31, 2010.

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 $7.6 million unfavourable at December 31, 2010.

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 9 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 an unregistered, 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 completed at the frequency required under the Ontario provincial pension legislation which can range from annually to once every three years.

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 2010 and 2009 were:

To determine the benefit obligation at the end of the year:	2010	2009
Discount rate	4.7% - 5.1%	5.5% - 5.8%
Rate of future compensation increase	3.0% - 4.0%	3.0% - 4.0%
To determine the pension benefit expense for the year:	**2010**	**2009**
Discount rate	5.5% - 5.8%	5.6% - 6.3%
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 15 years
To determine the pension benefit expense for the year:	**2011**	
Discount rate	4.7% - 5.1%	
Rate of future compensation increase	3.0% - 4.0%	
Expected long-term rate of return on plan assets	6.75%	

The discount rates 4.7% - 5.1% were the yields at December 31, 2010 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, 2010 of $97.7 million and a decrease in the 2010 expense of $11.0 million. A discount rate that was one percent lower would have increased the total pension plan obligation at December 31, 2010 by $111.5 million and increased the 2010 expense by $12.0 million.

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 changed the estimate of the expected long-term rate of return on plan assets from 7% which was used for the 2010 expense to 6.75% which will be used to calculate the pension expense starting in 2011. The change in the expected long-term rate of return is related to a change in the targeted mix of investments held by Torstar's pension plans. The long-term rate of return 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 targeted mix of investments held by Torstar's pension plans. Management feels that a long-term rate of return expectation of 6.75% 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 2010 pension expense would have been approximately $6.5 million lower (higher).

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. In 2010, Torstar's pension plan assets experienced a 10.0% return.

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. 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 expense related to the registered defined benefit pension plans was $20.6 million in 2010, down from $29.7 million in 2009. Torstar's expense related to the unregistered executive retirement plan was $3.3 million in both 2010 and 2009 (excluding $4.2 million that was included in restructuring and other charges in 2009).

Torstar's defined benefit pension plans are in a net unfunded position of $116.2 million at December 31, 2010 compared with $73.4 million at the end of 2009. This balance includes $23.2 million ($20.5 million in 2009) 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 $93.0 million compared with a net unfunded position of $52.9 million in 2009.

Torstar's funding related to the registered defined benefit pension plans was $16.8 million in 2010, down slightly from $18.8 million in 2009. Torstar only funds the unregistered executive retirement plan when a member of the plan has retired or has left the company and is of retirement age. Payments of $0.4 million were made in 2010 and $10.9 million in 2009.

As noted above, during 2010 the most significant group of Torstar's defined benefit registered pension plans (in terms of assets and obligations) completed the preparation of actuarial reports as of December 31, 2009. The result of the report is that Torstar's funding for these defined benefit registered pension plans will be approximately $50.0 million per year from 2011 through 2016, up significantly from $16.8 million in 2010. However, Torstar will be required to prepare another set of actuarial reports as of December 31, 2010 and the results of those reports will determine the actual funding required. The funding that will ultimately be required starting in 2011 based on those reports could be different from the $50.0 million.

Torstar also has a post employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the 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, 2010 balance sheet and an annual expense of $2.4 million ($59.2 million and $3.8 million respectively in 2009). At December 31, 2010 the unfunded obligation for these benefits was $51.4 million, up from $47.0 million at December 31, 2009. 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 an 8.5% increase for the 2010 expense. For 2011, health care costs are estimated to increase by 8.0% with a 0.5% decrease each year until 2017. If the estimated increase in health care costs was one percent higher the obligation at December 31, 2010 would be approximately $1.8 million higher. If the estimated increase in health care costs was one percent lower the obligation at December 31, 2010 would be approximately $1.6 million lower. The impact on the 2010 expense would have been less than $0.3 million.

Torstar's accounting for its defined benefit pension plans and other post employment benefit plans will significantly change under IFRS.

Under Canadian GAAP, past service costs were amortized over the estimated average remaining service life of the active employees in the plan. As of January 1, 2010, Torstar had $26.0 million of unamortized past service costs. Under IFRS, these costs are to be expensed during the period the benefit vests for the employees. As all of the past service benefits had fully vested as of January 1, 2010, Torstar was required to recognize the $26.0 million as an increase to the long term employee benefit liability and a reduction to retained earnings.

Under Canadian GAAP, actuarial gains and losses related to the difference between the actual returns earned on plan assets as compared to the expected long-term returns and from the impact of changes in the discount rates on the plan obligations are not recognized unless the cumulative amount is more than 10% of the greater of the accrued benefit obligation or the fair value of the plan assets (the "corridor method"). If the 10% threshold is reached, the excess actuarial gain or loss is amortized into pension expense over the estimated average remaining service life of the active employees in the plan. As of January 1, 2010, Torstar had $160.4 million of unamortized actuarial losses related to its defined benefit pension plans and the other post employment benefits plan. On the adoption of IFRS, there is an exemption available that allows for unamortized actuarial gains or losses to be recognized in opening retained earnings. Torstar has elected to take this exemption and has recognized the $160.4 million as an increase to the long term employee benefit liability and a reduction to retained earnings. Under IFRS, there is an option to continue to account for actuarial gains and losses using the corridor method or to recognize them through other comprehensive income. Torstar has chosen to recognize actuarial gains and losses through other comprehensive income under IFRS.

As a result of these changes, Torstar's expense for the defined benefit pension plans and other post employment benefit plans will be significantly different under IFRS. The restated 2010 expense for the registered defined benefit pension plans and the unregistered executive retirement plan will be $8.5 million and $1.7 million respectively. The restated 2010 expense for the other post employment benefits plan will be $3.1 million. The 2011 expense is expected to be $9.7 million for the registered defined benefit pension plans, $2.0 million for the unregistered executive retirement plan and $3.0 million for the other post employment benefits plan. The higher expense for the registered defined benefit pension plans in 2011 reflects the impact of the lower expected long-term rate of return on plan assets and lower discount rates.

The calculation of the funding obligations for the registered defined benefit pension plans is not impacted by the adoption of IFRS.

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) of 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 print 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 as well 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, 2010, the returns provision deducted from accounts receivable on the consolidated balance sheets was $103 million ($98 million in 2009). A one percent change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2010 would have resulted in a $3.8 million change in reported 2010 revenue.

Income (Loss) of Associated Businesses

Torstar applies the equity method of accounting for its investments in associated businesses. Torstar is currently equity accounting for its investment in Canadian Press, Black Press and Q-ponz Inc. Torstar also equity accounted for its investment in CTVgm through the third quarter of 2010.

As Torstar does not have coterminous quarter-ends with Black Press, Torstar may be required to record an estimate of operating results, a transaction, or other items in advance of Black Press finalizing their accounting treatment. In that situation, Torstar management is required to record an estimate based on any preliminary information provided by 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) of associated business. Torstar will report any adjustments in the reporting period when Black Press finalize their accounting treatment. The ultimate amount recorded by Black Press could differ significantly from the estimate made by Torstar. Torstar also did not have coterminous quarter-ends with CTVgm and had a similar requirement during the period prior to September 30, 2010.

In the fourth quarter of 2009 Torstar had 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 calculated the revised fair value of the financial liability during its second quarter and Torstar recorded the required $0.6 million positive adjustment during the first quarter of 2010.

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 2010 annual impairment test of goodwill and intangible assets during the fourth quarter. No adjustment for impairment of goodwill was required for any of Torstar's reporting units. A write-down of $0.5 million was recorded in restructuring and other charges related to an impairment loss on a customer-related intangible asset. In 2009, a write-down of $0.7 million was recorded related to an impairment loss on certain community newspapers mastheads.

Torstar will have a similar requirement to test intangible assets and goodwill for impairment at least annually under IFRS. However, there are some differences.

Under Canadian GAAP, Torstar's goodwill was allocated at the reporting unit level. Under IFRS, goodwill acquired in a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. The cash-generating unit or group of cash-generating units to which goodwill is allocated is the lowest level at which the goodwill is monitored for internal management purposes but cannot be larger than an operating segment.

On the transition to IFRS, Torstar management determined that no change was required for the goodwill allocated to Metroland Media Group and Harlequin but that the goodwill previously allocated to the Star Media Group reporting unit should be reallocated to five groups of cash-generating units. The reallocation was done based on relative fair values of the five groups of cash-generating units on January 1, 2010.

The testing of intangible assets for impairment is similar under Canadian GAAP and IFRS. IFRS, however, permits the testing for impairment to be completed at the cash-generating unit level if the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

IFRS uses the concept of recoverable amount rather than fair value for the testing of intangible assets and goodwill. Recoverable amount is the greater of fair value less costs to sell and value in use. The value in use calculation is a discounted cash flow model where management is required to make many of the same assumptions that were used in the income approach to determining fair value for Canadian GAAP.

The testing of goodwill for impairment is a one-step process under IFRS compared with the two-step process under Canadian GAAP as discussed above. Under IFRS if the recoverable amount of a cash-generating unit or group of units is less than its carrying amount, an impairment loss is recognized. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit or group of units and then to the other assets of the cash-generating unit or group of units pro rata on the basis of the carrying amount of each asset in the cash-generating unit or group of units.

Under Canadian GAAP an impairment loss was never reversed. Under IFRS, for assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If the reasons for the impairment no longer apply, impairment losses may be reversed up to a maximum of the carrying amount of the respective asset if the impairment loss had not been recognized. IFRS does not provide for a reversal of impairment of goodwill.

Torstar was required to test its non-amortizable intangible assets and goodwill for impairment and for reversal of impairment losses on the transition to IFRS (January 1, 2010). Torstar has completed that testing. There were no impairment losses required to be recorded and $0.5 million of previous impairment losses recorded on certain community newspaper mastheads has been reversed.

Valuation of Investments

Torstar has investments in Canadian Press, Black Press and Q-ponz Inc. which are accounted for by the equity method. It also has an investment in CTVgm which was accounted for by the equity method until the third quarter of 2010.

On the acquisition of the investments that are accounted for by the equity method, 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. In 2009, an impairment loss of $2.3 million was reported as a result of Torstar's annual impairment testing.

Torstar is required to write-down the carrying value of these 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 these 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 these investments have realized an "other than temporary" decline in value below the carrying value during the fourth quarter of 2010. Torstar has determined that there has not been an "other than temporary" decline in value below the carrying values in 2010 and therefore, no write-downs are required for these investments.

Accounting for Employee Future Benefits

The accrued benefit asset or liability and the related cost of defined benefit pension plans 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 completed at the frequency required under provincial pension legislation which can range from annually to 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 3 of the consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Future Accounting Changes – International Financial Reporting Standards

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.

IFRS 1 (First-Time Adoption of International Financial Reporting Standards) generally requires that a company retrospectively apply all IFRS effective at the end of its first IFRS annual reporting period (for Torstar – December 31, 2011). However, IFRS 1 does include certain mandatory exceptions and limited optional exemptions from this general requirement of retrospective application. These exemptions are provided for items where the historical information may not be readily available or the cost involved in making the retrospective application may outweigh the benefit. Torstar has elected to use some of these exemptions.

