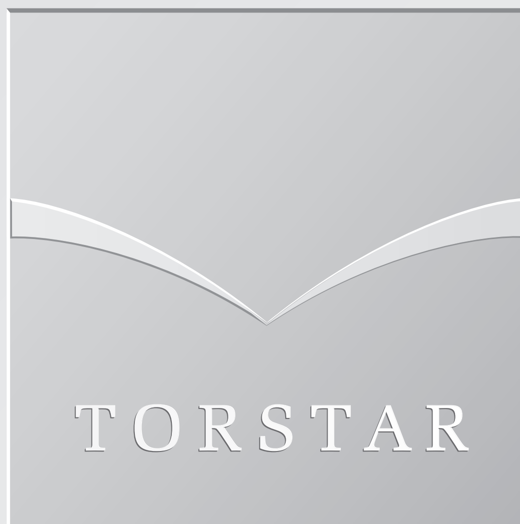
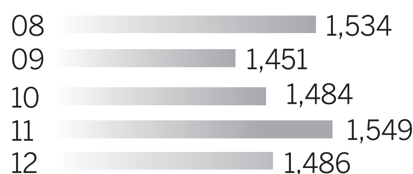


2012
ANNUAL REPORT

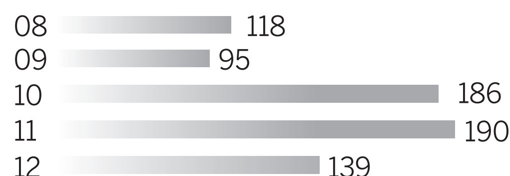
OPERATING RESULTS ($000)	**2012**	2011
Operating revenue	**$1,485,744**	$1,548,757
EBITDA (1)	**207,732**	242,249
Operating profit	**138,769**	189,673
Net income	**103,836**	218,141
Cash from operating activities	**90,605**	114,955
EBITDA – Percentage of revenue	**14.0%**	15.6%
Operating profit – percentage of revenue	**9.3%**	12.2%
Cash from operating activities – percentage of average equity	**12.6%**	17.8%
PER CLASS A AND CLASS B SHARES		
Net income	**$1.30**	$2.74
Dividends	**$0.5188**	$0.4675
Price range (high/low)	**$11.30/6.56**	$15.25/7.55
FINANCIAL POSITION ($000)		
Long-term debt	**$178,027**	$196,191
Equity	**$731,894**	$706,264

The Annual Meeting of shareholders will be held Wednesday, May 8, 2013 at The Westin Harbour Castle Hotel, 1 Harbour Square, Toronto beginning at 10 a.m. It will also be webcast live on the Internet.

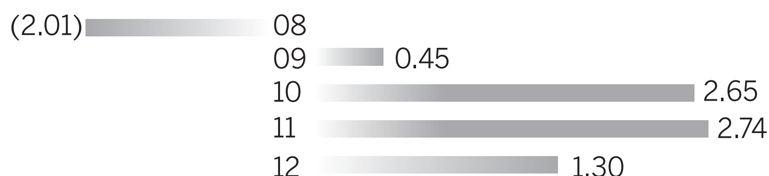
OPERATING REVENUE ($MILLIONS)(2)



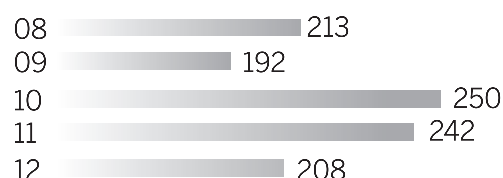
OPERATING PROFIT ($MILLIONS) (2)



INCOME (LOSS) FROM CONTINUING OPERATIONS PER SHARE (2)



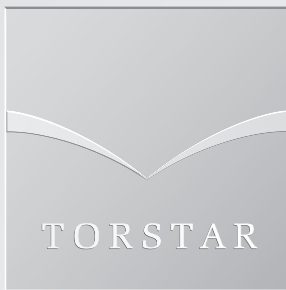
EBITDA ($MILLIONS) (1) (2)



(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 and impairment of assets. Please see "Non-IFRS Measures" on page 37.

(2) 2010 is restated to an IFRS basis. 2008-2009 are based on Canadian GAAP and are not restated to IFRS.

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, targets, outlooks, expectations, goals, 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

At a time of great economic uncertainty, 2012 was a year for consolidation and integration at Torstar.

With overall company earnings reflecting the tough environment, greater emphasis was paid on consolidating our premier positions in both newspapers and book publishing. It should always be remembered that Torstar's dailies are now collectively Canada's most-read weekday English-language newspapers, that Metroland Media is Canada's number one community newspaper group and that Harlequin is a global leader in publishing books for women. Torstar has always taken great pride in the quality of its work. Indeed, this tradition distinguishes us from many of our competitors and provides a meaningful connection to our various audiences. As the world moves more to digital platforms, high quality and reliable content will be critical and in this regard Torstar is very well positioned.

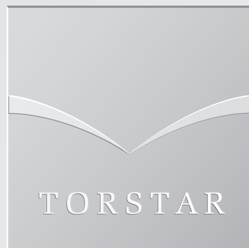
During 2012, particular effort and investment was made to further strengthen our cross-country network of 10 Metro dailies, operating in Vancouver, Calgary, Edmonton, Regina, Saskatoon, Winnipeg, London, Toronto, Ottawa and Halifax. Significant improvements in results were registered in several of our newer markets and the group was able to take greater advantage of Torstar's assets. This group provides one of Torstar's greatest opportunities for growth. Metroland Media also took great strides to build our Ontario platform, particularly in Eastern Ontario. The year prior, the Torstar Board approved the purchase of Performance Printing Ltd., allowing Metroland Media now to offer customers a province-wide vehicle for advertising. At Harlequin, the company remained at the forefront of the digital transformation as romance readers enthusiastically adopted e-book reading. Its single copy titles continue to flourish. At Torstar Digital, the ongoing quest to seek out digital opportunities and investments continued.

Taken as a whole, these steps position Torstar well for the future. Our balance sheet is solid, our attention to cost is constant and our dedication to excellence is ongoing.

The exceptionally high quality of our executive team has always been one of Torstar's greatest strengths. Collectively they bring decades of wisdom, publishing experience and creative thinking to the table. President and Chief Executive Officer David Holland and Chief Financial Officer and Executive Vice-President Lorenzo DeMarchi operate as a great team, providing corporate strategic guidance and the financial rigour that keeps the company on such a solid financial footing. Harlequin Publisher and Chief Executive Officer Donna Hayes is recognized worldwide for her inspirational leadership and general book publishing savvy. John Cruickshank, Publisher of the Toronto Star and President of Star Media Group, has provided great leadership as daily newspapers forge their way in a new digital era. Ian Oliver, President of Metroland Media Group, has been a driving and inspirational force in the development of the Ontario platform. Finally, Torstar Digital President Chris Goodridge took over the helm of this division in 2012 and has done an exceptional job in the transition underway.

During this tough year, Torstar was also able to count on a high level of dedication and professionalism from its approximately 7,000 employees. Tough times demand effective leadership and this was certainly the case in 2012. Across the organization, there were countless examples of innovative and bold moves taken to drive Torstar forward. We celebrate those efforts. Of necessity, such times also require a critical examination of how we operate and where savings can be achieved. As a result, very tough decisions had to be made on staffing and operations. We salute those who are no longer here, recognizing that their collective contribution was meaningful and appreciated.

Torstar also benefitted from an exceptional and effective Board of Directors. Their wisdom, acute analysis and deep concern for the company were always evident. 2012 also marked the last full year of service on the board for Neil Clark, former Senior Vice-President Strategic Planning at the Toronto Star. Mr. Clark served for two terms, and always made a significant and meaningful contribution to our discussions.



TO OUR SHAREHOLDERS

David Holland
President and Chief Executive Officer

Torstar's performance in 2012 reflected the challenging conditions in the newspaper industry during the year, a rapidly changing book publishing environment and continued soft economic conditions. At the same time, though, Torstar continued to pursue strategic initiatives in 2012, maintained our disciplined approach to employment of capital, pursued cost containment and continued to enjoy the benefits of a strong balance sheet.

OPERATING RESULTS

Torstar earned EBITDA of $208 million, a decrease from the $242 million earned in 2011. Total revenues were $1.49 billion, down 4% from $1.55 billion the prior year. EBITDA of $145 million in the media segment was down $27 million. Harlequin EBITDA was $77 million, down $9 million from the previous year including the decline of $2 million from the impact of foreign exchange.

It is important to remember that Torstar remains in a strong overall financial position due to our efforts in previous years to reduce our debt levels. At the end of 2012 we had net borrowings of $149 million, down slightly from 2011. A major factor affecting free cash flow was the contribution to the company pension plans. Like many private and public organizations in Canada, Torstar is making significant contributions to its employee pension plans to reduce the deficit. This shortfall is primarily the result of an unusually low interest rate environment that has increased the obligation of the plans. We are taking the necessary steps to improve the condition of the plans.

Harlequin enjoyed another solid year in 2012, although revenues were down compared to 2011. In making this comparison, it is worth noting that 2011 was a record year for profits adjusted for the effects of foreign exchange. Harlequin continues to adapt quickly to the fast-evolving book publishing industry, given the shift worldwide to greater digital consumption. In 2012, Harlequin had total revenues of $426 million. Excluding the impact of foreign exchange, revenue was down 6% from 2011 as growth in digital revenues was insufficient to offset declines in print revenue.

In 2012, Harlequin enjoyed a strong year for bestsellers, with 49 titles appearing on The New York Times bestseller lists and continued development of its non-fiction and teen programs. Also, Harlequin announced in December 2012 that it will partner with Cosmopolitan magazine for a new eBook series. Starting in May 2013, Harlequin will publish two original Cosmo Red Hot Reads digitally each month.

Harlequin is a world-class book publisher and its management team remains focused on providing great reading entertainment to women around the world. It continues to follow four strategic themes that over the years have helped Harlequin achieve an enviable record of success: publish a relevant portfolio of reading for women; leverage the unique advantage of the Harlequin brand; optimize channel and market management; and pursue cost reduction and superior execution.

In the Canadian Media division, both print and digital audiences remained strong but revenues of $1.06 billion fell 3% as a decline in print advertising took its toll in the year.

We remain very confident in the media platform we have developed. Geographically, we are centered by the Toronto Star, the largest daily newspaper in Canada, complemented by newspapers servicing communities throughout Ontario and that platform now extends beyond Ontario through our ownership of the Metro newspapers.

One of the greatest strengths of all our media businesses is our connection to the communities in which we publish – from coverage in small communities in Ontario to the largest city in Canada. We publish news and information that is relevant to local audiences, audiences that are desired by our advertisers.

Our Canadian Media division is comprised of Metroland Media Group, Star Media Group and Torstar Digital.

Metroland Media is a leader in community media with a focus on publishing to make a difference in communities and offering great services to its customers. The organization is diversified with three daily newspapers, more than 110 community newspapers, one of the largest distribution networks for flyers in Canada, magazines, specialty publications, consumer shows, teleshopping, product sales and commercial printing.

As well, Metroland Media's network of digital sites attracts millions of visitors each month. Its digital operations include websites for each newspaper as well as targeted online advertising solutions for local, regional and national businesses, including a leading group-buying offering in WagJag.com.

Metroland Media, which has enjoyed considerable success over the past decade, was not immune to the challenging conditions confronting print publications in 2012. Metroland Media saw its revenues decline 6% to $548 million in 2012. Metroland Media's EBITDA was $84 million, down from $102 million in 2011.

During 2012, Metroland Media concentrated on integrating into its operations acquisitions and market launches from 2011. Metroland Media also continues to remain alert to opportunities to strengthen its positioning in Ontario.

Star Media Group, which includes the Toronto Star, Metro, Sing Tao Daily, The Grid and many of our digital properties, also was impacted by the challenging business climate for print publications in 2012. Revenue of $512 million declined by $13 million or 3% excluding the benefit of acquisitions. EBITDA was $61 million in 2012, down $9 million from $70 million in 2011.

The Toronto Star, our flagship newspaper, celebrated its 120th anniversary on November 3, 2012. Even though it was a difficult year from a revenue standpoint, the Toronto Star and thestar.com enjoyed successes on a wide variety of fronts, including seeing weekday readership of the Star rising 4.1% year-over-year to more than 1 million adults, its highest level since 2004, and its weekly online readership increasing 14.5%. These increases widened the readership gap in the GTA between the Toronto Star and its nearest competitors.