While not all of the transition adjustments have been finalized, it is expected that Torstar's shareholders' equity (and correspondingly net assets) will be reduced by $252.7 million on the Transition Date. The more significant adjustments to Torstar's financial statements include the following:

Employee benefits

Torstar's accounting for its defined benefit pension and other post employment benefit plans will be significantly impacted by the adoption of IFRS.

Under Canadian GAAP, past service costs were amortized over the estimated average remaining service life of the active employees in the plan. As of January 1, 2010, Torstar had $26.0 million of unamortized past service costs. Under IFRS, these costs are to be expensed during the period the benefit vests for the employees. As all of the past service benefits had fully vested as of January 1, 2010, Torstar was required to recognize the $26.0 million as an increase to the long term employee benefit liability and a reduction to retained earnings.

Under Canadian GAAP, actuarial gains and losses related to the difference between the actual returns earned on plan assets as compared to the expected long-term returns and from the impact of changes in the discount rates on the plan obligations are not recognized unless the cumulative amount is more than 10% of the greater of the accrued benefit obligation or the fair value of the

plan assets (the "corridor method"). If the 10% threshold is reached, the excess actuarial gain or loss is amortized into pension expense over the estimated average remaining service life of the active employees in the plan. As of January 1, 2010, Torstar had $160.4 million of unamortized actuarial losses related to its defined benefit pension plans and the other post employment benefits plan. On the adoption of IFRS, there is an exemption available that allows for unamortized actuarial gains or losses to be recognized in opening retained earnings. Torstar has elected to take this exemption and has recognized the $160.4 million as an increase to the long term employee benefit liability and a reduction to retained earnings. Under IFRS, there is an option to continue to account for actuarial gains and losses using the corridor method or to recognize them through other comprehensive income. Torstar has chosen to recognize actuarial gains and losses through other comprehensive income under IFRS.

Under Ontario provincial pension legislation, minimum funding requirements for registered defined benefit pension plans are calculated using different assumptions than those used for accounting for those same pension plans. Both Canadian GAAP and IFRS have guidance that limits the amount of pension asset that can be recognized as a result of funding requirements in excess of accounting expense. IFRS has further guidance that also requires that a liability be recognized for certain future minimum funding requirements. As a result of this IFRS standard, Torstar will be required to record a future funding liability of $67.6 million in the long term employee benefit liability with a corresponding reduction to retained earnings on January 1, 2010.

As a result of these changes, Torstar's expense for the defined benefit pension plans and other post employment benefit plans will be significantly different under IFRS. The restated 2010 expense for the registered defined benefit pension plans and the unregistered executive retirement plan will be $8.5 million and $1.7 million respectively. The restated 2010 expense for the other post employment benefits plan will be $3.1 million. The 2011 expense is expected to be $9.7 million for the registered defined benefit pension plans, $2.0 million for the unregistered executive retirement plan and $3.0 million for the other post employment benefits plan.

Property, plant and equipment

There are several differences between the accounting for property, plant and equipment under IFRS and under Canadian GAAP. In order to ease the transition to IFRS, there is an IFRS 1 election that permits a company to elect to measure specific items of property, plant and equipment at fair value rather than to recalculate current net book value under IFRS rules.

Torstar has elected to measure specific items of property, plant and equipment at fair value (i.e. appraised value) as deemed cost. Torstar has also changed from using the declining balance method of depreciation under Canadian GAAP for certain assets to the straight-line method. These adjustments reduced the carrying value of property, plant and equipment on January 1, 2010 by $73.3 million with a corresponding decrease in opening retained earnings.

There is also a $1.0 million reduction in the carrying value of property plant and equipment on January 1, 2010 as a result of changes in the functional currency of some of Torstar's foreign subsidiaries (see additional information below).

Under IFRS, companies have the option to value property, plant and equipment using either the cost model or fair value on an ongoing basis. Torstar has elected to use the cost model to value all of its property, plant and equipment subsequent to the transition date.

As a result of the reduction in the carrying value of the property, plant and equipment depreciation expense will be reduced. The restated 2010 depreciation and amortization expense will be $31.7 million with a similar expense expected in 2011.

Foreign Currency Translation Adjustments – Change in functional currency

Under IFRS, there are various indicators to be considered in determining the appropriate functional currency of a foreign operation. These indicators are similar to those under Canadian GAAP. However, under IFRS if the assessment of functional currency provides mixed indicators and the functional currency is not obvious, the IFRS standard requires that priority be given to certain primary indicators. Canadian GAAP does not give priority to any specific indicators.

As a result of this difference, certain of Torstar's foreign subsidiaries that had been considered to have the Canadian dollar as their functional currency under Canadian GAAP will be considered to have the U.S. dollar as their functional currency under IFRS. The impact of this change is a $1.6 million reduction of goodwill, a $1.0 million reduction of property, plant and equipment and a $0.1 million reduction of intangible assets as of January 1, 2010 with a corresponding decrease of $2.7 million to the cumulative translation adjustment account (included in accumulated other comprehensive income).

Torstar has historically used U.S. dollar debt as an economic hedge against the net assets of these foreign subsidiaries. Under Canadian GAAP, the foreign exchange on the translation of both the U.S. dollar debt and the U.S. dollar assets of these foreign subsidiaries was reported through net income. With the change in functional currency under IFRS, the foreign exchange on the translation of the net assets of these foreign subsidiaries into Canadian dollars will be reported through other comprehensive income.

In order to have the foreign exchange on the translation of the U.S. dollar debt reported through other comprehensive income, reflecting the economic effectiveness of the hedge, Torstar will designate, effective January 1, 2011, $80.0 million of its U.S. dollar debt as a hedge against its net investment in the Book Publishing U.S. businesses. The foreign exchange on the translation of the hedge-designated U.S. dollar debt will then be recorded in other comprehensive income offsetting a portion of the translation of the U.S. dollar denominated assets.

Foreign Currency Translation Adjustments – Cumulative translation adjustment account

In order to ease the transition to IFRS, there is an IFRS 1 election that allows a company to reset its cumulative translation adjustment account to zero. Torstar has made this election. The impact will increase accumulated other comprehensive income and decrease retained earnings by $7.1 million ($4.4 million as of December 31, 2009 plus the $2.7 million from the change in functional currency). There is no net impact on shareholders' equity.

The gain or loss realized on a subsequent disposal of any foreign operation will exclude the foreign currency translation differences that arose before January 1, 2010 but will include foreign currency translation differences after that date.

Income Taxes

The accounting treatment for income taxes is generally the same under Canadian GAAP and IFRS. There are, however, some presentation differences. Canadian GAAP uses the terminology of current and future income taxes with future incomes taxes being allocated between current and long term. Under IFRS the terminology is current and deferred income taxes, with all deferred income taxes being reported as long term. Torstar will reclassify $19.5 million of current future income tax assets to deferred income tax assets on January 1, 2010.

In addition to the presentation changes, most of the other changes being recorded on the opening balance sheet are required to be tax affected. The impact of making these changes will be an increase in deferred income tax assets of $31.6 million, a decrease in deferred income tax liabilities of $54.7 million and an $86.3 million increase to opening retained earnings as of January 1, 2010.

Investment in CTVgm

As Torstar was equity accounting for its investment in CTVgm on January 1, 2010, it is required to record its share of the impact of what CTVgm's transition adjustments would have been had CTVgm transitioned to IFRS on January 1, 2010.

CTVgm has an IFRS transition date of September 1, 2010 and is still in the process of finalizing its transition adjustments. Torstar is required to estimate the impact of the CTVgm transition adjustments as of January 1, 2010. This was done in conjunction with CTVgm management and involved the "rolling back" of the CTVgm preliminary adjustments. The primary adjustment for CTVgm was related to pensions with CTVgm making similar adjustments to those recorded by Torstar and described above. The impact of all the CTVgm adjustments was a reduction in the carrying value of CTVgm of $8.0 million and a corresponding reduction in opening retained earnings as of January 1, 2010. For the nine months ended September 30, 2010, the impact of the CTVgm IFRS adjustments is estimated to be a decrease in the loss of associated businesses of $0.1 million and a decrease in other comprehensive income of $4.5 million. Torstar's carrying value in CTVgm is estimated to be $100.4 million as of December 31, 2010 under IFRS. All of these numbers may be subject to further revision as CTVgm finalizes its IFRS transition adjustments.

Investment in Black Press

Torstar is also required to make similar IFRS estimates and adjustments related to its investment in Black Press. As a private company, Black Press has decided to adopt the new Canadian accounting standards for private companies rather than IFRS. As a result Torstar will need to adjust the Black Press earnings to an IFRS basis both on transition and for each reporting period.

Torstar is currently working with Black Press management to estimate the January 1, 2010 IFRS adjustments for Torstar's investment as well as the impact for fiscal 2010 but is not yet able to quantify the impact. However, it is anticipated that these adjustments will primarily be related to pension liabilities and will result in Torstar's negative carrying value in Black Press being further increased. This will have no impact on Torstar's January 1, 2010 balance sheet or 2010 results but rather will further delay Torstar's return to reporting Black Press's earnings as part of the income (loss) of associated businesses.

Business Combinations

Torstar has elected not to restate under IFRS any business combinations that occurred before January 1, 2010.

Two of the more significant differences in the business combination standard under IFRS for Torstar are that transaction costs are expensed rather than capitalized as part of the purchase and the fair value of any contingent consideration must be recorded on the transaction date. Under Canadian GAAP, contingent consideration was generally not recognized until the contingency had been resolved and the consideration was paid or had become payable.

On January 1, 2010, Torstar recorded a provision of $2.1 million for the fair value of contingent consideration related to a 2009 acquisition. The additional consideration was allocated to an amortizable intangible asset.

During 2010, Torstar completed two acquisitions that included contingent consideration. Under Canadian GAAP, no amount was recorded as the outcome of the contingencies could not be determined beyond a reasonable doubt. On the restatement of 2010, the fair value of both contingent consideration obligations ($5.5 million) will be recorded as part of the purchase price. The additional consideration will increase amortizable intangible assets by $0.2 million, increase non-amortizable intangible assets by $0.5 million and increase goodwill by $4.8 million.

Torstar will be required to review the fair value of the contingent consideration on each reporting date. Subsequent changes to the fair value of the contingent consideration will be recognized in net income. If the fair value of the contingent consideration has been discounted for the time value of money, a finance charge will be recorded in net income to accrete the obligation to the full amount of the future payment.

Internal Control over Financial Reporting ("ICFR")

As part of the transition process, management is also responsible to make sure that the appropriate internal controls over financial reporting ("ICFR") are in place. In most cases, existing controls can be used with only minor modifications. For example, Torstar has a process for the approval of new accounting standards which is being followed.

Existing controls in Torstar's financial statement close process will be followed as the required January 1, 2010 and fiscal 2010 adjustments to various accounts are recorded. Torstar is still in the process of identifying any additional controls that need to be established for the new IFRS disclosure requirements. It is not expected that any of these new controls or the modification of the existing ones would be considered to have a material impact on Torstar's ICFR process.

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 Media Segment accounted for approximately 68% of Torstar's consolidated operating revenue in the year ended December 31, 2010. The majority of Torstar's Media Segment revenue is from advertising. Torstar's media 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. The level of available jobs in the economy will have an impact on employment advertising, which will impact Workopolis' revenues.

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 and consumer confidence, 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.

While historically less sensitive than 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.

Revenue from Torstar's Book Publishing Segment accounted for approximately 32% of Torstar's consolidated operating revenue in the year ended December 31, 2010. In 2010, 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 Japan, Germany, the U.K., Nordic, France and Australia. 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 as advertising revenues by economic conditions as consumers have continued to spend on books during difficult times. There is no assurance that this will continue to be the case in the future.

Revenue Risks and Competition – Media Segment

Revenue in the Media Segment is primarily dependent upon the sale of advertising with some of the print products also generating circulation revenue. Advertising revenue includes in-paper advertising, online advertising, inserts/flyers and specialty publications.

Torstar's newspapers have experienced and expect to continue to experience significant seasonality in revenue levels 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. There may also be a seasonal advertising pattern emerging for digital revenues with the summer months being a lower part of the cycle.

Competition for advertising and circulation revenue comes from local, regional and national newspapers, radio, broadcast and cable television, outdoor, direct mail, directories, the Internet and other communications and advertising media that operate in Torstar's markets. The competition is generally based on audience levels, composition and demographics, price, service and advertising results. The extent and nature of such competition has intensified over the past few years as a result of the continued development and fragmentation of digital media.

Print readership levels, in addition to generating circulation revenue, have traditionally been an important factor in the ability of a newspaper to generate advertising revenues. Changes in everyday lifestyle and technology 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 volumes and revenues and also on readership.

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.

Torstar's reputation for quality journalism and content is an important factor in maintaining readership levels. Torstar strives to provide content in print and online that is perceived as reliable, attractive and appealing by readers and advertisers. 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.

Websites and applications for mobile devices that distribute news and other content continue to gain popularity. As a result, audience attention and advertising spending have shifted and may continue to shift from traditional media forms to the Internet and other digital media. Torstar expects that advertisers will continue to allocate greater portions of their budgets to digital media. This secular shift has intensified competition for advertising in traditional media and has contributed to and may continue to contribute to a decline in print advertising.

The digital businesses in Torstar's Media Segment operate in a rapidly evolving and highly dynamic competitive environment. Rapid changes in technology can result in consumer demand moving in unanticipated directions. The increasing number of digital media options available on the Internet, through mobile devices and through social networking tools is significantly expanding consumer choice and shifting audience preferences.

With the increase in alternative content providers, Torstar faces the risk that it may not be able to increase its online traffic sufficiently and retain a base of frequent visitors to its websites and applications on mobile devices. If traffic levels decline or stagnate, Torstar may not be able to create sufficient advertiser interest in its digital businesses and to maintain or increase the advertising rates of the inventory on its websites.

Torstar's existing and potential future competitors in the digital businesses range from start up operations with low cost structures to global players that may have access to greater operational, financial and other resources than Torstar.

In order for the Media Segment's digital businesses to succeed, Torstar needs to be able to successfully exploit new and existing technologies, distinguish its products and services from those of its competitors and continue to develop new forms of content that provide optimal user experiences.

Revenue Risks and Competition – Book Publishing Segment

A key risk for Book Publishing revenue is the ability to publish books, in both print and digital formats, 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. Books are a discretionary consumer purchase and Harlequin could see a decline in sales in the current weak global print retail environment.

Additionally, print 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 continue.

Harlequin's single title program revenues are dependent on the popularity of its authors. Harlequin enters into contracts with authors for the right to publish an author's book or a certain number of books. There is no guarantee that an author will enter into a new contract for future books and from time to time a popular author will decide to publish future books with another publisher.

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 its customer base, both by retaining existing customers and acquiring new ones. A significant source of new customers has historically been through direct mail offers. For more than a decade the direct marketing industry has faced considerable challenges from a lack of available mailing lists, regulation and competitive pressure from alternate channels. 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 new, innovative offers and 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.

Over the past few years, the book publishing industry has seen an increase in the number of books sold over the Internet and the increasing popularity of digital formats. This shift is having an impact on publishers and traditional book retailers as online retailers sell books at lower price points putting pricing pressure on publishers. Harlequin primarily publishes paperback books which, to date, have not experienced the same pricing pressures as hardcover books. The existence of multiple e-reading devices and formats for e-books has prevented any one online retailer from controlling the market which should help to mitigate some of the pricing risk. In the longer term, the shift to digital could also have an impact on the retail print book distribution infrastructure. If this were to happen, it could have a negative impact on Harlequin's retail print book business as it may cause disruptions in the distribution system or cost increases.

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

The Toronto Star has approximately 790 staff covered by four collective agreements. The largest agreement covers approximately 455 employees at One Yonge Street, Toronto. This collective agreement was originally scheduled to expire in December 2010 but during the third quarter of 2010 was extended to December 2012. There are three agreements covering approximately 335 employees at the Toronto Star's Vaughan Press Center. In the third quarter of 2010, three agreements covering approximately 275 employees were amalgamated into one agreement that was extended to December 2014. Two other agreements, covering approximately 60 employees will expire at the end of December 2011.

Sing Tao has two collective agreements covering approximately 125 employees that will expire at the end of 2012. Metro's Toronto operations have a collective agreement covering approximately 65 employees that will expire in March of 2013.

Metroland Media Group has a total of 20 collective agreements covering approximately 750 employees. There are ten collective agreements covering approximately 280 employees within the community newspapers. Six agreements covering approximately 235 employees had expired by the end of 2010. The largest one covers approximately 125 editorial employees. Negotiations have begun for five of the agreements and are scheduled to begin in March for the sixth. Two of the remaining agreements covering approximately 20 employees will expire at the end of 2011 and two covering approximately 25 employees will expire during 2012. In addition, negotiations are underway for a first contract for approximately 20 editorial employees in Ottawa.

At the Metroland Media Group daily newspapers, there are ten agreements covering approximately 470 employees. An agreement was reached in early 2011 for one agreement covering approximately 65 employees that had expired at the end of 2009. Four agreements covering approximately 135 employees at the Waterloo Region Record expired at the end of 2010. Negotiations are not yet scheduled. Of the remaining agreements, four covering approximately 180 employees will expire during 2011 and one covering approximately 90 employees will expire at the end of 2012.

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

Newsprint Costs

Newsprint is the single largest raw material expense for Torstar's Media Segment and, after wages and employee benefits expense represents the most significant operating cost for this Segment. Newsprint is priced as a commodity with the price varying widely from time to time. In 2010, the price that Torstar paid for newsprint was on average 5% lower than in 2009. Torstar's newspapers consume approximately 120,000 tonnes of newsprint each year. 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. One of Torstar's four newsprint suppliers has emerged from a restructuring under creditor protection and one is currently in the process. 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 restructuring under creditor protection. Pursuant to arrangements with these two suppliers, Torstar has fixed the price of the majority of its newsprint requirements for 2011 at prices that are similar to those realized in 2010. There can be no assurance that Torstar will be able to extend these arrangements in future years.

Cost Structure

The newspaper business is characterized by a relatively high fixed cost structure. As a result it may be very difficult to significantly reduce costs in a period of declining revenues. Accordingly, a relatively small change in revenue could have a disproportionate effect on Torstar's results from operations.

Foreign Exchange

As an international publisher, approximately 95% of Harlequin's revenues (approximately 30% 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 (Euro, Yen, and British Pound). (See additional information on foreign exchange risks in the Financial Instruments section of this MD&A and in Note 11 to Torstar's consolidated financial statements.)

Credit Risk

In the normal course of business, Torstar is exposed to credit risk from its accounts receivable from customers. The carrying amount for accounts receivable are net of applicable allowances for doubtful accounts and book 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 $30.4 million (U.S. $30.5 million) at December 31, 2010 related to its U.S. sales. Torstar believes that the credit risk associated with this balance is mitigated by the financial stability and payment history of the third party.

Investment in CTVgm

Torstar announced in September 2010 that it had agreed to sell its investment in CTVgm. The sale remains subject to customary approvals and closing conditions, including approval by the CRTC and is expected to close by mid 2011.

There is a risk that the sale may not receive the required approvals and, if so, Torstar would remain a 20% shareholder 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 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 charge to earnings in order to reduce the carrying value.

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 in a similar manner as 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 may be particularly true in times of poor economic performance. This investment policy introduces a significant level of volatility into Torstar's future pension funding requirements and the funded status of its pension plans.

The most significant group of Torstar's defined benefit registered pension plans (in terms of assets and obligations) completed the preparation of actuarial reports as of December 31, 2009 during 2010. The result of the report is that Torstar's funding for these defined benefit registered pension plans will be approximately $50.0 million per year from 2011 through 2016, up significantly from $16.8 million in 2010. However, Torstar will be required to prepare another set of actuarial reports as of December 31, 2010 and the results of those reports will determine the actual funding required. The funding that will ultimately be required starting in 2011 based on those reports could be different from the $50.0 million.

Impairment Tests

Under Canadian GAAP and IFRS, 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 or disruption, 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 or disruption 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 experienced and is continuing to experience rapid and significant technological changes. In order to be able to compete, Torstar needs to be able to attract and retain appropriately skilled staff. Torstar must also 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.

Business Development

Torstar has in the past, and may in the future, seek to make opportunistic or strategic acquisitions to expand its existing businesses or to participate in a new business. There is no guarantee that any such opportunities will be available for Torstar or that they will be available at an appropriate price.

Interest Rates

Torstar has long-term debt in the form of bankers' acceptances issued under its long-term debt 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. Torstar manages this risk through the use of interest rate swap contracts to fix the interest rate on a portion 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 Media 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 such insurance will be 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 nor 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.

Loss of Reputation

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

Privacy and Confidential Information

Laws relating to communications, data protection, e-commerce, direct marketing and digital advertising and use of public records have become more prevalent in recent years. Existing and proposed legislation and regulations, including changes to the manner in which such legislation and regulations are interpreted by courts in Canada, the United States and other jurisdictions, may impose limits on the collection and use of certain kinds of 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.

Product Liability

Torstar may be exposed to potential liability in connection with the sale and promotion of products through TMGTV which could include claims for personal injury, wrongful death and damage to personal property and/or claims relating to misrepresentation of product features and benefits.

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.

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.

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:

	2010	2009	2008[3]
Revenue	$1,479,588	$1,451,259	$1,533,753
Net income (loss) from continuing operations	$60,906	$35,645	($158,715)
Per share (basic)	$0.77	$0.45	($2.01)
Per share (diluted)	$0.76	$0.45	($2.01)
Net income (loss)	$60,906	$35,645	($181,504)
Per share (basic)	$0.77	$0.45	($2.30)
Per share (diluted)	$0.76	$0.45	($2.30)
Average number of shares outstanding during the year (in 000's)			
Basic	79,074	78,964	78,837
Diluted	79,637	78,989	78,837
Cash dividends per share	$0.37	$0.37	$0.74
Total assets	$1,573,199	$1,638,442	$1,778,733
Total long-term debt	$404,727	552,976	668,700

Total revenues declined from 2008 to 2009 but have started to recover in 2010. The weak Ontario economy in 2009 resulted in revenue declines in the Media Segment as advertising spending was significantly reduced. In 2010, the Media Segment revenues have grown both through improved print advertising but also from higher digital revenues. In the Book Publishing Segment revenues are affected by changes in the relative strength of the Canadian dollar as well as the underlying book sales. Foreign exchange improved revenue growth by $16.5 million in 2009 relative to 2008 and decreased revenue growth by $33.2 million in 2010 relative to 2009.