In a major transition for the Toronto Star and its website, the Star announced that it will launch a paid-subscription program in 2013 for full access to all the stories on its website. The move will provide a new source of revenue for the Toronto Star that will help support its ability to provide print and online readers with one of the best and most comprehensive packages of news and information in Canada.

Star Media Group made progress in further diversifying its revenue base in 2012. In April, Metro, Canada's most-read national daily newspaper brand, launched daily newspapers in Saskatoon and Regina. Metro also publishes free daily newspapers in Toronto, Vancouver, Ottawa, Calgary, Edmonton, Winnipeg, London and Halifax. We are pleased with the overall performance of Metro.

At Sing Tao, our jointly owned Chinese language newspaper, results were stable in the year. We also continue to be pleased with the progress of two of Star Media Group's innovative initiatives, namely The Kit, a print and digital publication focused on beauty, fashion and wellness news, and The Grid, a free weekly city publication in Toronto.

As in past years, our newspapers, websites and journalists were honoured for their work in 2012. The Toronto Star won five National Newspaper Awards (NNA) for reporting and photography. The Hamilton Spectator won

one NNA and Metroland Media newspapers earned 107 awards from the Ontario Community Newspaper Association Better Newspaper Awards plus 131 awards from the Local Media Association for editorial, advertising and promotional excellence. The Grid, a weekly publication launched in 2011, beat more than 9,000 entries to be named for the second straight year as one of the five best-designed newspapers in the world by the Society for News Design, an international non-profit design organization.

Torstar Digital, under the leadership of Chris Goodridge, its new president, grew earnings in 2012. Across the portfolio which includes Workopolis, Olive Media, EyeReturn and WagJag, we continue to adapt to the fast-paced digital environment. Workopolis continues its market leadership position in 2012, with more than 1.5 million Canadians visiting the Workopolis site monthly. We are also pleased with the progress we are making in the rapidly growing area of data-driven media.

Torstar also has a number of minority investments in associated businesses. We were very pleased with the performance in 2012 of Blue Ant Media Inc., an independent media company that remains in its formative stages under the leadership of Michael MacMillan, a media veteran with a track record of building successful media businesses. In 2011, Torstar acquired an approximate 25-per-cent interest in Blue Ant as part of our strategy to diversify our media asset base.

Torstar also has a minority investment in Black Press, a company very well managed by David Black, which publishes more than 150 newspapers, including weeklies, dailies and shoppers in Canada and the U.S.

LOOKING FORWARD

Although Torstar experienced a challenging year due to the decline in print advertising and book publishing revenues and the cash flow requirement of dealing with the company's pension plan deficit, we are confident we have the products, the brands, the talent and the financial resources to weather the current challenge and deal successfully with the business environment we will face in the future.

That confidence stems from our basic corporate strengths: the diversity of our businesses, our commitment and connection to the communities we serve, our long-standing brands that readers trust and our determination to invest in our future and progress as a media company.

One of our greatest strengths is the diversity of our operations. This diversity begins with the global book publishing and Canadian Media operations. Attributes of these two divisions have proven complementary and this will continue. Within our Canadian Media operations, we also benefit from diversity, with hundreds of brands that provide a broad platform on which to build as we move forward in 2013 and beyond. That platform includes daily and community newspapers, digital, magazines, consumer shows, flyer distribution and teleshopping. It covers most of Ontario and with the expansion of the Metro operations is developing rapidly across Canada. Our goal is to further develop and utilize that diverse platform to the benefit both of our readers and our advertisers.

A second strength for Torstar is the connection our businesses have with the communities in which they operate. This applies equally to the loyal Harlequin readers and within the Canadian Media operations, from the audiences served in smaller communities to the city of Toronto.

In our media operations we publish news and information in our print papers and on our websites and mobile devices for local audiences that are relevant and trustworthy. By doing so, we play an important, recognized role in society at the grassroots level by informing readers of what is happening in their neighbourhoods, raising the profile of important issues and ultimately contributing to the building of better communities.

Another strength is our brands across book publishing and media which have well-earned reputations. Continuing to build the Harlequin brand and the promise to readers it represents remains a priority in this increasingly digital environment. The brands across the media operations represent trust and credibility. We are in the business of trust. Indeed, polls show that newspapers are the news sources most-trusted by the public. Our publications and our websites provide reporting on local issues that is relevant, important and trusted.

In 2013 and the years ahead, our pledge to readers and advertisers is to continue to deliver on the promise implicit in our brands.

At Torstar, we remain focused on strengthening our reputation as a progressive media organization. For us, that means confronting reality, addressing weaknesses, building on our strengths and embracing the future and the opportunities it holds. It means showing patience when required, but at the same time encouraging innovation, building value from within and being disciplined in the employment of capital as we strive to create value for shareholders over the long term.

OUR GREATEST STRENGTH – PEOPLE

Critical to Torstar's future success are the talented, passionate and committed employees who give us the competitive advantage needed to ensure we thrive in the years ahead. As the pace of change has accelerated, we are asking more of employees at all levels of the organization to ensure we respond effectively to the opportunities in front of us. Despite the current challenge, it is gratifying to see the creativity and commitment of employees throughout Torstar. I have worked for Torstar for more than 25 years and I believe the contributions that we now enjoy from all levels of the company are unsurpassed.

We are fortunate to have a great leadership team of senior executives guiding this committed group of employees.

At Harlequin, Donna Hayes has once again shown why she is one of the top book publishing executives in the world by successfully guiding Harlequin through continued transition as the book publishing landscape furthered its evolution in this more digital world.

At Metroland Media Group, Ian Oliver, one of North America's most-respected community newspaper executives, has been instrumental in building Metroland into a strong community media organization operating throughout Ontario. He has made Metroland Media's commitment and connection to community an integral part of every newspaper's operations.

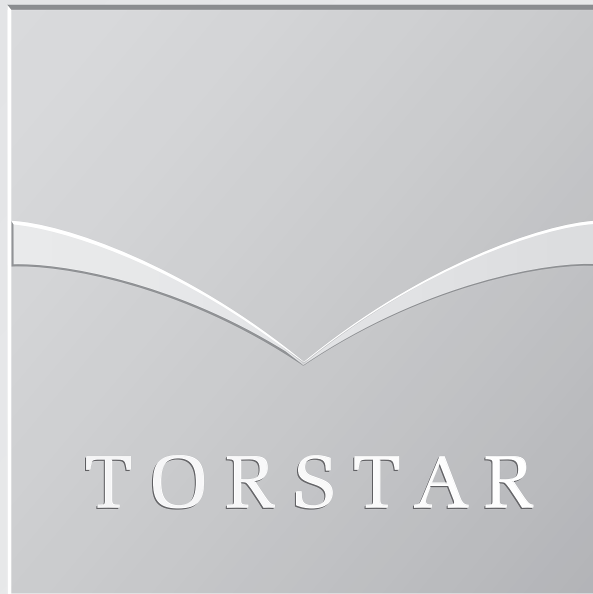
At Star Media Group, John Cruickshank has provided outstanding leadership once again in 2012 as he guides Canada's largest newspaper through these dynamic and challenging times. In addition to overseeing transformation of the Toronto Star, John continues to diversify the revenue base of the group through his leadership of the Metro chain of newspapers and numerous other initiatives.

Chris Goodridge was named President of Torstar Digital in May, 2012, and has made a number of valuable contributions in a short period of time. He has played a vital role in establishing many of our important digital initiatives and will continue to have a significant impact on our digital efforts in the future.

I am privileged to work with an experienced team at Torstar corporate who contribute valuable insight and support to me on a daily basis. These include Lorenzo DeMarchi, our Executive Vice-President and Chief Financial Officer; Marie Beyette, our Senior Vice-President, General Counsel and Corporate Secretary; Patricia Hewitt, our Senior Vice-President Human Resources and Pam Laycock, our Senior Vice-President Corporate Strategy. I thank all of them.

I would also like to acknowledge the support I have received from John Honderich, our Chair, and the Board of Directors over the past year. I look forward to their advice, guidance and support. Their wise counsel is deeply appreciated as we move forward.

I want especially to thank our nearly 7,000 employees for their dedication and hard work. I am confident that through their efforts, along with the diversity of our businesses and our ability to adapt quickly to meet the challenges of an ever-changing business environment, Torstar will enjoy success for many years to come.



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For the year ended December 31, 2012

The following management's discussion and analysis ("MD&A") of Torstar Corporation's ("Torstar" or the "Company") 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, 2012.

Torstar reports its financial results under International Financial Reporting Standards ("IFRS"). All financial information contained in this MD&A and in the consolidated financial statements has been prepared in accordance with IFRS, except for certain "Non-IFRS Measures" as described in Section 13 of this MD&A. Per share amounts are calculated using the weighted average number of shares outstanding for the applicable period.

This MD&A is dated March 5, 2013 and all amounts are in Canadian dollars unless otherwise noted.

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

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, financial 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:

- the Company's ability to operate in highly competitive industries;
- the Company's ability to compete with other newspapers and other forms of media and media platforms;
- general economic conditions in the principal markets in which the Company operates;
- the Company's ability to attract and retain advertisers;
- the Company's ability to maintain adequate circulation levels;
- the Company's ability to attract and retain readers;
- the Company's ability to retain and grow its digital audience and profitably develop its digital businesses;
- the trend towards digital books and the Company's ability to distribute its books through the changing distribution landscape;
- the Company's ability to accurately estimate the rate of book returns through the wholesale and retail channels;
- the popularity of its authors and its ability to retain popular authors;
- labour disruptions;
- newsprint costs;
- the Company's ability to reduce costs;
- foreign exchange fluctuations;
- credit risk;
- restrictions imposed by existing credit facilities, debt financing and availability of capital;
- changes in pension fund obligations;
- results of impairment tests;
- reliance on its printing operations;
- reliance on technology and information systems;
- risks related to business development and acquisition integration;
- interest rates;
- availability of insurance;
- litigation;

- environmental, privacy, anti-spam, communications and e-commerce laws and other laws and regulations applicable generally to our businesses;
- dependence on key personnel;
- dependence on third party suppliers and service providers;
- loss of reputation;
- 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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1. Overview

A summary of Torstar's business

Torstar Corporation is a broadly based media and book publishing company listed on the Toronto Stock Exchange (Symbol:TS.B). Torstar reports its operations in two segments: Media and Book Publishing.

The Media Segment publishes four daily newspapers: the Toronto Star, The Hamilton Spectator, the Waterloo Region Record, and the Guelph Mercury. The Media Segment also publishes over 100 community newspapers in Ontario. In addition, Torstar has a 90% interest in Free Daily News Group Inc. ("Free Daily News Group"), which publishes the English-language Metro newspapers in several Canadian cities, and through a joint venture arrangement, Torstar owns an interest in the Chinese-language Sing Tao Daily and its related publications in Toronto, Vancouver and Calgary. Most of Torstar's newspapers have an established digital presence, and Torstar also operates a number of other digital businesses including toronto.com, Wheels.ca, flyerland.ca, goldbook.ca, Workopolis, Olive Media, eyeReturn Marketing, WagJag.com ("WagJag") and Jaunt.ca. The Book Publishing Segment represents Harlequin, a leading global publisher of books for women. Torstar also has investments in Black Press Limited ("Black Press"), Blue Ant Media Inc. ("Blue Ant"), Canadian Press Enterprises Inc. ("Canadian Press"), Shop.ca Network Inc. ("Shop.ca") and Tuango Inc. ("Tuango"). Until April 1, 2011, Torstar also had an investment in CTV Inc. ("CTV").

Media Segment

The Media Segment includes Metroland Media Group ("MMG") and Star Media Group ("SMG").

Star Media Group includes the Toronto Star, Canada's largest daily newspaper which is read in print and digital (thestar.com) by more than 3 million readers every week. Online, thestar.com is one of the most-visited newspaper websites in Canada. Star Media Group also includes Metro, a free daily newspaper that is published in Toronto, Vancouver, Ottawa, Calgary, Edmonton, London, Winnipeg, Regina, Saskatoon and, pursuant to a joint venture with Transcontinental Media G.P., in Halifax. The Star Media Group has one press centre which primarily supports the Toronto Star's printing needs but is also engaged in commercial printing.

Star Media Group's other operations include Torstar Syndication Services (which provides editorial content to newspapers and other media), Wheels.ca (in partnership with Metroland Media Group), toronto.com (an online destination for events and attractions in the Greater Toronto Area), 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, People.com, lapresse.ca, and auFeminin.ca), eyeReturn Marketing (a leading provider of online advertising services), WagJag.com (a daily deal website), Jaunt.ca (a publisher of online travel deals), travelalerts.ca (an online publisher of travel promotional emails) and targetvacations.ca (an online travel agency).

In addition to the above operations, Star Media Group also includes Torstar's proportionate interests in Sing Tao Daily and Workopolis. 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 language telephone directories, radio and weekly magazine publishing. Torstar jointly owns the Canadian operations of Sing Tao Daily with Sing Tao Holdings Limited. Torstar owns 50% of Workopolis, Canada's leading provider of internet recruitment and job search solutions. Square Victoria Digital Properties (a subsidiary of Power Corporation) is Torstar's partner in Workopolis.

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, save.ca and a 50% interest in LeaseBusters.com. Metroland Media Group also participates in Wheels.ca (in partnership with Star Media Group), 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 a product sourcing and distribution business). 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 includes 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 under several imprints including Harlequin, Harlequin MIRA, Harlequin HQN, Harlequin LUNA, Harlequin Nonfiction, Harlequin TEEN, Harlequin Kimani Press and Carina Press. 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 – Harlequin.com). Harlequin's publishing operations are comprised of two divisions: North America and Overseas. In 2012 Harlequin published books in 31 languages in 110 international markets.

Associated Businesses

At December 31, 2012, Torstar had a 19.4% equity investment in Black Press, a 23.7% equity investment in Blue Ant, a 33.3% equity investment in Canadian Press, a 20.4% equity investment in Shop.ca and a 38.2% interest in Tuango.

Black Press is a privately held company that publishes more than 150 titles in print and online in Canada and the U.S. and has operations in British Columbia, Alberta, Washington State, California, Hawaii and Ohio.

Blue Ant is an independent media company which owns and operates specialty channels Travel+Escape, Bite TV and AUX TV, and four premium high definition channels Oasis HD, eqhd, radX and HIFI as well as the Cottage Life Media group (publisher of Cottage Life, Cottage, Outdoor Canada, Canadian Home Workshop and operator of the Cottage Life consumer trade shows). Torstar invested $16.9 million in Blue Ant in 2011 and a further $5.8 million on August 1, 2012 simultaneously with the completion of the acquisition by Blue Ant of 100% of High Fidelity TV subsequent to receiving approval from the Canadian Radio-television and Telecommunications Commission ("CRTC").

Canadian Press operates The Canadian Press news agency. Torstar invested an additional $0.5 million in Canadian Press in early 2013.

Shop.ca is an online e-commerce marketplace aimed at Canadian shoppers. The Company made an initial investment in Shop.ca of $5.0 million on June 15, 2012 for a 14.4% equity interest with a commitment to increase its interest to 30% in three tranches over a three–year period based on the achievement of certain performance milestones primarily in exchange for media inventory provided through Torstar's media properties.

Tuango is a Quebec-based daily deal business. Prior to February 29, 2012, Torstar held a 50% interest in Tuango. On February 29, 2012 a portion was sold, reducing Torstar's remaining interest to 38.2%.

Until January 2012, the Company had a 30% equity investment in Q-ponz Inc ("Q-Ponz"). Q-ponz produced and delivered unaddressed co-op direct mail. Torstar sold its interest in Q-ponz in January 2012.

2. Annual Operating Results

A discussion of Torstar's operating results for 2012 and 2011

Overall Performance

The following table sets out the segmented results for the years ended December 31, 2012 and 2011.

	2012				2011			
(in $000's)	Media	Book Publishing	Corporate	Total	Media	Book Publishing	Corporate	Total
Operating revenue	$1,059,261	$426,483		$1,485,744	$1,089,330	$459,427		$1,548,757
Salaries and benefits	(414,135)	(96,002)	($10,698)	(520,835)	(398,842)	(100,014)	($12,227)	(511,083)
Other operating costs	(500,417)	(253,550)	(3,210)	(757,177)	(518,818)	(273,320)	(3,287)	(795,425)
EBITDA[1]	144,709	76,931	(13,908)	207,732	171,670	86,093	(15,514)	242,249
Amortization & depreciation	(34,027)	(4,107)	(48)	(38,182)	(29,415)	(3,695)	(55)	(33,165)
Operating earnings[1]	110,682	72,824	(13,956)	169,550	142,255	82,398	(15,569)	209,084
Restructuring and other charges	(16,498)	(1,280)		(17,778)	(18,860)	(551)		(19,411)
Impairment of assets	(13,003)			(13,003)				
Operating profit	$81,181	$71,544	($13,956)	$138,769	$123,395	$81,847	($15,569)	$189,673

Revenue

Total revenue was down $63.1 million or 4.1% in 2012. Excluding the impact of $36.1 million from acquisitions and a $34.3 million decrease in Metroland Media Group's TMGTV resulting from lower product sales, revenue was down $64.9 million or 4.2%. The declines in product sale revenues in TMGTV operations are consistent with expected product life cycles in this business.

Media Segment revenues, excluding the above items, were down $31.8 million or 2.9% in 2012. Print advertising revenues were down at the Toronto Star and the Metroland Media Group, partially offset by revenue growth at the Metro newspapers. Digital revenue in the Media Segment was down 4.7% in 2012 due primarily to a decline at WagJag and a change to equity accounting for Torstar's investment in Tuango, in the first quarter of 2012. Excluding these two items, digital revenue was up 1.1%.

Book Publishing Segment revenues, excluding the impact of foreign exchange, were down $27.4 million or 6.0% in 2012 with declines in print revenue more than offsetting digital revenue growth. Beginning in the second quarter of 2012, digital revenue growth and print revenue declines began to moderate and this trend continued for the balance of the year.

Salaries and benefits

Total salaries and benefits expense increased 1.9% in 2012 as savings of $16.6 million from restructuring initiatives in the newspaper businesses in the Media Segment reduced the impact of acquisitions, additional pension costs and regular wage increases. Book Publishing Segment salaries and benefits reflect lower variable compensation costs. Corporate expenses were down $1.6 million in 2012 as a result of lower variable compensation costs and a favourable mark-to-market adjustment related to a share-based compensation hedging instrument.

Other operating costs

Total other operating costs were down 4.8% in 2012 resulting from revenue declines and a $30.4 million decrease in costs at TMGTV resulting from lower product sales, partially offset by additional expenses related to investment spending at Metro and in the digital operations. In the Media Segment, newsprint pricing was flat year over year while consumption was down.

[1] EBITDA and Operating earnings are non-IFRS measures. See Section 13.

The Book Publishing Segment had lower costs resulting from lower revenue and reduced promotional spending in 2012.

EBITDA

EBITDA was $207.7 million in 2012, down $34.5 million from $242.2 million in 2011. Prior year acquisitions provided $5.8 million of EBITDA growth in 2012. Media Segment EBITDA was down $27.0 million primarily as a result of lower print advertising revenue. Book Publishing Segment EBITDA was down $9.2 million including a decline of $1.7 million from the impact of foreign exchange. Corporate expenses were $13.9 million, down $1.6 million from $15.5 million in 2011.

Amortization and depreciation

Amortization and depreciation expense was $5.0 million higher in 2012, primarily from the amortization of intangible assets acquired through the 2011 acquisitions in the Media Segment.

Operating earnings

Operating earnings were $169.6 million in 2012, down $39.5 million from $209.1 million in 2011.

Restructuring and other charges

Restructuring and other charges of $17.8 million were recorded in 2012. This included $16.5 million for restructuring initiatives in the Media Segment and $0.9 million for restructuring initiatives and $0.4 million for other charges in the Book Publishing Segment. The 2012 restructuring initiatives in the Media Segment are expected to result in annualized net labour savings of approximately $17.5 million and a reduction of approximately 260 positions. The 2012 restructuring initiatives in the Book Publishing Segment are expected to result in annualized savings of approximately $0.9 million and a reduction of 9 positions. $6.0 million of the savings were realized in 2012.

Restructuring and other charges of $19.4 million were recorded in 2011, including $18.8 million in the Media Segment and $0.6 million in the Book Publishing Segment. The 2011 restructuring charge for the Media Segment included $15.6 million in respect of labour restructuring and a $3.2 million provision for rented space that was vacated as reduced staff counts allowed for space consolidation.

Torstar has undertaken several restructuring initiatives between 2010 and 2012 in order to reduce ongoing operating costs. The following chart provides a summary of the realized and expected net savings (including rent savings) by year:

	Year of Initiative			
(in $000's)	**2010**	**2011**	**2012**	**Total**
Realized net savings in:				
2010	$4,700			$4,700
2011	11,200	$1,800		13,000
2012	2,800	7,900	$6,000	16,700
Expected net savings in:				
2013	2,100	1,100	12,400	15,600
Annualized net savings	$20,800	$10,800	$18,400	$50,000

Impairment of assets

In 2012, Torstar incurred charges related to asset impairment totaling $13.0 million related to certain equipment, intangible assets and goodwill in the Media Segment. These charges have no impact on cash flows.

As a result of restructuring initiatives, which included the consolidation of some facilities, during the year ended December 31, 2012, Torstar recorded impairment losses of $0.4 million with respect to equipment in the Metroland Media Group of cash generating units ("CGUs") and $0.2 million with respect to equipment and $1.4 million of finite-life intangible assets in the Toronto Star Group CGU.

During the fourth quarter of 2012, Torstar performed its annual impairment test on the value of intangible assets with a finite useful life, intangible assets with an indefinite useful life and goodwill. An impairment charge of $11.0 million was recorded in the Workopolis CGU as a result of increased competition in the online recruitment and job search markets and prevailing economic conditions.

Operating profit
Operating profit was $138.8 million in 2012, down $50.9 million from $189.7 million in 2011.

Interest and financing costs
Interest and financing costs in 2012 and 2011 were broken down as follows:

(in $000's)	2012	2011
Interest expense (net)	$7,740	$10,168
Swap settlement charge		3,794
Interest accretion costs	1,019	2,667
Interest and financing costs	$8,759	$16,629

2012 interest expense reflects a lower level of average net debt outstanding in 2012 partially offset by higher effective interest rates. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $154.9 million in 2012, down $16.6 million from $171.5 million in 2011. Torstar's effective interest rate on long-term debt was 4.1% in 2012 and 3.9% in 2011. Net debt was $149.0 million at December 31, 2012, down $4.3 million from $153.3 million at December 31, 2011.

In 2011, Torstar incurred a $3.8 million charge related to the settlement of Canadian dollar debt interest rate swaps. In 2006, in connection with the investment in CTV, Torstar had entered into interest rate swap agreements to fix the rate of interest on $250.0 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. The five-year swap arrangements required a resetting of pricing and debt instruments every ninety days with a reset date occurring in March 2011. In anticipation of the receipt of the funds from the completion of the CTV sale, the swap arrangements were not reset in March 2011 and Torstar settled the swaps.

Interest accretion costs are related to contingent consideration estimates, long-term restructuring provisions and deferred acquisition payments.

Adjustment to contingent consideration
Adjustments to contingent consideration estimates resulted in additional costs of $0.3 million in 2012 and income of $0.6 million in 2011. Estimates of the fair value of contingent consideration are recorded on the date of the related acquisition and are revised in future periods as changes in the estimated payments occur.

Foreign exchange
The non-cash foreign exchange gain or loss reported in the consolidated statement of income primarily relates to the translation of U.S. dollar denominated assets and liabilities held by Torstar's Canadian operations into Canadian dollars. It does not include the translation of foreign currency (including U.S. dollars) denominated assets and liabilities of Torstar's foreign operations or the translation of U.S. dollar debt that has been designated as a hedge against those net U.S. dollar denominated assets. The foreign exchange on the translation of those foreign currency denominated assets and liabilities and the related hedge-designated debt into Canadian dollars is reported through other comprehensive income ("OCI"). The amount of the non-cash foreign exchange gain or loss in any year will vary depending on the movement in the relative value of the Canadian dollar and on whether Torstar's Canadian operations have a net asset or net liability position in U.S. dollars.

In 2012, Torstar reported a non-cash foreign exchange loss of $0.2 million. In 2011, Torstar reported a non-cash foreign exchange loss of $3.5 million as a result of the Canadian dollar being weaker at the end of the year compared with the beginning and with Torstar's Canadian operations being in a net liability position in U.S. dollars for most of the year.

Loss of associated businesses
Loss of associated businesses was $3.3 million in 2012 and $2.2 million in 2011.

Torstar's share of Blue Ant's net loss was $2.2 million in 2012 ($nil in 2011), representing Blue Ant's results through November 30, 2012. Blue Ant completed its acquisition of High Fidelity HDTV in 2012 and the loss includes expenses for the CRTC benefit obligations and reorganization charges. Blue Ant has an August fiscal year end and therefore does not have coterminous quarter-ends with Torstar.