[3] 2008 has been restated to reflect Transit TV as a discontinued operation and for the retrospective adoption of CICA Handbook Section 3064.

Over the three year period, pension costs have increased (2009 from 2008) and then decreased (2010 from 2009), newsprint prices have decreased and labour cost savings have been realized in the Media Segment from restructuring initiatives. The provision for the costs of these restructuring provisions will have a negative impact on net income, generally in advance of the cost savings being realized.

Net income in 2008 was adversely affected by a $136.9 million loss of associated businesses (primarily related to the accounting for impairment losses on intangible assets and goodwill) and a $99.8 million write-down of investments including investments in associated businesses. Net income in 2009 benefited from the non-recurrence of the significant losses of associated businesses but was negatively impacted from the weakness of the Ontario economy. Net income in 2010 has improved as revenues in the Media Segment have strengthened as the economy has improved and the digital businesses continue to grow.

Total assets have been relatively stable over the three year period while long-term debt has been reduced by $284 million.

SUMMARY OF QUARTERLY RESULTS

The following table presents, in $000’s (except for per share amounts) selected financial information for each of the eight most recently completed quarters:

	2010 Quarter Ended			
	Dec 31	Sept 30	June 30	March 31
Revenue	$416,141	$352,708	$376,520	$334,219
Net income	$26,692	$4,117	$22,683	$7,414
Net income per Class A voting and Class B non-voting share				
Basic	$0.34	$0.05	$0.29	$0.09
Diluted	$0.33	$0.05	$0.28	$0.09

	2009 Quarter Ended			
	Dec 31	Sept 30	June 30	March 31
Revenue	$394,785	$343,734	$373,733	$339,007
Net income	$57,355	$4,037	($4,362)	($21,385)
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)

The summary of quarterly results illustrates the cyclical nature of revenues and operating profit in the Media Segment. The fourth and second quarters are generally the strongest for the media businesses with the third quarter being the softest. The revenue declines realized in 2009 from the weak economy have masked some of the quarterly cyclical impact over the past two years. Book Publishing revenues will vary each quarter depending on the publishing schedule and the impact of foreign exchange rates.

The lower revenues in the Media Segment in 2009 had a negative impact on net income during that period. In addition, restructuring and other charges have impacted the level of net income in several quarters. In 2010, the first, second, third and fourth quarters had restructuring and other charges of $8.3 million, $4.8 million, $2.4 million and $17.9 million respectively. 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.

The lower net income in the fourth quarter of 2010 compared with the fourth quarter of 2009 related to the income (loss) of associated businesses. In the fourth quarter of 2010, Torstar reported a loss of $0.4 million from associated businesses compared with income of $30.4 million in the fourth quarter of 2009. The significant decline was the result of Torstar ceasing to equity account for its investment in CTVgm on September 10, 2010.

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, 2010, 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, 2010, 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, 2010.

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 2010, the most recent interim period, that have materially affected, or are reasonably likely to materially affect, Torstar's internal controls over financial reporting.

OTHER

As at February 15, 2011, Torstar had 9,873,337 Class A voting shares and 69,245,468 Class B non-voting shares outstanding. More information on Torstar's share capital is provided in Note 14 of the consolidated financial statements.

As at February 15, 2011, Torstar had 4,507,570 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 its 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

Lorenzo DeMarchi
Executive Vice-President and Chief Financial Officer

March 1, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Torstar Corporation

We have audited the accompanying consolidated financial statements of Torstar Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Torstar Corporation as at December 31, 2010 and 2009 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 1, 2011

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

TORSTAR CORPORATION

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

(thousands of dollars)

Assets	2010	2009
Current:		
Cash and cash equivalents	**$42,899**	$39,238
Receivables (note 10)	**265,391**	253,306
Inventories (note 2)	**34,294**	33,953
Prepaid expenses and other current assets	**49,982**	51,501
Prepaid and recoverable income taxes	**3,013**	2,997
Future income tax assets (note 3)	**20,090**	19,540
Total current assets	**415,669**	400,535
Property, plant and equipment (net) (note 4)	**231,609**	251,817
Investment in CTVglobemedia Inc. (note 5)	**112,848**	
Investment in associated businesses (note 5)	**1,816**	178,828
Intangible assets (note 6)	**58,900**	51,619
Goodwill (net) (note 7)	**590,959**	581,842
Other assets (note 8)	**134,709**	140,108
Future income tax assets (note 3)	**26,689**	33,693
Total assets	**$1,573,199**	$1,638,442
Liabilities and Shareholders' Equity		
Current:		
Bank overdraft	**$6,958**	$2,052
Accounts payable and accrued liabilities	**234,854**	218,971
Income taxes payable	**33,233**	19,158
Total current liabilities	**275,045**	240,181
Long-term debt (note 9)	**404,727**	552,976
Other liabilities (note 13)	**117,064**	103,408
Future income tax liabilities (note 3)	**55,404**	62,897
Shareholders' equity:		
Share capital (note 14)	**392,816**	391,626
Contributed surplus	**14,462**	11,901
Retained earnings	**323,953**	292,306
Accumulated other comprehensive loss (note 16)	**(10,272)**	(16,853)
Total shareholders' equity	**720,959**	678,980
Total liabilities and shareholders' equity	**$1,573,199**	$1,638,442

Contingencies (note 23)

(See accompanying notes)

ON BEHALF OF THE BOARD

John Honderich
Director

Paul Weiss
Director

Consolidated Statements of Income

Years ended December 31, 2010 and 2009

(thousands of dollars except per share amounts)	**2010**	2009
Operating revenue		
Media	**$1,011,433**	$957,956
Book Publishing	**468,155**	493,303
	$1,479,588	$1,451,259
Operating profit		
Media	**$118,796**	$70,154
Book Publishing	**83,422**	83,797
Corporate	**(14,886)**	(14,969)
Restructuring and other charges (note 19)	**(33,455)**	(43,729)
	153,877	95,253
Interest (note 9(e))	**(23,766)**	(21,036)
Foreign exchange loss	**(1,942)**	(458)
Loss of associated businesses (note 5)	**(29,478)**	(17,953)
Gain on sale of assets (note 20)	**4,088**	239
Investment write-down (note 21)	**(773)**	(2,400)
Income before taxes	**102,006**	53,645
Income and other taxes (note 3)	**(41,100)**	(18,000)
Net income	**$60,906**	$35,645
Earnings per Class A and Class B share (note 14(c))		
Net income – Basic	**$0.77**	$0.45
Net income – Diluted	**$0.76**	$0.45

(See accompanying notes)

Consolidated Statements of Comprehensive Income

Years ended December 31, 2010 and 2009

(thousands of dollars)	**2010**	2009
Net income	**$60,906**	$35,645
Other comprehensive income (loss), net of tax:		
Unrealized foreign currency translation adjustment	**921**	(6,169)
Reclassification adjustment for loss on available-for-sale financial assets included in net income	**258**	
Unrealized loss on available-for-sale financial assets	**(18)**	(426)
Realized loss (gain) on cash flow hedges transferred to net income	**(3,989)**	3,559
Unrealized change in fair value of cash flow hedges	**4,845**	13,814
Realized loss on cash flow hedges for associated businesses transferred to net income	**2,260**	3,935
Transfer of unrealized loss on cash flow hedges for associated business to the investment's carrying value upon the loss of significant influence (note 5)	**2,522**	
Unrealized change in fair value of cash flow hedges for associated businesses	**(218)**	(5,670)
Other comprehensive income	**6,581**	9,043
Comprehensive income	**$67,487**	$44,688

(See accompanying notes)

Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2010 and 2009

(thousands of dollars)	**2010**	2009
Share capital (note 14)	**$392,816**	$391,626
Contributed surplus		
Balance, beginning of year	**$11,901**	$11,018
Stock-based compensation expense	**2,561**	883
Balance, end of year	**$14,462**	$11,901
Retained earnings		
Balance, beginning of year	**$292,306**	$288,934
Transition impact of accounting changes relating to intangible assets for associated businesses		(3,055)
Net income	**60,906**	35,645
Dividends	**(29,259)**	(29,218)
Balance, end of year	**$323,953**	$292,306
Accumulated other comprehensive loss		
Balance, beginning of year	**($16,853)**	($25,896)
Other comprehensive income	**6,581**	9,043
Balance, end of year (note 16)	**($10,272)**	($16,853)
Total shareholders' equity	**$720,959**	$678,980

(See accompanying notes)

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

(thousands of dollars)	2010	2009
Cash was provided by (used in)		
Operating activities	**$157,374**	$153,364
Investing activities	**12,164**	(29,151)
Financing activities	**(170,029)**	(126,078)
Increase (decrease) in cash	**(491)**	(1,865)
Effect of exchange rate changes	**(754)**	(2,311)
Cash, beginning of year	**37,186**	41,362
Cash, end of year	**$35,941**	$37,186
Operating activities:		
Net income	**$60,906**	$35,645
Depreciation and amortization	**46,246**	52,819
Future income taxes	**(5,332)**	(3,206)
Loss of associated businesses (note 5)	**29,478**	17,953
Investment write-down (note 21)	**773**	2,400
Other (note 22)	**25,315**	14,248
	157,386	119,859
Decrease (increase) in non-cash working capital	**(12)**	33,505
Cash provided by operating activities	**$157,374**	$153,364
Investing activities:		
Additions to property, plant and equipment and intangible assets	**($26,940)**	($20,706)
Return of capital by CTVglobemedia Inc. (note 5)	**40,000**	
Investment in associated businesses (note 5)	**(750)**	
Acquisitions and investments (note 17)	**(11,562)**	(9,464)
Proceeds from mortgage receivable (note 20)	**6,215**	
Proceeds on sale of assets (note 20)	**4,344**	239
Other	**857**	780
Cash provided by (used in) investing activities	**$12,164**	($29,151)
Financing activities:		
Issuance of bankers' acceptances	**$39,620**	$14,370
Repayment of bankers' acceptances	**(106,918)**	(86,230)
Repayment of medium term notes	**(75,000)**	(25,000)
Dividends paid	**(28,982)**	(29,076)
Other	**1,251**	(142)
Cash used in financing activities	**($170,029)**	($126,078)
Cash represented by:		
Cash	**$32,948**	$29,004
Cash equivalents	**9,951**	10,234
Cash and cash equivalents	**42,899**	39,238
Bank overdraft	**(6,958)**	(2,052)
	$35,941	$37,186

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(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 included in accumulated other comprehensive loss. A proportionate amount of these accumulated 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

Financial assets and liabilities

The Company classifies its financial assets and liabilities into the following categories:

- Held-for-trading ("HFT")
- Loans and receivables
- Financial assets classified as available-for-sale ("AFS")
- Other financial liabilities

The Company has not classified any financial instruments under the held-to-maturity category. Appropriate classification of financial assets and liabilities is determined at the time of initial recognition or when reclassified on the consolidated balance sheet.