Torstar's share of the Shop.ca net loss was $0.7 million. Torstar made its initial investment in Shop.ca on June 15, 2012 and the Shop.ca website was launched late in the second quarter of 2012.

Torstar recorded a loss of $0.8 million in 2012 ($1.6 million in 2011) to reduce its carrying value in Canadian Press to nil. Torstar's unrecognized share of Canadian Press's net loss was $0.3 million in 2012 down from $0.7 million in 2011. Torstar will begin to report its share of Canadian Press's results once the unrecognized losses ($6.4 million as of December 31, 2012) have been offset by net income, OCI or at such time that additional investments are made.

Torstar has not recorded its share of Black Press's results in either 2012 or 2011 as Torstar's carrying value in Black Press was previously reduced to nil. Torstar's share of Black Press's net income would have been $3.9 million in 2012, up from $3.3 million in 2011. Torstar will begin again to report its share of Black Press's results once the unrecognized losses ($0.7 million as of December 31, 2012) have been offset by net income or OCI.

On February 29, 2012 Torstar sold a portion of its 50% interest in Tuango. As a result of the sale transaction and revised shareholders' agreement, Torstar lost joint control of Tuango and moved from proportionately consolidating Tuango to accounting for it as an associated business using the equity method. Torstar's share of Tuango's net income for the period from February 29, 2012 to December 31, 2012 was $0.4 million.

Torstar ceased to equity account for Q-ponz when it was sold in early 2012. No amounts have been recorded related to the Q-ponz results in 2012 ($0.5 million loss in 2011).

Other income and gain on sale of assets
During 2012, Torstar recognized other income of $10.4 million and a gain on sale of assets of $9.8 million.

Torstar recognized a gain on sale of assets of $3.7 million from the sale of Sing Tao's land and buildings in Toronto. Torstar's share of the proceeds included $2.5 million of cash and $3.5 million for a mortgage receivable which will mature in 18 to 24 months from the date of sale.

Torstar also recorded a gain on sale of assets of $3.4 million on the sale of a portion of its 50% joint venture interest in Tuango as noted above. Net proceeds were $3.9 million and Torstar retained a 38.2% interest in Tuango. As a result of the move from proportionately consolidating Tuango to accounting for it as an associated business using the equity method, the investment was remeasured and the investment in associated businesses was recorded at fair value, resulting in a remeasurement gain of $10.4 million which has been included in other income.

In November 2012, Torstar recorded a gain of $2.7 million in connection with the sale of the assets of Insurance Hotline. Net proceeds were $7.0 million comprised of $2.0 million in cash and a 12.6% interest in Kanetix Ltd. (an online Canadian insurance marketplace) valued at $5.0 million. This investment has been recorded at cost and is included in portfolio investments. At the same time, Torstar received an additional $4.0 million of cash in exchange for Media inventory to be provided to Kanetix Ltd. over the next two years.

In 2011, Torstar recognized other income of $19.1 million. When a business combination is achieved in stages, the acquirer is required to remeasure its previously held interest in the acquiree to the acquisition date fair value and recognize the resulting gain or loss, if any, in profit or loss. This remeasurement resulted in other income of $19.1 million in 2011 related to Torstar's increased ownership of Metro and save.ca.

Gain on sale of CTV Inc.
In 2011, Torstar recorded a gain of $74.6 million on the sale of its remaining interest in CTV. The transaction closed on April 1, 2011 and Torstar received cash proceeds of $291.6 million.

Investment write-down
In 2011, Torstar management determined that there had been an other than temporary decline in the value of the investment in Q-ponz. A $0.5 million write-down was recorded in 2011, reducing the carrying value to nil. In early 2012, the Company sold its interest in Q-ponz to the controlling shareholder for nominal consideration.

Income and other taxes
There were several items in Torstar's net income before taxes in 2012 and 2011 that were not tax-affected and therefore had an impact on Torstar's effective tax rate in both years. This included the 2012 remeasurement gain on Tuango, the 2011 gain on the sale of CTV, and the 2011 remeasurement gain on the Metro and save.ca transactions. In addition, Torstar recorded $0.8 million in 2012 and $10.0 million in 2011 as a tax benefit from the recognition of tax losses that had previously not been recognized.

Excluding the impact of these items in both years, Torstar's effective tax rate was 30.5% in 2012 and 31.6% in 2011. The Canadian statutory rate was 26.5% in 2012, which was lower than the 28.25% Canadian statutory rate in 2011. The Canadian statutory rate had previously been planned to be reduced to 26.25% in 2012 and further to 25% by 2014. The Ontario government passed legislation during 2012 to indefinitely postpone this planned tax rate reduction. Torstar recorded a tax benefit of $0.2 million in 2012 in respect of this tax rate change.

Torstar's effective tax rate is higher than the Canadian statutory rate due to the impact of non-deductible expenses and income earned in foreign jurisdictions subject to higher rates of tax.

Net income attributable to equity shareholders
Torstar reported net income attributable to equity shareholders of $103.2 million or $1.30 per share in 2012 down $114.5 million or $1.44 per share from $217.7 million or $2.74 per share in 2011. Excluding the impact of CTV, in 2011, Torstar would have reported net income attributable to equity shareholders of $143.1 million or $1.80 per share in 2011.

The average number of Class A voting shares and Class B non-voting shares outstanding was 79.7 million in 2012, up slightly from 79.4 million in 2011.

The following chart provides a continuity of earnings per share from 2011 to 2012:

Net income attributable to equity shareholders per share 2011		$2.74
• Gain on sale of CTV (2011)		0.94
Adjusted net income attributable to equity shareholders per share 2011		1.80
Changes		
• Operations	(0.37)	
• Restructuring and other charges	0.01	
• Impairment of assets	(0.16)	
• Interest and financing costs	0.07	
• Non-cash foreign exchange	0.03	
• Adjustment to contingent consideration	(0.02)	
• Loss of associated businesses	(0.02)	
• Other income (remeasurement gains)	(0.14)	
• Gain on sale of assets	0.10	
Net income attributable to equity shareholders per share 2012		$1.30

Business Segment Review

Torstar reports its results in two business segments (Media and Book Publishing). Corporate is the provision of corporate services and administrative support. Torstar's reporting structure reflects how the business is managed and how operations are classified for planning and performance measurement. See Section 1 – "Overview" for a description of Torstar's business segments.

Segment Operating Results – Media

The following table sets out operating earnings for the Media Segment for the years ended December 31, 2012 and 2011.

	2012			2011		
(in $000's)	MMG	SMG	Total	MMG	SMG	Total
Operating revenue	$547,666	$511,595	$1,059,261	$582,378	$506,952	$1,089,330
Salaries and benefits	(236,197)	(177,938)	(414,135)	(227,321)	(171,521)	(398,842)
Other operating costs	(227,741)	(272,676)	(500,417)	(253,153)	(265,665)	(518,818)
EBITDA	83,728	60,981	144,709	101,904	69,766	171,670
Amortization & depreciation	(13,480)	(20,547)	(34,027)	(11,249)	(18,166)	(29,415)
Operating earnings	$70,248	$40,434	$110,682	$90,655	$51,600	$142,255

Excluding the impact of $36.1 million from acquisitions and a $34.3 million decrease in Metroland Media Group's TMGTV resulting from lower product sales, revenue was down $31.8 million or 2.9% primarily from lower print advertising revenues. Print advertising revenues were down in 2012 with softness in national and retail categories. Digital revenue in the Media Segment was down 4.7% in 2012 due primarily to a decline at WagJag and a change to equity accounting for Torstar's investment in Tuango in the first quarter of 2012. Excluding these two items, digital revenue was up 1.1% with Star Media Group digital revenue up 2.7% and Metroland Media Group digital revenue down 1.5%. Digital revenues in the Media Segment were 11.1% of total Media Segment revenues down slightly from 11.2% in 2011.

Media Segment expenses were down $3.1 million in 2012 including $15.3 million of higher salaries and benefits offset by an $18.4 million decrease in other operating costs. The 3.8% increase in salaries and benefits expense includes $16.6 million of savings from restructuring initiatives in the newspaper businesses which were more than offset by the impact of acquisitions, increased pension costs and regular wage increases. The 3.5% decrease in other operating costs was the result of a $30.4 million decrease in costs at TMGTV resulting from lower product sales, partially offset by additional expenses related to investment spending at Metro and in the digital operations. Newsprint pricing was flat year over year while consumption was down.

Media Segment EBITDA was $144.7 million in 2012, down $27.0 million from $171.7 million in 2011. Media Segment operating earnings were $110.7 million in 2012, down $31.6 million from $142.3 million in 2011.

Metroland Media Group

Excluding the impact of $18.1 million from acquisitions and a $34.3 million decrease in Metroland Media Group's TMGTV resulting from lower product sales, Metroland Media Group revenue was down $18.5 million or 3.2% in 2012. Excluding acquisitions, print advertising revenues were down 5.1% at the newspapers with weakness in the retail and classifieds categories partially offset by gains in real estate. Digital revenue was down 10.7% in 2012 driven primarily by a decline at WagJag which benefited from a strong rollout period in 2011.

Metroland Media Group expenses were down $16.5 million in 2012, including $8.9 million of higher salaries and benefits offset by a $25.4 million decrease in other operating costs. The 3.9% increase in salaries and benefits expense includes $10.1 million of savings from restructuring initiatives which were offset by the impact of acquisitions, increased pension costs and regular wage increases. The decrease in other operating costs was the result of a $30.4 million decrease in TMGTV costs resulting from lower product sales, partially offset by the impact of acquisitions and investment spending in the digital operations.

Metroland Media Group EBITDA was $83.7 million in 2012, down $18.2 million from $101.9 million in 2011. Excluding the impact of $2.2 million from acquisitions, Metroland Media Group EBITDA was $81.5 million in 2012, down $20.4 million or 20.0% from $101.9 million in 2011. Metroland Media Group operating earnings were $70.2 million in 2012, down $20.5 million from $90.7 million in 2011.

Star Media Group
Excluding the impact of $18.0 million from acquisitions, revenues were down $13.3 million in 2012 or 2.6%. Toronto Star print advertising revenues were down 8.5% in 2012 with declines across most categories. National and multi-market retail categories were significant contributors to the decline. The Metro newspapers experienced revenue growth in 2012, benefiting from expansion into new markets as well as additional investment spending in existing markets. Digital revenues were down 1.0% in 2012 due entirely to a change to equity accounting for Torstar's investment in Tuango in the first quarter of 2012. Excluding the accounting change, digital revenues were up 2.7% in 2012.

Star Media Group expenses were up $13.4 million in 2012 including $6.4 million of higher salaries and benefits and $7.0 million of higher other operating costs. Total expenses were higher in 2012 from a combination of acquisitions, investment in staff in the digital operations, increased pension costs and investment spending related to Metro including the launch of new markets.

Star Media Group EBITDA was $61.0 million in 2012, down $8.8 million from $69.8 million in 2011. Excluding the impact of $3.6 million from acquisitions, Star Media Group EBITDA was $57.4 million in 2012, down $12.4 million or 17.8% from $69.8 million in 2011. Star Media Group operating earnings were $40.4 million in 2012, down $11.2 million from $51.6 million in 2011.

Segment Operating Results – Book Publishing
The following tables set out a summary of operating earnings for the Book Publishing Segment and a continuity of revenue and operating earnings, including the impact of foreign currency movements and foreign exchange contracts, for the years ended December 31, 2012 and 2011.

(in $000's)	2012	2011
Operating revenue	$426,483	$459,427
Salaries and benefits	(96,002)	(100,014)
Other operating costs	(253,550)	(273,320)
EBITDA	76,931	86,093
Amortization & depreciation	(4,107)	(3,695)
Operating earnings	$72,824	$82,398

(in $000's)	
Reported revenue, prior year	$459,427
Impact of currency movements and foreign exchange contracts	(5,578)
Change in underlying revenue	(27,366)
Reported revenue, current year	$426,483
Reported operating earnings, prior year	$82,398
Impact of currency movements and foreign exchange contracts	(1,673)
Change in underlying operating earnings	(7,901)
Reported operating earnings, current year	$72,824

Book Publishing Segment revenues were down $27.4 million excluding the impact of foreign exchange. North American revenues were down $22.1 million with declines of $19.1 million in retail print and $6.9 million in direct-to-consumer revenues more than offsetting digital revenue growth of $3.9 million. In North America, digital revenue growth and print revenue declines began to moderate beginning in the second quarter of 2012 and this

trend continued for the balance of the year. In addition, the exceptional performance of a competitor's bestseller has had a negative impact on market share in 2012.

The Overseas division continued to be negatively impacted by economic conditions in Europe. Revenues were down $5.3 million as retail print and direct-to-consumer revenue declines more than offset digital revenue growth.

Global digital revenues were 20.7% of total revenue in 2012, up from 15.5% in 2011.

Book Publishing operating earnings were down $7.9 million, excluding the impact of foreign exchange, reflecting the above noted declines in revenue and higher author royalties on digital sales partially offset by lower promotional spending and overhead costs.

3. Fourth Quarter Operating Results

A discussion of Torstar's fourth quarter operating results

Overall Performance

The following table sets out the segmented results for the three months ended December 31, 2012 and 2011.

	2012				2011			
(in $000's)	Media	Book Publishing	Corporate	Total	Media	Book Publishing	Corporate	Total
Operating revenue	$290,757	$104,989		$395,746	$307,281	$118,055		$425,336
Salaries and benefits	(106,251)	(23,747)	($2,541)	(132,539)	(104,414)	(25,382)	($2,889)	(132,685)
Other operating costs	(133,376)	(64,490)	(786)	(198,652)	(139,307)	(71,443)	(713)	(211,463)
EBITDA	51,130	16,752	(3,327)	64,555	63,560	21,230	(3,602)	81,188
Amortization & depreciation	(8,910)	(1,080)	(16)	(10,006)	(8,305)	(884)	(10)	(9,199)
Operating earnings	42,220	15,672	(3,343)	54,549	55,255	20,346	(3,612)	71,989
Restructuring and other charges	(5,706)	(944)		(6,650)	(13,550)	(113)		(13,663)
Impairment of assets	(11,734)			(11,734)				
Operating profit	$24,780	$14,728	($3,343)	$36,165	$41,705	$20,233	($3,612)	$58,326

Revenue

Excluding the impact of $4.6 million from acquisitions and an $11.2 million decrease in Metroland Media Group's TMGTV resulting from lower product sales, revenue was down $23.0 million or 5.4% in the fourth quarter of 2012.

Media Segment revenues, excluding the above items, were down $9.9 million or 3.2% in the fourth quarter, largely due to print advertising revenue declines.

Book Publishing Segment revenues, excluding the $4.3 million impact of foreign exchange, were down $8.8 million in the fourth quarter with revenues down in both North America and Overseas. Declines in print revenues were only partially offset by increases in digital revenues.

Salaries and benefits

Total salaries and benefits expense was consistent with the prior year in the fourth quarter as savings in the Book Publishing Segment as well as $5.4 million of savings from restructuring initiatives in the newspaper businesses in the Media Segment were offset by the impact of acquisitions, increased pension costs and regular wage increases.

Other operating costs

Total other operating costs were down $12.8 million or 6.1% in the fourth quarter of 2012 resulting from revenue declines and a $9.7 million decrease in TMGTV costs resulting from lower product sales, partially offset by investment spending related to Metro.

EBITDA

EBITDA was $64.6 million in the fourth quarter of 2012, down $16.6 million from $81.2 million in the fourth quarter of 2011. Media Segment EBITDA was down $12.5 million primarily as a result of lower print advertising revenue. Book Publishing Segment EBITDA was down $4.4 million including a decline of $1.1 million from the impact of foreign exchange. Corporate expenses were $3.3 million, down $0.3 million from $3.6 million in 2011.

Amortization and depreciation

Amortization and depreciation expense was $0.8 million higher in the fourth quarter of 2012, primarily from the amortization of intangible assets acquired through 2011 acquisitions in the Media Segment.

Operating earnings

Operating earnings were $54.5 million in the fourth quarter of 2012, down $17.5 million from $72.0 million in the fourth quarter of 2011.

Restructuring and other charges

Restructuring and other charges of $6.7 million and $13.7 million were recorded in the fourth quarter of 2012 and 2011 respectively. Fourth quarter 2012 restructuring provisions of $6.3 million are expected to result in annual net savings of $5.9 million and a reduction of approximately 67 positions. $0.4 million of the savings were realized in the fourth quarter of 2012.

Impairment of assets

During the fourth quarter, Torstar incurred charges related to asset impairment totaling $11.7 million related to certain equipment, intangible assets and goodwill in the Media Segment. These charges have no impact on cash flows.

During the fourth quarter, in connection with restructuring activities, Torstar incurred charges related to asset impairment totaling $0.4 million related to certain equipment in the Metroland Media Group of CGUs and $0.3 million related to certain equipment and finite life intangible assets in the Toronto Star Group CGU.

Additionally, during the fourth quarter of 2012, Torstar performed its annual impairment test on the value of intangible assets with a finite useful life, intangible assets with an indefinite useful life and goodwill. An impairment charge of $11.0 million was recorded in the Workopolis CGU as a result of increased competition in the online recruitment and job search markets and prevailing economic conditions.

Operating profit

Operating profit was $36.2 million in the fourth quarter of 2012, down $22.1 million from $58.3 million in the fourth quarter of 2011.

Interest and financing costs

Interest and financing costs in the fourth quarter of 2012 and 2011 were broken down as follows:

(in $000's)	2012	2011
Interest expense (net)	$1,838	$1,379
Interest accretion costs	163	682
Interest and financing costs	$2,001	$2,061

Interest expense increased in the fourth quarter of 2012 reflecting a higher level of average net debt outstanding in the fourth quarter of 2012 and higher effective interest rates. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was $154.2 million in the fourth quarter of 2012, up $33.7 million from $121.1 million in the same period last year. Torstar's effective interest rate on long-term debt was 4.0% in the fourth quarter of 2012 and 3.0% in the fourth quarter of 2011.

Interest accretion costs related to contingent consideration estimates, long-term restructuring provisions and deferred acquisition payments were $0.2 million in the fourth quarter of 2012 and $0.7 million in the fourth quarter of 2011.

Foreign exchange
Torstar reported a non-cash foreign exchange loss of $0.1 million in the fourth quarter of 2012 and a loss of $0.5 million in the same period last year.

Income from associated businesses
Income from associated businesses was $0.1 million in the fourth quarter of 2012 inclusive of Torstar's share of Blue Ant's income of $0.6 million and Tuango's income of $0.2 million. This was partially offset by Torstar's share of losses of $0.2 million from Shop.ca and a $0.5 million loss in Canadian Press. Loss of associated businesses was $0.4 million from Q-ponz in the fourth quarter of 2011.

Torstar recorded a loss of $0.5 million in the fourth quarter of 2012 to reduce its carrying value in Canadian Press to nil.

Torstar did not record its share of Black Press's results in the fourth quarter of 2012 as Torstar's carrying value in Black Press had previously been reduced to nil.

Other income
When a business combination is achieved in stages, the acquirer is required to remeasure its previously held interest in the acquiree to the acquisition date fair value and recognize the resulting gain or loss, if any, in profit or loss. This remeasurement resulted in other income of $19.0 million in the fourth quarter of 2011 related to Torstar's increased ownership of Metro.

Gain on sale of assets
In the fourth quarter of 2012, Torstar recorded a gain of $2.7 million in connection with the sale of the assets of Insurance Hotline for net proceeds of $7.0 million comprised of $2.0 million in cash and a 12.6% interest in Kanetix Ltd. (an online Canadian Insurance marketplace) valued at $5.0 million. This investment has been recorded at cost and is included in portfolio investments. At the same time, Torstar received an additional $4.0 million of cash in exchange for Media inventory to be provided to Kanetix Ltd. over the next two years.

Investment write-down
In the fourth quarter of 2011, Torstar management determined that there had been an other than temporary decline in the value of the investment in Q-ponz. A $0.5 million write-down was recorded, reducing the carrying value to nil. In early 2012, the Company sold its interest in Q-ponz to the controlling shareholder for nominal consideration.

Income and other taxes
Torstar's effective tax rate in the fourth quarter of 2012 was 33.7%, which was higher than the Canadian statutory rate of 26.5% primarily due to the impairment of goodwill that was not tax affected.

In the fourth quarter of 2011, the remeasurement gain on the Metro transaction was not tax-affected. In addition, Torstar recorded $8.7 million in the fourth quarter of 2011 as a tax benefit from the recognition of tax losses that had previously not been recognized. Excluding the impact of these items, Torstar's effective tax rate was 32.7% in the fourth quarter of 2011.

Net income attributable to equity shareholders
Torstar reported net income attributable to equity shareholders of $24.1 million or $0.30 per share in the fourth quarter of 2012, down $40.2 million or $0.51 per share from $64.3 million or $0.81 per share in the fourth quarter of 2011.

The average number of Class A voting shares and Class B non-voting shares outstanding was 79.7 million in the fourth quarter of 2012, up slightly from 79.5 million in the fourth quarter of 2011.

The following chart provides a continuity of earnings per share from the fourth quarter of 2011 to the fourth quarter of 2012:

Net income attributable to equity shareholders per share fourth quarter 2011		$0.81
Changes		
• Operations	(0.15)	
• Restructuring and other charges	0.06	
• Impairment of assets	(0.15)	
• Other income (remeasurement gain on step acquisitions in 2011)	(0.24)	
• Gain on sale of assets	0.03	
• Deferred taxes	(0.06)	
Net income attributable to equity shareholders per share fourth quarter 2012		$0.30

Segment Results – Media

The following table sets out operating earnings for the Media Segment for the three months ended December 31, 2012 and 2011.

	2012			2011		
(in $000's)	**MMG**	**SMG**	**Total**	**MMG**	**SMG**	**Total**
Operating revenue	$152,150	$138,607	$290,757	$162,319	$144,962	$307,281
Salaries and benefits	(62,055)	(44,196)	(106,251)	(62,060)	(42,354)	(104,414)
Other operating costs	(61,236)	(72,140)	(133,376)	(68,348)	(70,959)	(139,307)
EBITDA	28,859	22,271	51,130	31,911	31,649	63,560
Amortization & depreciation	(3,437)	(5,473)	(8,910)	(3,289)	(5,016)	(8,305)
Operating earnings	$25,422	$16,798	$42,220	$28,622	$26,633	$55,255

Media Segment revenues, excluding the impact of $4.6 million from acquisitions and an $11.2 million decrease in Metroland Media Group's TMGTV resulting from lower product sales, were down $9.9 million or 3.2% in the fourth quarter, largely due to print advertising revenue declines. Digital revenue in the Media Segment was down 3.5% in the fourth quarter of 2012 due entirely to a change to equity accounting for Torstar's investment in Tuango in the first quarter of 2012. Excluding this change, digital revenue was up 0.9%. Digital revenue was 10.9% of Media Segment revenues in the fourth quarter of 2012 up from 10.6% in the fourth quarter of 2011.

Media Segment expenses were down $4.1 million in the fourth quarter of 2012 including $1.8 million of higher salaries and benefits expense offset by a $5.9 million decrease in other operating costs. Salaries and benefits were higher in the fourth quarter of 2012 as $5.4 million of savings from restructuring initiatives in the newspaper businesses in the Media Segment were more than offset by the impact of acquisitions, increased pension costs and regular wage increases. The decrease in other operating expenses reflects the impact of decreased revenues and a $9.7 million decrease in TMGTV costs resulting from lower product sales, partially offset by additional investment spending related to Metro.

Media Segment EBITDA was $51.1 million in the fourth quarter of 2012, down $12.5 million from $63.6 million in the fourth quarter of 2011.

Metroland Media Group

Excluding the increase of $3.3 million from acquisitions and an $11.2 million decrease in TMGTV due to lower product sales, Metroland Media Group revenues were down $2.3 million or 1.4% in the fourth quarter of 2012 primarily as a result of modest declines in print advertising revenue and distribution revenue increased moderately in the quarter. Digital revenue was down 6.4% driven entirely by a decline at WagJag.

Metroland Media Group expenses were down $7.1 million in the fourth quarter of 2012, inclusive of a $9.7 million decrease in TMGTV costs resulting from lower product sales and net savings of $4.0 million from restructuring initiatives partially offset by the impact of acquisitions, increased pension costs and regular wage increases.

Metroland Media Group's EBITDA was $28.9 million in the fourth quarter of 2012 down $3.0 million from $31.9 million in the fourth quarter of 2011. Metroland Media Group's operating earnings were $25.4 million in the fourth quarter of 2012 down $3.2 million from $28.6 million in the same period last year.

Star Media Group

Star Media Group revenues were $138.6 million in the fourth quarter of 2012, down $6.4 million from $145.0 million in the fourth quarter of 2011. Excluding a $1.3 million positive impact from acquisitions, revenue was down $7.6 million or 5.3%.