Financial instruments classified as HFT and financial assets classified as AFS are recognized on trade date, which is the date that the Company commits to purchase or sell the instrument.

Financial assets and liabilities classified as HFT

Assets and liabilities in this category include cash and cash equivalents, bank overdraft and derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. HFT instruments are carried at fair value and the related realized and unrealized gains and losses are included in the consolidated statements of income.

Loans and receivables

Assets in this category include receivables which are initially recognized at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment. Receivables are reduced by provisions for anticipated book returns and estimated bad debts which are determined by reference to past experience and expectations.

Financial assets classified as AFS

Financial assets that are not classified as HFT or as loans and receivables are classified as AFS. Assets in this category include portfolio investments. A financial asset classified as AFS is initially recognized at its fair value plus transaction costs that are directly attributable to its acquisition. They are subsequently 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.

Financial assets classified as AFS are assessed for impairment at each reporting date and the Company recognizes any impairment in the consolidated statements of income. Impairment losses on AFS equity instruments are not reversed until they are sold.

Other financial liabilities

Other financial liabilities are measured at amortized cost using the effective interest rate method. Other financial liabilities include accounts payable and accrued liabilities and the long term debt instruments. The long term debt instruments are initially measured at fair value, which is the consideration received, net of transaction costs incurred. 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.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset. The unrealized gains and losses recorded in AOCI are transferred to the consolidated statements of income on disposal of an AFS asset or when it is impaired.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Derivative instruments and hedging

In the normal course of business, the Company uses derivative financial instruments to manage some of its risks related to foreign currency exchange rate fluctuations, interest rates and stock-based compensation liability and expense. Derivative transactions are governed by a uniform set of policies and procedures covering areas such as authorization, counterparty exposure and hedging practices. Positions are monitored based on changes in interest and foreign currency exchange rates and their impact on the market value of derivatives. Credit risk on derivatives arises from the potential for counterparties to default on their contractual obligations to the Company. The Company limits its credit risk by dealing with counterparties that are considered to be of high credit quality. The Company does not enter into derivative transactions for trading or speculative purposes.

All derivatives, including derivatives designated as hedges for accounting purposes and embedded derivatives, are recorded on the consolidated balance sheets at fair value. Derivatives with a positive fair value are recorded as other assets or as receivables while derivatives with a negative fair value are recorded as other liabilities or as accounts payable and accrued liabilities. The accounting for the changes in fair value of derivatives depends on whether or not they are designated as hedges for accounting purposes.

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. These instruments are settled quarterly and changes in the fair value of these instruments are recorded as compensation expense. The change in the Company's stock price between the settlement date and the quarter-end date is included on the consolidated balance sheet as the fair value of these derivative instruments at each reporting date.

Fair value hedges

These are hedges of the fair value of recognized assets, liabilities or a firm commitment such as the fixed to floating interest rate swap agreements. Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the consolidated statements of income together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges

These are hedges of highly probable forecast transactions such as the floating to fixed interest rate swap agreements and foreign exchange forward contracts. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized in OCI. The gain or loss relating to the ineffective portion is recognized in the consolidated statements of income.

Embedded derivatives

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 on the consolidated balance sheet, at its fair value. Any future changes in the fair value are recorded in the consolidated statements of income. The Company recognizes embedded derivates at their fair value on its consolidated balance sheets, when applicable.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes such as the derivative contracts for the DSU fair value and RSU cost. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized in the consolidated statements of income.

Determination of fair value

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. The fair value of instruments that are quoted in active markets is determined using the quoted prices where they represent those at which regularly and recently occurring transactions take place. The company uses valuation techniques to establish fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

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, interest rate swaps and 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. 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.

(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 to 70 years

Leasehold Improvements:

- straight-line over the life of the lease

Machinery and Equipment:

- straight-line over 3 to 40 years

(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 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 are expected to 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; book returns provision; tax valuation allowances; 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

There were no changes to accounting policies in the current fiscal year.

Future accounting changes:

International Financial Reporting Standards ("IFRS")

The Company 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 are prepared under Canadian GAAP for 2010 will need to be restated to conform to IFRS for comparative purposes. The Company's Transition Date is January 1, 2010.

2. INVENTORIES

	2010	2009
Finished goods	**$10,681**	$11,164
Work in progress	**11,013**	11,292
Raw materials	**12,600**	11,497
	$34,294	$33,953

The Company has expensed inventory costs of $207.1 million for the year ended December 31, 2010 (2009 - $218.9 million).

The Company recorded an inventory write-down of $3.4 million for the year ended December 31, 2010 (2009 - $4.0 million).

3. INCOME AND OTHER TAXES

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

	2010	2009
Income before taxes	**$102,006**	$53,645
Provision for income taxes based on Canadian statutory rate of 31.0% (2009 – 33.0%)	**($31,600)**	($17,700)
(Increase) decrease in taxes resulting from:		
Loss of associated businesses	**(9,100)**	(5,900)
Foreign income taxed at different rates	**(1,700)**	900
Foreign losses not tax effected	**(300)**	(200)
Tax losses not previously recognized	**2,600**	2,700
Non-taxable portion of capital gains	**200**	
Permanent differences	**(2,100)**	(2,800)
Other	**900**	(100)
Reduction in tax rates		5,100
	($41,100)	($18,000)
Effective income tax rate	**40.3%**	33.6%

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% in 2009 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 2009.

Income taxes of $30.3 million were paid and refunds of $2.4 million were received during the year (2009 - $20.8 million paid and refunds of $20.4 million received).

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

	2010	2009
Current tax provision	**$44,400**	$20,300
Future tax recovery	**(3,300)**	(2,300)
Total tax provision	**$41,100**	$18,000

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:

	2010	2009
Current future income tax assets:		
Receivables	**$12,162**	$13,751
Financial instruments	**967**	(1,881)
Other	**6,961**	7,670
	$20,090	$19,540
Non-current future income tax assets:		
Tax losses carried forward	**$20,548**	$25,195
Employee future benefits	**1,266**	573
Financial instruments	**1,503**	4,820
Other	**3,372**	3,105
	$26,689	$33,693
Non-current future income tax liabilities:		
Property, plant and equipment	**$23,555**	$25,880
Employee future benefits	**17,256**	19,241
Intangible assets	**7,002**	6,465
Goodwill and other	**7,591**	11,311
	$55,404	$62,897

At December 31, 2010, the Company had net operating loss carryforwards of approximately U.S. $148.4 million for U.S. income tax purposes. No future income tax asset has been recognized for U.S. $88.0 million of these losses. U.S. $88.8 million of the U.S. loss carryforwards will expire between 2019 to 2021 and U.S. $59.6 million will expire between 2023 and 2029.

At December 31, 2010, the Company had Canadian non-capital losses available for carryforward of approximately $5.5 million that will expire in 2030.

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	**Accumulated Depreciation**	**Net**
2010			
Land	**$7,091**		**$7,091**
Buildings and leasehold improvements	**221,451**	**$138,392**	**83,059**
Machinery and equipment	**608,141**	**466,682**	**141,459**
Total	**$836,683**	**$605,074**	**$231,609**
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

Depreciation expense for the year ended December 31, 2010 was $36.6 million (2009 - $41.1 million).

5. INVESTMENT IN ASSOCIATED BUSINESSES

The Company's Investment in associated businesses includes a 33.33% equity interest in Canadian Press Enterprises Inc. ("Canadian Press"), a 19.35% equity interest in Black Press Ltd. ("Black Press") and a 30% equity interest in Q-ponz Inc. ("Q-ponz"). The Company's 20% equity interest in CTVglobemedia Inc. ("CTVgm") was also classified as an investment in associated businesses until September 10, 2010.

The following is a continuity of Investment in associated businesses:

	2010	2009
Balance, beginning of period	**$178,828**	$201,571
Loss of associated businesses	**(29,478)**	(17,953)
Adjustment to opening retained earnings on adoption of new accounting standards for intangible assets		(3,055)
Change in investees' accumulated other comprehensive income (loss)	**2,042**	(1,735)
Reclassification of CTVgm to Investment in CTVglobemedia Inc.	**(150,326)**	
Investment in Canadian Press	**750**	
Balance, end of period	**$1,816**	$178,828

On September 10, 2010, the Company announced that it had entered into agreements to sell its 20% interest in CTVgm for aggregate cash proceeds of approximately $345 million. On December 31, 2010, the Company received $40 million in connection with CTVgm's sale of The Globe and Mail. The sale of the Company's 20% interest in CTVgm remains subject to customary approvals and closing conditions, including approval by the Canadian Radio-television and Telecommunications Commission, and is expected to close by mid 2011.

Effective with the signing of the agreements, the Company ceased to meet the accounting criteria for significant influence over the operations of CTVgm and as a result ceased to equity account for CTVgm results as of September 10, 2010. The investment in CTVgm has been designated as available-for-sale and will be carried at cost until the transactions are completed, as the shares do not trade in an active market. The carrying value of $150.3 million as of September 10, 2010 was increased by $2.5 million on the reallocation of cumulative other comprehensive losses (treated as realized on the loss of significant influence) and reduced by the $40 million received on December 31, 2010 resulting in a carrying value as of December 31, 2010 of $112.8 million.

The Company does not have coterminous quarter-ends with CTVgm and Black Press. These financial statements reflect the Company's share of CTVgm's results for the nine months ended August 31, 2010 and the twelve months ended November 30, 2009. The Company has not recorded its share of Black Press' results in either 2010 or 2009 as the Company's carrying value in Black Press was reduced to nil in the fourth quarter of 2008.

On November 15, 2010, the Company became a 33% shareholder in Canadian Press which subsequently acquired the operations of The Canadian Press news agency.

The 2010 loss of associated businesses included an $18.2 million loss related to the impairment of certain CTVgm intangible assets. The 2009 loss of associated businesses included a $16.5 million intangible asset impairment loss, a $26.3 million valuation allowance (negative earnings impact) that was provided against certain of CTVgm's future income tax assets, a recovery related to Canadian Radio-television and Telecommunications Commission Part II licence fees, a 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 further provincial income tax rates.

Outlined below is summarized financial information for 100% of CTVgm, based on the Company's fair value adjustments on acquisition for the nine months ended August 31, 2010 and twelve months ended November 30, 2009.

Statements of income (Loss)	**2010**	2009
Revenues	**$1,752,150**	$2,110,278
Operating profit	**$120,741**	$214,747
Impairment loss on goodwill and intangible assets	**($91,000)**	($84,320)
Net loss	**($145,575)**	($89,055)
Statements of Comprehensive Income (Loss)		
Net loss	**($145,575)**	($89,055)
Other comprehensive income (loss)	**10,210**	(8,675)
Comprehensive loss	**($135,365)**	($97,730)

6. INTANGIBLE ASSETS

	2010	2009
Computer software assets:		
Balance, beginning of year	**$16,580**	$17,479
Additions	**10,682**	7,889
Recognized on acquisitions	**223**	
Disposals/Transfer	**(670)**	(239)
Amortization	**(6,356)**	(8,506)
Foreign exchange and other	**(30)**	(43)
Balance, end of year	**$20,429**	$16,580
Intangible assets not subject to amortization:		
Balance, beginning of year	**$22,960**	$21,321
Recognized on acquisitions	**3,571**	2,395
Write-down for impairment (note 19(b))	**(90)**	(756)
Foreign exchange and other	**45**	
Balance, end of year	**$26,486**	$22,960
Intangible assets subject to amortization:		
Balance, beginning of year	**$12,079**	$13,346
Recognized on acquisitions	**3,582**	1,540
Write-down for impairment (note 19(b))	**(400)**	
Amortization	**(3,307)**	(2,807)
Foreign exchange and other	**31**	
Balance, end of year	**$11,985**	$12,079
Total	**$58,900**	$51,619

Amortization expense for the year ended December 31, 2010 was $9.7 million (2009 - $11.3 million).