Toronto Star print advertising revenues were down 11.0% in the fourth quarter of 2012 with declines across most categories. This decline was partially offset by growth in some of the new initiatives.

Star Media Group digital revenues were down 1.8% in the fourth quarter due entirely to a change to equity accounting for Torstar's investment in Tuango in the first quarter of 2012. Excluding the accounting change, digital revenues were up 5.0% in the quarter.

Star Media Group expenses were up $3.0 million in the fourth quarter of 2012 including $1.8 million of higher salaries and benefits expenses and a $1.2 million increase in other operating costs. Total expenses were higher in the fourth quarter of 2012 from a combination of acquisitions, increased pension costs and investment spending at Metro. These were partially offset by $1.4 million of restructuring savings.

Star Media Group EBITDA was $22.3 million in the fourth quarter of 2012, down $9.3 million from $31.6 million in the fourth quarter of 2011. Star Media Group operating earnings were $16.8 million in the fourth quarter of 2012 down $9.8 million from $26.6 million in the fourth quarter of 2011.

Segment Results - Book Publishing

The following tables set out a summary of operating earnings for the Book Publishing Segment and a continuity of revenue and operating earnings, including the impact of foreign currency movements and foreign exchange contracts, for the three months ended December 31, 2012 and 2011.

(in $000's)	2012	2011
Operating revenue	$104,989	$118,055
Salaries and benefits	(23,747)	(25,382)
Other operating costs	(64,490)	(71,443)
EBITDA	16,752	21,230
Amortization & depreciation	(1,080)	(884)
Operating earnings	$15,672	$20,346

(in $000's)	
Reported revenue, fourth quarter prior year	$118,055
Impact of currency movements and foreign exchange contracts	(4,274)
Change in underlying revenue	(8,792)
Reported revenue, fourth quarter current year	$104,989
Reported operating earnings, fourth quarter prior year	$20,346
Impact of currency movements and foreign exchange contracts	(1,118)
Change in underlying operating earnings	(3,556)
Reported operating earnings, fourth quarter current year	$15,672

Book Publishing revenues were down $8.8 million in the fourth quarter excluding the impact of foreign exchange, with North American revenues down $6.6 million and Overseas revenues down $2.2 million.

North American division revenues were down $6.6 million in the fourth quarter of 2012, excluding the impact of foreign exchange. Declines in print were not offset by increases in digital revenues. Retail print revenues were

down $4.9 million, direct-to-consumer revenues were down $1.2 million and digital revenues were down $0.5 million.

Overseas division revenues were down $2.2 million in the fourth quarter of 2012 excluding the impact of foreign exchange as retail print and direct-to-consumer revenue declines more than offset digital revenue growth.

Global digital revenues were 21.4% of total revenue in the fourth quarter of 2012, up from 17.7% in the same period last year and 20.3% in the third quarter of 2012.

Book Publishing operating earnings were down $3.6 million, excluding the impact of foreign exchange, reflecting the above noted declines in revenue and higher author royalties on digital sales, partially offset by lower promotional spending and overheads.

4. Outlook

The outlook for Torstar's business in 2013

The 2013 revenue outlook for the Media Segment remains uncertain. Print advertising continues to be challenged by shifts in spending by advertisers and economic uncertainty. Early indications in 2013 are that print advertising revenue remains soft. Digital revenue is expected to grow in 2013. Cost reductions remain an important area of focus. The Media Segment is anticipated to realize $15.6 million of savings in 2013 from restructuring initiatives undertaken through the end of 2012. Management anticipates pursuing further cost reductions as the year progresses including recent restructuring initiatives in the Media Segment which are expected to result in annualized net savings of $6.6 million, $5.0 million of which are expected to be realized in 2013. In addition, fixed price arrangements with the suppliers of a majority of Torstar's newsprint requirements are expected to reduce newsprint costs by approximately $3.5 million in 2013. Net investment spending associated with growth initiatives in 2013 is anticipated to be consistent with 2012 levels.

Harlequin finished 2012 with operating earnings down $7.9 million compared to the prior year, excluding the impact of foreign exchange. Digital revenue growth and print declines began to moderate in North America as some stability emerged in print and digital sales during 2012. This trend is expected to continue. Overseas markets are expected to continue to face economic challenges particularly in Europe. After a challenging 2012, which included the impact of a competitor's bestseller and the introduction of higher author royalties on digital sales, Harlequin's earnings are anticipated to be relatively stable in 2013. However, earnings are expected to be lower in the first quarter due to the timing of the increase in author royalties on digital sales part way through 2012 and the strong results posted in the first quarter of 2012. If the Canadian dollar remains at its current levels relative to the U.S. dollar and overseas currencies, Harlequin anticipates the impact of foreign exchange to be relatively neutral in 2013.

Effective January 1, 2013 Torstar will be required to adopt the amended IAS 19 accounting standard surrounding *Employee Benefits* which is described in more detail in section 9 of this MD&A. After restating 2012 for the adoption of this standard, it is expected that 2013 employee future benefit expense will increase by approximately $2.0 million.

From a cash flow perspective, in 2013, Torstar anticipates spending approximately $65.0 million for the minimum required funding of registered defined benefit pension plans and $33.0 million for additions to property, plant, equipment and intangible assets. The 2013 capital expenditures are anticipated to include continued investment in technology and software in the Media Segment in addition to general capital maintenance spending.

5. Liquidity and Capital Resources

A discussion of Torstar cash flow, liquidity, credit facilities and other disclosures

Torstar uses the cash generated by its operations to fund capital expenditures, distributions to shareholders, acquisitions and debt repayment. Long-term debt is used to supplement funds from operations as required, generally for capital expenditures or acquisitions.

It is expected that future cash flows from operating activities, combined with the long-term bank credit facility will be adequate to cover forecasted financing requirements in the short and long term.

In 2012, $90.6 million of cash was generated by operations, $47.7 million was used in investing activities and $56.1 million was used in financing activities. Cash and cash equivalents net of bank overdraft decreased by $13.8 million in the year from $42.9 million to $29.1 million.

In the fourth quarter of 2012, $30.4 million of cash was generated by operations, $9.0 million was used in investing activities and $32.4 million was used in financing activities. Cash and cash equivalents net of bank overdraft decreased by $10.7 million in the quarter from $39.8 million to $29.1 million.

Operating Activities

Operating activities provided cash of $90.6 million in 2012, down $24.4 million from $115.0 million in 2011. The lower amount in 2012 reflects lower operating income and higher funding of employee future benefits, partially offset by a lower increase in non-cash working capital.

Non-cash working capital increased $6.8 million in 2012 from the payment of final 2011 income taxes and a net decrease in current provision balances. $22.3 million was paid against restructuring provisions during 2012. Non-cash working capital increased $18.1 million in 2011 primarily as a result of the final 2010 income tax payment and $21.6 million of payments against restructuring provisions during 2011.

Cash provided by operating activities was $30.4 million in the fourth quarter of 2012 including a $4.3 million increase in non-cash working capital. In the fourth quarter of 2011, cash provided by operating activities was $46.3 million including a $7.6 million increase in non-cash working capital. This decrease is largely attributable to a combination of lower operating income and a $10.9 million increase in employee future benefits funding in the fourth quarter of 2012 compared to the fourth quarter of 2011.

Investing Activities

Cash used in investing activities was $47.7 million in 2012, compared to cash provided by investing activities of $137.4 million in 2011.

Additions to property, plant and equipment and intangible assets were $33.0 million in 2012, down $2.0 million from $35.0 million in 2011. The 2012 additions included general capital maintenance spending as well as investment in technology, software, and leasehold improvements across the Media Segment reflecting process improvements, website development and office space consolidation.

Cash of $291.6 million was received in 2011 as proceeds on the sale of Torstar's interest in CTV.

In 2012, Torstar used cash of $11.9 million for acquisitions and portfolio investments. This included $1.8 million for new acquisitions, $1.1 million for portfolio investments, $3.1 million of deferred payments and $5.9 million of contingent consideration for prior year acquisitions primarily in the Media Segment.

In 2011, Torstar used cash of $101.8 million for acquisitions and portfolio investments. This included $48.4 million for the fourth quarter increased ownership in Metro, $42.4 million for other acquisitions in the Media Segment, $6.9 million for the deferred payments related to Harlequin's 2010 acquisition of full ownership of its German publishing business, $3.5 million for deferred and contingent consideration payments in respect of prior year acquisitions in the Media Segment, and $0.6 million for portfolio investments. The other Media Segment acquisitions included Performance Printing, Starmail Distributors, Autocatch.com, Brant News and the remaining

50% of save.ca. The Metro transaction also included a call option liability with a discounted value of $10.8 million related to call and put options that were entered into with regards to the minority interest held by Metro International. The other Media Segment acquisitions included $2.1 million of current payables for deferred purchase payments and an estimate of $1.1 million for contingent consideration.

Cash used for investments in associated businesses was $11.3 million in 2012 and $17.3 million in 2011. The 2012 investments included $5.8 million in Blue Ant, $5.0 million in Shop.ca and $0.3 million in Canadian Press. The 2011 investments included $16.9 million in Blue Ant and $0.3 million in Canadian Press.

Cash used in investing activities in the fourth quarter of 2012 was $9.0 million, including $9.6 million for additions to property, plant and equipment and intangible assets and $1.4 million for acquisitions and portfolio investments partially offset by $2.0 million of cash proceeds received on the sale of Insurance Hotline. In 2011, $101.7 million of cash was used in investing activities, including $75.7 million for acquisitions, $17.3 million for investments in associated businesses and $8.7 million for additions to property, plant and equipment and intangible assets.

Financing Activities

Cash of $56.1 million was used in financing activities during 2012, including a net $16.2 million repayment of long-term debt and $41.1 million for cash dividends paid to shareholders. In the fourth quarter of 2012, cash of $32.4 million was used in financing activities including $22.1 million of long-term debt repayments and $10.4 million for cash dividends paid to shareholders.

Cash of $245.6 million was used in financing activities during 2011, including a net $209.8 million for the repayment of long-term debt and $36.9 million for cash dividends paid to shareholders. In the fourth quarter of 2011, cash of $53.0 million was provided by financing activities including $63.1 million of increased long-term debt borrowing and $9.9 million for cash dividends paid to shareholders.

Net Debt

Net debt was $149.0 million at December 31, 2012, down $4.3 million from $153.3 million at December 31, 2011. Of the $4.3 million decrease $1.3 million is the result of foreign exchange.

Long-term Debt

As at December 31, 2012, Torstar had $178.0 million of debt outstanding under its long-term bank credit facility. The debt consisted of U.S. dollar bankers' acceptances of $91.0 million and Canadian dollar bankers' acceptances of $87.0 million. As at December 31, 2011, Torstar had $196.2 million of debt outstanding under its long-term bank credit facility. The debt was classified as current on the December 31, 2011 consolidated statement of financial position as the renewal of the facility was not effective until January 4, 2012. The debt consisted of U.S. dollar bankers' acceptances of $88.2 million and Canadian dollar bankers' acceptances of $108.0 million.

As at December 31, 2012, Torstar's long-term bank credit facility consists of a $150 million revolving facility ("Tranche A") that will mature in January, 2016 and a $200 million revolving facility ("Tranche B") that will mature in January 2014. Both Tranches provide for annual 364-day extensions upon the mutual agreement of Torstar and the lenders. In February 2013, Torstar extended both tranches A and B for an additional 364-day period to January 2017 and January 2015 respectively.

Amounts may be drawn under the credit 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 net debt to operating cash flow ratio for borrowings under either Tranche (range of 1.4% to 2.5%). As at December 31, 2012, the interest rate spread was 1.4%.

Torstar borrows under the bank credit facility primarily in the form of bankers' acceptances. The bankers' acceptances normally mature over periods of 30 to 180 days but as they are issued under the long-term credit facility, their classification is consistent with the 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. 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 bank 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 consolidated statement of financial position.

Torstar has a policy of maintaining a sufficient level of U.S. dollar denominated debt in order to provide a hedge against its U.S. dollar assets. It is expected that the level of U.S. dollar debt will remain relatively constant during 2013.

Torstar's long-term bank credit facility also acts as a standby line in support of letters of credit. At December 31, 2012, a total of $211.9 million (December 31, 2011 - $224.1 million) was drawn under the facility, including a $31.1 million letter of credit relating to an executive retirement plan (December 31, 2011 - $25.2 million). As of December 31, 2012, Torstar had approximately $138.1 million of available credit, net of outstanding letters of credit (December 31, 2011 - $50.9 million which was increased by $75 million on January 4, 2012 effective with the renewal of the long-term bank credit facility).