7. GOODWILL

	2010	2009
Balance, beginning of year	**$581,842**	$577,116
Recognized on acquisitions (note 17)	**9,132**	5,299
Foreign exchange and other	**(15)**	(573)
Balance, end of year	**$590,959**	$581,842

8. OTHER ASSETS

	2010	2009
Accrued benefit assets (note 18)	**$133,450**	$136,574
Portfolio investments	**203**	883
Derivative instruments (note 10)		1,471
Other	**1,056**	1,180
	$134,709	$140,108

9. LONG TERM DEBT

	2010	2009
Bankers' acceptance:		
Cdn. dollar denominated	**$320,998**	$381,819
U.S. dollar denominated	**83,729**	94,687
	$404,727	476,506
Medium Term Notes:		
Cdn. dollar denominated		75,000
Fair value hedge		1,470
		76,470
	$404,727	$552,976

(a) Bank debt

(i) The Company has long-term credit facilities with its bankers which consist of a $425 million revolving term loan and a $175 million revolving operating loan (reduced from $310 million in November 2010). Both facilities mature in 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 term loan. The credit facilities are subject to financial tests and other covenants with which the company was in compliance at December 31, 2010.

(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 term loan (range of 0.4% to 1.5%), and on its net debt to operating cash flow ratio for borrowings under the operating loan (range of 2.0% to 3.8%). Effective January 2011, the interest rate spread is 0.6% on the $425 million revolving term loan (January 2010 – 0.6%) and 2.25% on new borrowings under the $175 million operating loan (January 2010 – 3.0%). The interest rate spread at December 31, 2010 was a blended rate of 1.6% (2009 – 0.96%).

(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 9(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 $4.9 million unfavourable at December 31, 2010 (2009 - $11.9 million unfavourable).

(iv) The average rate on Canadian dollar bank borrowings outstanding at December 31, 2010 was 2.7% (December 31, 2009 – 1.4%). Including the effect of the interest rate swap noted in 9(a)(iii) the effective rate was 5.3% at December 31, 2010 (December 31 2009 – 3.9%).

(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 9(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, 2010 was $7.6 million unfavourable (2009 - $4.8 million unfavourable).

(vi) Bank debt outstanding at December 31, 2010 included U.S. dollar borrowings of U.S. $84.2 million (December 31, 2009 – U.S. $90.5 million) at an average rate of 1.9% (December 31, 2009 – 1.2%). Including the effect of the interest rate swap noted in 9(a)(v) the effective rate was 5.8% at December 31, 2010 (December 31, 2009 – 4.8%).

(vii) The company repaid the $75 million medium term notes which matured in September 2010.

(b) 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 contracting with major financial institutions, as approved by the Board of Directors, as counterparties.

(c) 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, 2010.

(d) Interest expense includes interest on long-term debt of $24.0 million (2009 - $21.7 million).

(e) Interest of $24.0 million was paid during the year (2009 - $21.6 million).

10. FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

	2010	2009
Financial assets:		
Held for trading, measured at fair value		
Cash and cash equivalents	**$42,899**	$39,238
Loans and receivables, measured at amortized cost		
Trade accounts receivable	**252,533**	233,675
Other receivables	**9,504**	13,564
	262,037	247,239
Derivatives included in Receivables	**3,354**	6,067
Receivables per Balance Sheet	**265,391**	253,306
Available for sale, measured at cost		
Portfolio investments	**112,848**	811[1]
Available for sale, measured at fair value		
Portfolio investments[1]	**203**	72
Derivatives designated as effective hedges, measured at fair value		
Foreign currency forward contracts[2]	**3,354**	6,067
Interest rate swaps – cash flow hedges[1]	**(7,647)**	(16,632)
Interest rate swaps – cash flow hedges[2]	**(4,947)**	
Interest rate swaps – fair value hedges[1]		1,470
Derivatives		
Other[1,3]		1
Other[1,3]		(1)
Financial liabilities:		
Held for trading, measured at fair value		
Bank overdraft	**6,958**	2,052
Other financial liabilities:		
Long term debt, measured at amortized cost	**404,727**	552,976
Accounts payable and accrued liabilities:		
Measured at amortized cost	**229,907**	218,971
Derivatives included in Accounts payable and accrued liabilities	**4,947**	
Accounts payable and accrued liabilities per Balance Sheet	**234,854**	218,971
Deferred payments on acquisitions[1]	**3,984**	3,667
Restructuring provisions[1]	**14,293**	

[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.

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, 2010 was approximately $173 million (2009 - $162 million, taking into account the $75 million medium term notes that matured in 2010). The maturity profile of the Company's financial liabilities based on contractual undiscounted payments is as follows:

	2011	2012	2013	2014	2015	2016+	**Total**
Foreign currency hedges[1]:							
Outflows	$35,308	$18,897					$54,205
Inflows	(37,811)	(20,271)					(58,082)
	(2,503)	(1,374)					(3,877)
Cdn.$ Interest rate swaps	7,656						7,656
U.S.$ Interest rate swaps[1]	3,307	3,307	$3,307	$3,307	$1,167		14,395
Accounts payable and accrued liabilities[1]	229,907						229,907
Deferred payments[1]		4,330					4,330
Restructuring provisions		8,138	1,916	1,355	2,954	$5,120	19,483
Long-term debt[1]		404,727					404,727
Net	$238,367	$419,128	$5,223	$4,662	$4,121	$5,120	$676,621
Total outflows	$276,178	$439,399	$5,223	$4,662	$4,121	$5,120	$734,703
Total inflows	($37,811)	($20,271)					($58,082)

[1]All foreign currency denominated amounts were translated at the December 31, 2010 spot rates.

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 $30.4 million (U.S. $30.5 million) at December 31, 2010 (2009 - $35.8 million (U.S. $34.2 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 contracting with 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:

	2010	2009
Gross accounts receivable:		
Current	**$261,539**	$249,297
Up to three months past due date	**94,989**	84,962
Three to twelve months past due date	**5,845**	4,422
Impaired	**6,905**	6,051
	369,278	344,732
Allowance for doubtful accounts	**(14,159)**	(13,398)
Book returns provision	**(102,586)**	(97,659)
	$252,533	$233,675

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 11. In 2010, including the impact of the foreign exchange contracts, Harlequin's U.S. dollar earnings were translated at a rate of approximately $1.12. A $0.05 higher (lower) average U.S. dollar/Cdn. dollar exchange rate would have increased (decreased) net income by approximately $0.7 million (2009 - $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 9(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 2010, the non-cash foreign exchange loss recognized in earnings was $1.9 million due to the variability in exchange rates during the year (2009 – loss of $0.5 million).

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 9.

An assumed 1% increase in the Company's short term borrowing rates during the year ended December 31, 2010 would have decreased net income by $1.2 million (2009 - $1.8 million), with an equal but opposite effect for an assumed 1% decrease in short term borrowing rates.

CTVgm arrangements

Prior to October 27, 2010, the Company, as a shareholder of CTVgm, could have been required to purchase a portion of CTVgm's financial obligations to its lenders. The Company's maximum exposure under the arrangement was $45 million. To offset its exposure, the Company had also entered into a separate arrangement with another CTVgm shareholder which allowed the Company to assign its purchase obligation. Effective October 27, 2010, the Company ceased to have an obligation under these arrangements.

11. 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, 2010 establish a rate of exchange of Canadian dollar per U.S. dollar of $1.07 for U.S. $35.5 million in 2011 and $1.07 for U.S. $19.0 million in 2012. At December 31, 2009, forward foreign exchange contracts established 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. These forward foreign exchange contracts have been designated as cash flow hedges and the net fair value of these contracts was $3.4 million favourable at December 31, 2010 (2009 - $6.1 million favourable).

Forward foreign exchange contracts settled in 2010 established a rate of exchange of Canadian dollar per U.S. dollar of $1.16 for U.S. $51.6 million in 2010 (2009 - $1.12 for U.S. $50.1 million).

12 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:

	2010	2009
Shareholders' equity	**$720,959**	$678,980
Long term debt	**404,727**	552,976
Bank overdraft	**6,958**	2,052
Cash and cash equivalents	**(42,899)**	(39,238)
	$1,089,745	$1,194,770

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, 2010.

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.

13. OTHER LIABILITIES

	2010	2009
Employee future benefits (note 18)	**$72,841**	$69,135
Employees' shares subscribed (note 15(b))	**3,830**	3,537
RSU plan (note 15(c))	**3,354**	1,375
DSU plan (note 15(e))	**3,210**	2,263
Derivative instruments (note 10)	**7,647**	16,633
Deferred payments on acquisitions	**3,984**	3,667
Lease inducement	**2,234**	2,393
Restructuring provisions (note 19)	**14,293**	
Other	**5,671**	4,405
	$117,064	$103,408

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 the Company has failed to pay the full quarterly preferential dividend (7.5 cents per annum) on the Class B non-voting shares in each of eight consecutive quarters.

(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 or periodical publisher.

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

	Year ended December 31			
	2010		2009	
	Shares	Amount	Shares	Amount
Class A shares (voting)				
Balance, beginning of period	**9,875,407**	**$2,683**	9,892,667	$2,688
Converted to Class B	**(2,070)**	**(1)**	(17,260)	(5)
Balance, end of period	**9,873,337**	**$2,682**	9,875,407	$2,683
Class B shares (non-voting)				
Balance, beginning of period	**69,129,929**	**$388,943**	68,999,095	$388,290
Converted from Class A	**2,070**	**1**	17,260	5
Dividend reinvestment plan	**27,960**	**277**	25,394	142
Issued under Employee Share Purchase Plan	**83,194**	**896**	86,480	495
Other	**1,600**	**17**	1,700	11
Balance, end of period	**69,244,753**	**$390,134**	69,129,929	$388,943
Total Class A and Class B shares	**79,118,090**	**$392,816**	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)	**2010**	2009
Weighted average number of shares outstanding, basic	**79,074**	78,964
Effect of dilutive securities		
- stock options	**411**	1
- ESPP	**152**	24
Weighted average number of shares outstanding, diluted	**79,637**	78,989

Outstanding stock options totaling 2,754,743 (2009 – 3,447,880), 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 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 (together with shares issuable to insiders under all other stock compensation arrangements) cannot exceed 10% of the outstanding Class A and Class B 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 9,894,036 shares have been granted (net of options cancelled) as of December 31, 2010 (2009 – 9,232,839).