Contractual Obligations

Torstar has the following significant contractual obligations (in $000's[1]):

Nature of the Obligation[2]	Total	Less than 1 Year (2013)	1 – 3 Years 2014–2015	4 – 5 Years 2016–2017	After 5 Years 2018 +
Office leases	$120,429	$19,423	$37,636	$33,902	$29,468
Services	14,888	7,811	5,418	1,354	305
Acquisitions	14,651	2,154	12,241	256	
Equipment leases	1,933	695	930	308	
Subtotal	151,901	$30,083	56,225	$35,820	$29,773
Foreign currency forward contracts:					
- payments	49,745	39,796	9,949		
- receipts	(51,311)	(40,866)	(10,445)		
- net	(1,566)	(1,070)	(496)		
US $ Interest rate swaps	7,783	3,308	4,475		
Long-term debt	178,727		28,727	150,000[3]	
Total	$336,845	$32,321	$88,931	$185,820	$29,773

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 and Star Media Group sponsorship commitments. The acquisition obligations relate to the 2010 purchase of WagJag.com, the 2011 purchases of Foodscrooge, The Kit and the call option liability for Metro and the 2012 purchase of Target Vacations.

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 long-term debt repayment timing reflects Torstar's credit facility in place as at December 31, 2012.

[2] All foreign denominated obligations were translated at the December 31, 2012 spot rates.

[3] These are commitments under the revolving credit facility noted previously. The credit facilities are subject to customary terms and conditions and events of default.

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 irrevocable letter of credit by the sub-lessee. In February 2013, the sub-lessee has filed for protection under Chapter 11 of the United States Bankruptcy Code and it is unclear if the sub-lessee will be able to honour its commitments going forward under the sublease.

Along with the other shareholders of Kanetix Ltd., Torstar has pledged its shares in Kanetix in support of the Kanetix credit facility.

Outstanding Share and Share Option Information
As at February 28, 2013 Torstar had 9,861,554 Class A voting shares and 69,883,058 Class B non-voting shares outstanding. More information on Torstar's share capital is provided in Note 17 of the consolidated financial statements.

As at February 28, 2013, Torstar had 4,639,846 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 18 of the consolidated financial statements.

6. Financial Instruments

A summary of Torstar's financial instruments

Foreign Exchange
Harlequin's international operations provide Torstar with approximately 27% 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 2012, Torstar sold U.S. $52.4 million under forward foreign exchange contracts at an average exchange rate of $1.03. In 2011, Torstar sold U.S. $35.5 million under forward foreign exchange contracts at an average exchange rate of $1.07. The settlement of these contracts resulted in a foreign exchange gain of $1.5 million in 2012 and $2.6 million in 2011. Torstar has entered into forward foreign exchange contracts to sell $40.0 million U.S. dollars during 2013 at an average rate of $1.02 and $10.0 million U.S. dollars in 2014 at an average rate of $1.04. These 2013 and 2014 forward foreign exchange contracts had a $1.3 million favourable fair value at December 31, 2012. These U.S. dollar contracts are designated as revenue hedges for accounting purposes and any resulting gains or losses are recognized in Book Publishing Segment revenues as realized.

The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. Further details are contained in Note 12 of the consolidated financial statements.

Torstar is also exposed to foreign exchange fluctuations on the translation of foreign currency denominated assets and liabilities. Foreign exchange gains or losses on the translation of foreign currency (primarily U.S. dollar) denominated assets and liabilities held by Torstar's Canadian operations are reported in the consolidated statement of income. Foreign exchange gains or losses on the translation of foreign currency (including U.S. dollars) denominated assets and liabilities of Torstar's foreign operations are reported through OCI.

In order to offset the exchange risk on its statement of financial position from U.S. dollar denominated assets, Torstar maintains a certain level of U.S. dollar denominated debt. As most of the foreign exchange gains or losses on those U.S. dollar denominated assets is reported through OCI, Torstar, effective January 1, 2011, has designated $80.0 million of its U.S. dollar denominated debt as a hedge against its net investment in the Book Publishing businesses that have the U.S. dollar as their functional currency. The foreign exchange gain or loss

on the translation of U.S. dollar denominated debt in excess of $80.0 million is reported in the consolidated statement of income.

Interest Rates
Torstar has issued bankers' acceptances at floating rates in both Canadian and U.S. dollars under the long-term bank credit facility.

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, 2012, approximately 44% of Torstar's long-term debt was at fixed interest rates as a result of the use of interest rate swap agreements (December 31, 2011 – 40%).

In 2008, Torstar entered into interest rate swap agreements that fix the interest rate on U.S. $80.0 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 an unfavourable fair value of $7.0 million to Torstar at December 31, 2012.

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 12 of the consolidated financial statements.

7. Employee Future Benefit Obligations

A summary of Torstar's employee future benefit obligations

Torstar has several registered defined benefit pension plans which provide pension benefits to its employees primarily 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. Torstar also has a post employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the newspaper operations.

Torstar had the following defined benefit net obligations as at December 31:

($000's)	2012	2011
Registered pension plans	$181,425	$184,571
Unregistered/unfunded pension plans	26,456	23,417
Post employment benefits plan	47,553	56,039
	$255,434	$264,027

Torstar recognized the following expense in net income related to the defined benefit obligations:

($000's)	2012	2011
Registered pension plans	$11,232	$9,500
Unregistered/unfunded pension plans	2,154	2,098
Post employment benefits plan	2,898	3,048
	$16,284	$14,646

Funding requirements are determined based on actuarial valuations that are completed at the frequency required under the applicable (primarily Ontario provincial) pension legislation which can range from annually to once every three years.

Actuarial reports for the most significant group of Torstar's registered defined benefit pension plans (in terms of assets and obligations) were completed as of December 31, 2011. Torstar's funding for its registered defined benefit pension plans in 2012 was $72.5 million in excess of the minimum funding for 2012 of $46.4 million as Torstar chose to fund beyond the minimum funding obligation. Torstar is required to prepare another set of

actuarial reports as of December 31, 2012. Torstar's minimum and estimated funding for these plans in 2013 is approximately $65.0 million.

The unregistered pension plan for Torstar's senior executives is unfunded but is supported by an outstanding letter of credit of $31.1 million as at December 31, 2012 (December 31, 2011 - $25.2 million). Torstar only funds the unregistered pension plan when a member of the plan has retired or has left the company and is of retirement age. Payments of $1.6 million were made in 2012 and $2.4 million in 2011. The health and life insurance post employment benefits plan is being funded as payments are made on behalf of the retirees. Payments of $2.4 million and $2.3 million were made in 2012 and 2011 respectively.

The cost and obligations of pensions and post employment benefits earned by employees is calculated annually by independent actuaries using the projected unit credit method prorated on service and management's best estimate of assumptions for the discount rate used to measure obligations, the expected long-term rate of return on pension plan assets for funded plans, salary increases, employee turnover, retirement ages of employees, mortality rates and expected health care costs. The most significant assumptions are the discount rate and the expected long-term rate of return on pension plan assets. On an interim basis, management estimates the changes in the actuarial gains and losses. These estimates are adjusted to actual when the annual calculations are completed by the independent actuaries.

The significant assumptions made by Torstar's management in 2012 and 2011 were:

	2012	2011
To determine the benefit obligation at the end of the year:		
Discount rate	3.4% - 3.9%	4.3% - 4.4%
Rate of future compensation increase	3.0% - 4.0%	3.0% - 4.0%
To determine the pension benefit expense for the year:		
Discount rate	4.3% - 4.4%	4.7% - 5.1%
Rate of future compensation increase	3.0% - 4.0%	3.0% - 4.0%
Expected long-term rate of return on pension plan assets	6.50%	6.75%
	2013	
To determine the pension benefit expense for the following year:		
Discount rate	3.4% - 3.9%	
Rate of future compensation increase	3.0% - 4.0%	
Assumed rate of return on pension plan assets[4]	3.9%	

The discount rates 3.4 % - 3.9% were the yields at December 31, 2012 on high quality Canadian corporate bonds with maturities that match the expected maturity of the pension obligations. 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, 2012 of $130.9 million and a decrease in the 2012 expense of $0.8 million. A discount rate that was one percent lower would have increased the total pension plan obligation at December 31, 2012 by $151.4 million and decreased the 2012 expense by $0.2 million.

Management has estimated the expected long-term rate of return on pension plan assets to be 6.5% based on 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 6.5% 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 pension plan assets had been one percent higher (lower), the 2012 pension expense would have been approximately $7.3 million lower (higher).

[4] Change is due to the adoption of the amended IAS 19 effective January 1, 2013. See description in Section 9.

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.

For the post employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, the key assumptions are the discount rate and health care cost trends. The discount rate used is the same as the prescribed rate for the defined benefit pension obligation. For health care costs, the estimated trend was for a 7.5% increase for the 2012 expense. For 2013, health care costs are estimated to increase by 7.5% with a 0.5% decrease each year until 2017. If the estimated increase in health care costs were one percent higher, the obligation at December 31, 2012 would be approximately $1.3 million higher. If the estimated increase in health care costs were one percent lower the obligation at December 31, 2012 would be approximately $1.1 million lower. The impact on the 2012 expense would have been $0.1 million.

Due to the extensive use of estimates in the benefit calculations, actuarial gains and losses arise over time as discount rates change, when actual return performance differs from the estimated return and as other assumption estimates change. The most significant actuarial gains and losses arise from differences in the actual returns earned on pension plan assets as compared to the expected long-term returns and from the impact of changes in the discount rates on the plan obligations. Torstar recognizes these actuarial gains and losses as realized, through OCI. Actuarial losses of $51.9 million were recognized through OCI in 2012 and $91.5 million in 2011.

8. Critical Accounting Policies and Estimates

A description of accounting estimates that are critical to determining Torstar's financial results, and changes to accounting policies

The preparation of Torstar's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, and liabilities and the disclosure of contingent liabilities, at the end of the reporting period.

Management uses estimates when accounting for certain items such as revenues, allowance for doubtful accounts, useful lives of capital assets, asset impairments, provisions, share-based compensation plans, employee benefit plans, deferred income taxes and goodwill impairment. Estimates are also made by management when recording the fair value of assets acquired and liabilities assumed in a business combination.

Estimates are based on a number of factors, including historical experience, current events and other assumptions that management believes are reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more significant estimates and assumptions made by management are described below:

Book revenue provisions

In the Book Publishing Segment, revenue from the sale of books is recorded net of provisions for estimated returns and direct-to-consumer bad debts (book revenue provisions). Retail print books are sold with a right of return. The retail returns provision is estimated based primarily on point-of-sale information, returns patterns and historical sales performance for the type of book and the author. Direct-to-consumer books are shipped with no obligation to the customer who may return the books or cancel their subscription at any time. The direct-to-consumer book revenue provision recognizes that not all books shipped will be purchased by the customer. Direct-to-consumer book revenue provisions are made at the time of shipment for the anticipated physical return of the books or a non-payment for the shipment. The direct-to-consumer book revenue provisions are estimated based on historical payment rates for the type of book as well as how long the customer has been a subscriber.

The impact of the variance between the original estimate for returns and direct-to-consumer bad debts 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. This subsequent impact has historically been more significant for the retail returns provisions than the direct-to-consumer book revenue provisions.

As at December 31, 2012, the book revenue provisions deducted from accounts receivable on the consolidated statement of financial position was $76.5 million ($88.4 million in 2011). A one percent change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2012 would have resulted in a $2.9 million change in reported 2012 revenue.

Employee Future Benefits

The accrued benefit asset or liability and the related cost of defined benefit pension plans and other post employment benefits earned by employees is determined each year by independent actuaries based on several assumptions.

The actuarial valuation uses management's assumptions for the discount rate, expected long-term rate of return on pension plan assets, rate of compensation increase, trends in healthcare costs and expected average remaining years of service of employees. 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. The most significant assumptions are the discount rate and the expected long-term rate of return on pension plan assets.

The discount rate used to determine the present value of the future cash flows that are expected to be required to settle employee benefit obligations is based on the yield on long-term, high-quality corporate bonds, with maturities matching the estimated cash flows from the benefit plan. A lower discount rate would result in a higher employee benefit obligation.

The expected long-term rate of return is a weighted average of estimated long-term returns on each of the major pension plan asset categories in the Company's pension funds. A lower expected rate would result in a lower fair value of the pension plan assets and a higher employee benefit obligation.

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 "Employee Future Benefit Obligations" in this MD&A and are disclosed in Note 16 of the consolidated financial statements.