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

	Options	Weighted average exercise price
January 1, 2009	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**
Granted	**854,678**	**6.33**
Forfeited or expired	**(193,481)**	**(21.79)**
December 31, 2010	**4,149,077**	**$17.19**

As at December 31, 2010, outstanding stock options were as follows:

Options Outstanding			
Range of exercise price	**Number outstanding December 31, 2010**	**Weighted average remaining contractual life**	**Weighted average exercise price**
$5.75 – 8.37	1,394,334	8.6 years	$7.04
$15.75 – 19.61	568,732	5.8 years	$19.17
$20.30 – 22.20	1,620,274	1.9 years	$21.68
$25.50 – 29.01	565,737	2.3 years	$27.31
$5.75 – 29.01	4,149,077	4.7 years	$17.19

Options Exercisable		
Range of exercise price	**Number exercisable December 31, 2010**	**Weighted average exercise price**
$5.75 – 8.37	134,914	$8.18
$15.75 – 19.61	361,044	$19.25
$20.30 – 22.20	1,609,727	$21.68
$25.50 – 29.01	565,737	$27.31
$5.75 – 29.01	2,671,422	$21.86

Subsequent to year-end, 488,813 stock options were granted at an exercise price of $12.21 per share. In estimating the compensation expense for stock options granted in 2006 to 2010, 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:

	2010	2009	2008	2007	2006
Fair Value	**$1.10**	$1.19	$2.24	$2.56	$3.08
Risk-free interest rate	**2.9%**	2.2%	4.1%	4.0%	4.2%
Expected dividend yield	**5.9%**	4.4%	3.9%	3.8%	3.3%
Expected share price volatility	**31.9%**	24.3%	15.1%	16.3%	16.8%
Expected time until exercise (years)	**6**	6	6	6	5

(b) Under the Company's 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:

	2010		2009	
Maturing	**2011**	**2012**	2010	2011
Subscription price at entry date	**$5.52**	**$10.74**	$15.66	$5.52
Number of shares	**340,417**	**181,642**	93,914	374,365

(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 561,194 RSU's (2009 – 391,394). 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, 2010, 627,252 units were outstanding of which 113,368 units have been accrued in Accounts payable and accrued liabilities at a value of $1.4 million while 274,560 units have been accrued in Other liabilities at a value of $3.4 million (2009 – 473,274 units were outstanding of which 96,573 units were accrued in Accounts payable and accrued liabilities at a value of $0.6 million while 217,141 units were accrued in Other liabilities at a value of $1.4 million).

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

	Units
January 1, 2009	300,070
Granted	355,057
Forfeited	(95,261)
Vested and paid	(86,592)
December 31, 2009	**473,274**
Granted	**250,551**
Vested and paid	**(96,573)**
December 31, 2010	**627,252**

Subsequent to year-end, 146,341 RSU's have been granted and 113,368 RSU's have vested and were paid.

(d) The Company has recognized in 2010, compensation expense totalling $3.9 million for the stock options granted in 2007 to 2010, RSUs granted in 2008 to 2010 and the employee share purchase plans originating in 2008 to 2010 (2009 - $3.0 million for the stock options granted in 2006 to 2009, RSU's granted in 2007 to 2009 and the employee share purchase plans originating in 2007 to 2009).

(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, 2010, 262,868 units were outstanding at a value of $3.2 million (2009 – 357,490 units, value $2.3 million). There were 168,103 units redeemed during 2010 at an average price of $12.28 per unit (2009 – 65,695 units, average price $5.82 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, 2010, the derivative instrument offset 258,600 units (2009 – 298,600 units).

16. 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 December 31, 2008	$1,846	($24,999)	$86	($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)[1]**	**($4,564)[1]**	**($16,853)**
Other comprehensive income (loss)	**921**	**856**	**240**	**4,564**	**6,581**
As at December 31, 2010	**($3,402)[1]**	**($6,770)[2]**	**($100)[1]**		**($10,272)**

[1]Net of income tax benefit of $nil (2009 - $nil).

17. ACQUISITIONS AND INVESTMENTS

In 2010, the Company used cash of $11.6 million on acquisitions and investments. This included $2.8 million for the first of three payments related to Harlequin's acquisition of full ownership of its German publishing business, $3.3 million for deferred purchase and performance payments in respect of prior year acquisitions in the Media Segment and $5.5 million for several acquisitions within the Media Segment.

The total purchase price for Harlequin's acquisition of the remaining 50% of its German publishing business, Cora Verlag from Axel Springer Verlag, its joint venture partner in Germany since 1976 was $8.5 million, of which $2.8 million has been paid while the remaining $5.7 million is payable over the next two years. This acquisition has been accounted for by the purchase method. The final allocation of the purchase price (including the discounted value of the deferred payments) was $0.3 million to future tax assets, $2.8 million to non-amortizable intangible assets, $0.6 million to amortizable intangible assets, $6.1 million to goodwill, $0.6 million to other liabilities and a credit of $0.7 million to working capital. The amount of goodwill that is deductible for tax purposes is $5.0 million.

The Media Segment acquisitions included the remaining 86% ownership interest in Travelwire Inc. (a business that provides travel consumers with travel deals through its email newsletter), WagJag (a business that allows local businesses to access new customers featuring one deal per day) and several other smaller businesses. Two of these acquisitions also have potential performance payments of up to $8.4 million based on future revenues.

These acquisitions were accounted for by the purchase method. The final allocation of the $5.5 million purchase price of these acquisitions was $0.4 million to working capital, $0.8 million to non-amortizable intangible assets, $2.3 million to amortizable intangible assets, $3.0 million to goodwill, $0.7 million to future tax liabilities and a $0.3 million credit to other assets. In addition, $2.7 million of deferred payments and $0.6 million of performance payments were paid during the year in respect of acquisitions made in prior years. The $0.6 million performance payments were allocated $0.9 million to amortizable intangible assets and $0.3 million to future tax liabilities. The amount of goodwill that is expected to be deductible for tax purposes is $0.9 million.

In 2009, $9.5 million was used primarily for digital acquisitions in the Media 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. for $0.8 million. These acquisitions were for cash of $6.5 million and deferred payments of $2.0 million, which 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 amount of goodwill that is expected to be deductible for tax purposes is nil.

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	
	2010	2009	**2010**	2009
Accrued benefit obligations				
Balance, beginning of year	**$736,978**	$682,551	**$46,954**	$53,232
Current service cost	**12,897**	12,698	**390**	498
Interest cost	**42,306**	42,333	**2,669**	3,288
Benefits paid	**(43,342)**	(57,508)	**(2,271)**	(2,270)
Actuarial losses (gains)	**67,558**	45,779	**3,674**	(7,794)
Participant contributions	**6,128**	6,482		
Prior service costs	**568**	2,788		
Foreign exchange	**(853)**	(2,380)		
Settlement		1,943		
Special termination benefits		2,292		
Balance, end of year	**$822,240**	$736,978	**$51,416**	$46,954
Plans' assets				
Fair value, beginning of year	**$663,591**	$582,470		
Return on plan assets	**63,017**	103,992		
Benefits paid	**(43,342)**	(57,508)		
Contributions to plan	**23,360**	36,181		
Foreign exchange	**(541)**	(1,544)		
Fair value, end of year	**$706,085**	$663,591		
Funded status – deficit	**($116,155)**	($73,387)	**($51,416)**	($46,954)
Unamortized losses (gains)	**213,441**	174,125	**(7,952)**	(12,375)
Unrecognized prior service costs	**22,562**	25,885	**129**	145
Accrued benefit asset (liability)	**$119,848**	$126,623	**($59,239)**	($59,184)
Recorded in:				
Other assets	**$133,450**	$136,574		
Other liabilities	**(13,602)**	(9,951)	**($59,239)**	($59,184)
Accrued benefit asset (liability)	**$119,848**	$126,623	**($59,239)**	($59,184)
Net benefit expense for the year				
Current service cost	**$12,897**	$12,698	**$390**	$498
Interest cost on benefit obligation	**42,306**	42,333	**2,669**	3,288
Actual return on plan assets	**(63,017)**	(103,992)		
Actuarial loss (gain) on benefit obligation	**67,558**	45,779	**3,674**	(7,794)
Prior service costs	**568**	2,788		
Settlement		1,943		
Special termination benefits		2,292		
Benefit expense before recognizing the long term nature of the benefit plans	**60,312**	3,841	**6,733**	(4,008)
Excess (shortfall) of actual return on plan assets over expected return, deferred to unamortized losses (gains)	**17,416**	64,039		
Portion of actuarial loss (gain) deferred to unamortized losses (gains)	**(57,072)**	(31,392)	**(4,369)**	7,794
Adjustment to prior service costs for amortization of (deferral to) unrecognized prior service costs	**3,257**	735	**16**	16
Net benefit expense	**$23,913**	$37,223	**$2,380**	$3,802

	Pension Plans		Post Employment Benefit Plans	
	2010	2009	**2010**	2009
Significant assumptions used				
To determine benefit obligation at end of year:				
Discount rate	**4.7% to 5.1%**	5.5% to 5.8%	**5.1%**	5.8%
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	**5.5% to 5.8%**	5.6% to 6.3%	**5.8%**	6.30%
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	**8.5%**	9.0%
Ultimate rate	**N/A**	N/A	**5.0%**	5.0%
Year ultimate rate reached	**N/A**	N/A	**2017**	2017
Average remaining service life of active employees	**8 to 15 years**	8 to 15 years	**11 years**	11 years

At December 31, 2010, long-term liabilities included $11.6 million (2009 - $8.8 million) related to an unfunded executive retirement plan which is supported by an outstanding letter of credit of $21.9 million (2009 - $20.0 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, 2010:

	Net Benefit Expense		**Accrued Benefit Obligation**	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
Pension plans:				
Discount rate	(10,950)	11,953	(97,677)	111,467
Expected long-term rate of return on plan assets	(6,511)	6,511		
Rate of compensation increase	2,520	(2,414)	11,720	(11,355)
Post employment benefits plans:				
Discount rate	(415)	491	(5,248)	6,351
Per capita cost of health care	270	(234)	1,792	(1,563)

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

	2010	2009
Equity investments	**61%**	62%
Fixed income investments	**39%**	38%
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 completed at the frequency required under the Ontario provincial pension legislation which can range from annually to every three years. Not all of the Company's defined benefit pension plans are subject to the funding valuation on the same cycle. The most significant group of plans (in terms of assets and obligations) was last valued as of December 31, 2009 and will be subject to actuarial valuations again at December 31, 2010.

The total amount expensed for capital accumulation plans in 2010 was $2.7 million (2009 - $2.9 million).

19. RESTRUCTURING AND OTHER CHARGES

During 2010, the Company recorded restructuring and other charges of $33.5 million (2009 - $43.7 million). This included restructuring provisions of $29.1 million (2009 - $43.0 million) and other charges of $4.4 million (2009 - $0.7 million).

a) Restructuring provisions of $29.1 million (2009 - $28.8 million) were recorded related to staff reductions in the Media Segment. In 2009, $1.4 million was recorded in the Book Publishing Segment for the closure of a distribution centre in the U.K. and a provision of $12.8 million was recorded related to the leadership transition at Corporate.

The following table indicates the change in the amount of restructuring provisions:

	2010	2009
Balance, beginning of year	**$25,463**	$29,390
Provision during the year	**29,060**	42,973
Payments during the year:		
Prior years' provision	**(15,328)**	(23,196)
Current year provision	**(6,808)**	(23,704)
Balance, end of year	**$32,387**	$25,463
Accrued in:		
Accounts payable and accrued liabilities	**$18,094**	$25,463
Other liabilities	**$14,293**	

b) During 2010, other charges of $4.4 million (2009 - $0.7 million) were recorded, which included $2.8 million (2009 – nil) related to transaction costs for the Company's bid to purchase the newspaper and digital businesses of Canwest Limited Partnership and its related entities; a $1.1 million (2009 – nil) adjustment to a provision for litigation in the Media Segment and a $0.5 million (2009 - $0.7 million) impairment loss on intangible assets in the Media Segment.

20. GAIN ON SALE OF ASSETS

During 2010, the Company recognized gains of $4.1 million from the sale of assets. A gain of $2.8 million ($3.0 million cash proceeds) was recorded on the formation of a joint venture to manage and further develop the Total Online Publishing Solutions system. The Company also sold some excess land in Vaughan and realized a gain of $1.3 million from the net cash proceeds of $1.3 million.

In addition, the Company received the outstanding $6.2 million proceeds from the mortgage receivable on the sale of excess land in Vaughan during 2008.

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

21. INVESTMENT WRITE-DOWN AND LOSS

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

	2010	2009
Write-down of investment in Multimedia Nova Corporation	**($258)**	
Write-down of investment in LocalPoint Media	**(515)**	
Write-down of investment in Vocel, Inc.		($2,400)
	($773)	($2,400)

22. OTHER NON-CASH ITEMS PROVIDED BY (INCLUDED IN) OPERATING ACTIVITIES

	2010	2009
Employee future benefits	**$6,693**	$9,209
Stock-based compensation plans	**5,487**	743
Foreign exchange	**1,942**	458
Gain on sale of assets	**(4,088)**	(239)
Lease inducement		2,393
Restructuring provisions	**14,293**	
Other	**988**	1,684
	$25,315	$14,248

23. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal actions, primarily in the Media 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 8 years. In addition, the Company has the following significant contractual obligations:

Nature of the obligation	Total	2011	2012-2013	2014-2015	2016+
Office leases	$141,270	$18,166	$34,874	$31,890	$56,340
Services	13,864	4,034	5,574	3,360	896
Acquisitions	10,327	5,997	4,330		
Equipment leases	1,887	792	885	210	
Total	$167,348	$28,989	$45,663	$35,460	$57,236

24. RELATED PARTY TRANSACTIONS

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

25. JOINT VENTURES

The Company proportionately consolidates its interests in joint ventures. The significant joint ventures in the Media 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 are France and Italy. The Company's proportionate share of revenue from these businesses is $124 million (2009 - $117 million) and operating profit is $20 million (2009 - $14 million).

26. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.

27. SEGMENTED INFORMATION

The Company reports its operations in two segments: Media and Book Publishing.

The Media 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, InsuranceHotline.com, Wheels.ca, flyerland.ca, goldbook.ca, Workopolis, Olive Media and eyeReturn Marketing.

The Book Publishing Segment represents Harlequin, a global publisher of books for women. Harlequin publishes books around the world in a variety of genres and formats, including digital. Harlequin sells books through the retail channel, in stores and online, and directly to the consumer through its direct mail business and from its internet sites.

The Company also has investments in CTVgm, Canadian Press, Black Press and Q-ponz.

Segment Profit or loss has been defined as operating profit which corresponds to operating profit as presented in the consolidated statements of income before restructuring and other charges.

SUMMARY OF BUSINESS AND GEOGRAPHIC SEGMENTS OF THE COMPANY:

Business Segments	Operating Revenue		Depreciation and Amortization		Operating Profit	
	2010	2009	**2010**	2009	**2010**	2009
Media	**$1,011,433**	$957,956	**$41,958**	$48,373	**$118,796**	$70,154
Book Publishing	**468,155**	493,303	**4,230**	4,390	**83,422**	83,797
	1,479,588	1,451,259	**46,188**	52,763	**202,218**	153,951
Corporate			**58**	56	**(14,886)**	(14,969)
Restructuring and other charges					**(33,455)**	(43,729)
Consolidated	**$1,479,588**	$1,451,259	**$46,246**	$52,819	**$153,877**	$95,253

	Total Assets		Goodwill	
	2010	2009	**2010**	2009
Media	**$1,091,283**	$1,091,669	**$479,710**	$476,639
Book Publishing	**354,722**	351,986	**111,249**	105,203
	1,446,005	1,443,655	**590,959**	581,842
Corporate	**125,378**	15,959		
Investment in associated businesses	**1,816**	178,828		
Consolidated	**$1,573,199**	$1,638,442	**$590,959**	$581,842

	Additions to Property, Plant and Equipment		Additions to Goodwill & Intangible Assets	
	2010	2009	**2010**	2009
Media	**$11,274**	$8,625	**$16,663**	$16,085
Book Publishing	**5,009**	4,205	**10,527**	1,038
	16,283	12,830	**27,190**	17,123
Corporate	**8**	6		
Consolidated	**$16,291**	$12,836	**$27,190**	$17,123

Geographic Segments	Operating Revenue		Capital Assets and Goodwill	
	2010	2009	**2010**	2009
Canada	**$1,020,433**	$981,400	**$759,919**	$774,339
United States	**249,084**	252,518	**84,165**	83,080
Other (a)	**210,071**	217,341	**37,384**	27,859
Segment Totals	**$1,479,588**	$1,451,259	**$881,468**	$885,278

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

ANNUAL OPERATING HIGHLIGHTS CONTINUING OPERATIONS (Unaudited)

(thousands of dollars)	2010	2009	2008	2007	2006	2005	2004
			(Note)	*(Note)*	*(Note)*	*(Note)*	*(Note)*
Operating revenue							
Media	$1,011,433	$957,956	$1,060,836	$1,083,828	$1,056,462	$1,035,816	$1,003,473
Book publishing	468,155	493,303	472,917	462,709	471,808	521,072	538,376
Total	$1,479,588	$1,451,259	$1,533,753	$1,546,537	$1,528,270	$1,556,888	$1,541,849
Operating profit & Income from continuing operations							
(thousands of dollars)							
Media	$118,796	$70,154	$109,305	$128,675	$107,849	$120,288	$127,601
Book publishing	83,422	83,797	67,511	60,640	56,277	95,381	97,182
Corporate	(14,886)	(14,969)	(16,903)	(19,028)	(18,475)	(19,001)	(15,555)
Restructuring and other charges	(33,455)	(43,729)	(41,723)	(7,507)	(22,319)	(2,119)	(8,399)
Operating profit	153,877	95,253	118,190	162,780	123,332	194,549	200,829
Interest	(23,766)	(21,036)	(28,225)	(34,432)	(20,761)	(10,463)	(10,916)
Foreign exchange	(1,942)	(458)	395	(1,873)	70	(2,723)	(1,723)
Gain on sale of assets	4,088	239	9,170			12,415	(3,883)
Income (losses) of associated businesses	(29,478)	(17,953)	(136,948)	20,416	16,000	565	496
Investment write-down and loss	(773)	(2,400)	(99,797)				
Income (loss) before taxes	102,006	53,645	(137,215)	146,891	118,641	194,343	184,803
Income and other taxes	(41,100)	(18,000)	(21,500)	(45,500)	(39,500)	(75,500)	(72,100)
Income (loss) from continuing operations	60,906	35,645	(158,715)	101,391	79,141	118,843	112,703
Discontinued operations			(22,789)				
Net income (loss)	$60,906	$35,645	($181,504)	$101,391	$79,141	$118,843	$112,703
Cash from continuing operating activities	$157,374	$153,364	$122,217	$136,152	$111,591	$124,140	$178,598
Average number of shares outstanding (thousands)	79,074	78,964	78,837	78,620	78,250	78,214	79,168
Per share Data							
Income (loss) from continuing operations	$0.77	$0.45	($2.01)	$1.29	$1.01	$1.52	$1.42
Net income (loss)	0.77	0.45	(2.30)	1.29	1.01	1.52	1.42
Dividends – Class A and Class B shares	0.37	0.37	0.74	0.74	0.74	0.74	0.70
Rate of Return on Revenue							
Operating profit	10.4%	6.6%	7.7%	10.5%	8.1%	12.5%	13.0%
Return on equity							
Cash from operating activities as a percentage of average shareholders' equity	22.5%	22.8%	15.4%	15.2%	13.0%	15.2%	23.2%
Financial position							
Total Assets	$1,573,199	$1,638,442	$1,778,733	$1,960,837	$2,001,473	$1,561,682	$1,510,027
Long-term debt	404,727	552,976	668,700	650,798	724,193	334,317	317,829
Shareholders' equity	720,959	678,980	665,034	917,761	872,746	841,652	793,661
Property, plant and equipment (net)	231,609	251,817	280,996	330,391	349,842	365,665	392,141

Note : 2008 results have been restated for the adoption of CICA Handbook Section 3064 and treating Transit TV as discontinued operations. The results for 2004 to 2007 have not been restated.

John A. Honderich

Chair, Torstar Corporation
Former Publisher, Toronto Star
Director since 2004

Campbell R. Harvey

Professor of International Business, Duke University

Director since 1992

Martin E. Thall

President and Chief Executive Officer
Thall Group of Companies

Director since 2002

Donald Babick

Past President, Southam Publications
Corporate Director

Director since 2004

Peter A. Armstrong

Corporate Director

Director since 2006

Elaine B. Berger

Corporate Director

Director since 2006

The Honourable Roy J. Romanow

Former Premier of Saskatchewan
Corporate Director

Director since 2007

Daniel A. Jauernig

President and Chief Executive Officer
Classified Ventures, LLC

Director since 2009

Joan T. Dea

Chief Executive Officer
Beckwith Investment Corp.

Director since 2009

Alnasir Samji

President, Alderidge Consulting

Director since 2009

David P. Holland

President and Chief Executive Officer
Torstar Corporation

Director since 2009

Paul R. Weiss

Corporate Director

Director since 2009

Phyllis Yaffe

Corporate Director

Director since 2009

Linda Hughes

Chancellor, University of Alberta
Former Publisher, Edmonton Journal

Director since 2010

CORPORATE OFFICE

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Website: www.torstar.com

TRANSFER AGENT & REGISTRAR

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(toll-free in North America)

www.cibcmellon.com/InvestorInquiry
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Torstar Class B non-voting shares are traded on the Toronto Stock Exchange under the symbol TS.B

OFFICERS OF TORSTAR

JOHN A. HONDERICH
Chair

DAVID P. HOLLAND
President and Chief
Executive Officer

LORENZO DEMARCHI
Executive Vice-President
and Chief Financial Officer

MARIE E. BEYETTE
Senior Vice-President,
General Counsel and
Corporate Secretary

PATRICIA HEWITT
Senior Vice-President
Human Resources

GAIL MARTIN
Senior Vice-President Finance

D. TODD SMITH
Treasurer

CORPORATION