Impairment of non-financial assets

At each reporting date, Torstar is required to assess its intangible assets and goodwill for potential indicators of impairment such as an adverse change in business climate that may indicate that these assets may be impaired. If any such indication exists, Torstar estimates the recoverable amount of the asset or CGU and compares it to the carrying value. In addition, irrespective of whether there is any indication of impairment, Torstar is required to test intangible assets with an indefinite useful life and goodwill for impairment at least annually.

For intangible assets other than goodwill, Torstar is also required to assess at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

Torstar completes its annual testing during the fourth quarter each year.

The test for impairment for either an intangible asset or goodwill is to compare the recoverable amount of the asset or CGU to the carrying value. The recoverable amount is the greater of fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets (such as goodwill). If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

In calculating the recoverable amount, 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 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.

Taxes

The Company 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 deferred 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.

Deferred tax is provided using the liability method for temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured using substantively enacted tax rates and laws at the reporting date that are expected to be in effect when the temporary differences are expected to reverse.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that sufficient taxable profit will be available against which they can be utilized. When assessing the probability of taxable profit being available, management primarily considers prior years' results, forecasted future results and non-recurring items. As such, the assessment of the Company's ability to utilize tax losses carried forward is to a large extent judgement-based. If the future taxable results of the Company differ significantly from those expected, the Company would be required to increase or decrease the carrying value of the deferred tax assets with a potentially material impact on the Company's consolidated statement of financial position and consolidated statement of comprehensive income. The carrying amount of deferred tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable profits to allow all or part of the asset to be recovered.

More information on Torstar's income taxes is provided in Note 10 of the consolidated financial statements.

A significant judgement made by management is described below.

Classification of investments as portfolio investments, associated businesses, joint ventures and subsidiaries

Classification of investments requires judgement on whether Torstar controls, has joint control or significant influence over the strategic financial and operating decisions relating to the activity of the investee. Joint control is the contractually agreed sharing of control over the financial and operating policy decisions of the investee. It exists only when the decisions require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not represent control or joint control over those decisions. If an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

In assessing the level of control or influence that Torstar has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements.

Black Press and Shop.ca have been classified as associated businesses based on management's judgement that Torstar has, based on rights to board representation and other provisions in the respective shareholder agreements, significant influence despite owning less than 20% of the voting rights throughout 2012.

9. Recent Accounting Pronouncements

A discussion of recent IFRS developments that will affect Torstar

The International Accounting Standards Board ("IASB") continues to issue new and revised IFRS. A listing of the changes in IFRS is included in Note 2(u) in Torstar's December 31, 2012 consolidated financial statements. Most of the new standards are expected to have a relatively minor impact on Torstar's financial reporting but there are two that are currently expected to have a more significant impact.

The first is IFRS 11 *Joint Arrangements*. This new standard provides the accounting for joint ventures and joint operations. It will eliminate the use of the proportionate consolidation method to account for joint ventures and will require them to be accounted for using the equity method of accounting. The new standard will be effective for Torstar for its 2013 fiscal year with retroactive restatement to January 1, 2012. Torstar currently proportionately consolidates its joint ventures including its interest in Sing Tao, Workopolis and Harlequin's operations in France and Italy. With the new standard, the revenues, expenses, assets and liabilities from these operations will no longer appear in Torstar's consolidated financial statements but will be replaced by a single investment amount on the consolidated statement of financial position and a single income amount on the consolidated statement of income. Torstar's 2012 restated revenue and operating profit are estimated to be lower by $79.0 million and $1.9 million respectively but with no change to net income. At December 31, 2012, while net assets would remain the same, cash and cash equivalents net of bank overdraft, would have been lower by $14.0 million resulting in a corresponding increase in net debt. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. Under the amended standard, the $10.4 million gain recognized on the remeasurement of Tuango would be reversed in the restated consolidated statement of income for 2012, reducing the carrying amount of the investment.

The second is the amended IAS 19 *Employee Benefits*. The amendments introduce a net interest approach for defined benefit obligations. The change will replace the expected return on plan assets and interest costs on the defined benefit obligation with a single net interest component determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation. For example, in 2012 Torstar's expected long-term rate of return on plan assets was 6.5% compared with the discount rate of 4.3% used to determine the expense on the benefit obligation. In this example, under the amended standard, the rate of 4.3% would be applied to the net benefit liability. The amended standard will be effective for Torstar's 2013 fiscal year with retroactive restatement to January 1, 2012. The adoption of the standard will have no impact on future cash funding requirements. Upon the adoption of this standard, Torstar intends to classify the interest component of employee future benefit expenses in interest and financing costs. Torstar's 2012 restated employee future benefit expenses are estimated to be $16.8 million higher, incurred equally throughout the year. EBITDA and operating profit would have been lower by $5.6 million and interest and financing costs would have increased by $11.2 million. Additionally, Torstar's net income would have been lower by $12.5 million.

10. Controls and Procedures

A discussion of Torstar's disclosure controls and internal controls over financial reporting

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 at December 31, 2012, 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, 2012, 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 IFRS, 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 controls over financial reporting were effective as at December 31, 2012.

Changes in Internal Control over Financial Reporting

There have been no changes in Torstar's internal controls over financial reporting that occurred during the year ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, Torstar's internal controls over financial reporting.

11. Selected Annual Information

A summary of selected annual financial information for 2012, 2011 and 2010

(in $000's – except for per share amounts)[5]	2012	2011	2010
Revenue	$1,485,744	$1,548,757	$1,483,768
Net income	$103,836	$218,141	$210,729
Net income attributable to equity shareholders	$103,247	$217,721	$209,910
Net income attributable to equity shareholders per Class A voting and Class B non-voting share			
Basic	$1.30	$2.74	$2.65
Diluted	$1.29	$2.72	$2.64
Average number of shares outstanding during the year (in 000's)			
Basic	79,671	79,400	79,074
Diluted	79,946	79,949	79,637
Cash dividends per Class A voting and Class B non-voting share	$0.5188[6]	$0.4675	$0.37
Total assets	$1,471,244	$1,484,767	$1,536,385
Total long-term debt	$178,027	$196,191	$404,586

[5] All amounts presented have been prepared in accordance with IFRS.

[6] Torstar's annualized dividend rate effective March 31, 2012 is $0.525.

Revenue has been relatively stable in 2012 and 2010 with 2011 revenue reflecting higher product sales in Metroland Media Group's TMGTV. Digital revenues have grown over the three year period in both the Media and Book Publishing Segments.

Over the three year period, significant labour cost savings have been realized in the Media Segment from restructuring initiatives. The provisions for the costs of these restructuring initiatives have had a negative impact on net income, generally in a period in advance of the cost savings being realized.

2010 net income included a remeasurement gain of $115.5 million related to Torstar's investment in CTV and $3.5 million related to the acquisition of the remaining half of Harlequin's German publishing business that it had not previously held.

Net income in 2011 was positively impacted by a $74.6 million gain on the sale of Torstar's interest in CTV and a $19.0 million remeasurement gain related to Torstar's previously-held interest in Metro.

Total assets have declined slightly over the three year period while long-term debt has been reduced by $226.6 million as a result of cash generated from operations and the proceeds from the sale of Torstar's investment in CTV.

12. Summary of Quarterly Results

A summary view of Torstar's quarterly financial performance

The following table presents selected financial information for each of the eight most recently completed quarters:

(in $000's - except per share amounts)	2012 Quarter Ended				2011 Quarter Ended			
	Dec 31	**Sept 30**	**June 30**	**March 31**	**Dec 31**	**Sept 30**	**June 30**	**March 31**
Revenue	$395,746	$355,336	$383,907	$350,755	$425,336	$378,677	$393,322	$351,422
Net Income	$24,385	$14,267	$35,915	$29,269	$64,572	$25,279	$112,902	$15,388
Net Income attributable to equity shareholders	$24,140	$14,120	$35,677	$29,310	$64,283	$25,239	$112,727	$15,472
Per Class A voting and Class B non-voting share								
Basic	$0.30	$0.18	$0.45	$0.37	$0.81	$0.32	$1.42	$0.20
Diluted	$0.30	$0.18	$0.44	$0.37	$0.81	$0.32	$1.41	$0.19

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. Book Publishing Segment revenues will vary each quarter depending on the publishing schedule and the impact of foreign exchange rates.

The second quarter of 2011 included the $74.6 million gain on the sale of Torstar's interest in CTV and the fourth quarter included the $19.0 million remeasurement gain related to Torstar's previously-held interest in Metro. The third and fourth quarters of 2012 were impacted by lower operating revenues.

Restructuring and other charges have impacted the level of net income in several quarters. In 2012, the first, second, third and fourth quarters had restructuring and other charges of $2.6 million, $1.6 million, $6.9 million and $6.7 million respectively. In 2011, the first, second, third and fourth quarters had restructuring and other charges of $0.4 million, $3.4 million, $2.0 million and $13.7 million respectively. Additionally, losses on impairment of assets of $0.3 million, $1.0 million and $11.7 million were recorded in the second, third and fourth quarters of 2012 respectively.

13. Reconciliation and Definition of Non-IFRS Measures

A description and reconciliation of certain non-IFRS measures used by management

In addition to operating profit, as presented in the consolidated statement of income, management uses EBITDA and operating earnings as measures to assess the consolidated performance and the performance of the reporting units and business segments.

Earnings before Interest, Taxes, Depreciation and Amortization

EBITDA (earnings before interest, taxes, depreciation and amortization) 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 business segment. EBITDA is not the actual cash provided by operating activities and is not a recognized measure of financial performance under IFRS. Torstar calculates EBITDA as operating revenue less salaries and benefits and other operating costs as presented on the consolidated statement of income. EBITDA excludes restructuring and other charges and impairment of assets. Torstar's method of calculating EBITDA may differ from other companies and accordingly may not be comparable to measures used by other companies.

Operating earnings

Operating earnings is used by management to represent the results of ongoing operations and is not a recognized measure of financial performance under IFRS. Torstar calculates operating earnings as operating revenue less salaries and benefits and other operating costs and amortization and depreciation. Operating earnings excludes restructuring and other charges and impairment of assets. Torstar's method of calculating operating earnings may differ from other companies and accordingly may not be comparable to measures used by other companies.

14. Risks and Uncertainties

Risks and uncertainties facing Torstar

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, financial performance 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.

Media Segment – Revenue Risks

Revenue from Torstar's Media Segment accounted for approximately 71% of Torstar's consolidated operating revenue in the year ended December 31, 2012. Revenue in the Media Segment is primarily dependent upon the sale of advertising and to a lesser extent, the generation of circulation revenue. Advertising revenue includes in-paper advertising, digital advertising, inserts/flyers and specialty publications.

Competition

Competition for advertising and circulation revenue comes from free and paid local, regional and national newspapers, radio, broadcast and cable television, outdoor, direct mail, directories, websites, social media, applications for mobile devices, other communications and advertising media, and online advertising networks and exchanges 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 of digital media alternatives and the fragmentation of audiences. In addition, there has been increasing consolidation in Canadian newspaper publishing, television, radio and other media and competitors increasingly have interests in multiple forms of media. These competitors may be more successful in attracting advertising revenue by bundling sales across television, radio and internet platforms and may have access to greater financial and other resources than what is available to Torstar.

There has been a structural shift within the advertising industry from print to digital that has and will continue to impact print advertising revenue and this shift may be permanent. Websites, applications for mobile devices, social networking tools and other digital platforms that distribute news and other content continue to gain popularity and contribute to this shift. As a result, audience attention may decline and advertising spending will likely continue to

shift from traditional media forms to digital media. In addition, advertisers have increased opportunity to reach customers directly with new digital technologies which may contribute to reduced spending on advertising. This shift is likely to continue with advertisers seeking lower-cost alternatives, convenience and access to the latest digital technologies. Torstar expects that advertisers will continue to allocate greater portions of their budgets to digital media. This shift has intensified competition for advertising in traditional media and has contributed to and may continue to contribute to a decline in print advertising revenue that is difficult to replace. Digital advertising revenues have not offset a significant portion of lost print advertising revenue and Torstar may not be as successful as others in the industry in offsetting lost print advertising revenue.

In response to this shift to digital media, Torstar has been making significant investments in its digital businesses over the past several years. The digital businesses in Torstar's Media Segment operate in a rapidly evolving and highly dynamic competitive environment. Rapid changes in technology and digital media options 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. Torstar may not be able to successfully respond to these rapid changes and increasing number of digital media options. In addition, the revenue growth in these digital businesses may not continue at the same rate and certain of these digital businesses may not achieve profitability.

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 to succeed, Torstar will need to be able to successfully exploit new and existing technologies, distinguish its products and services from those of its competitors and continue to develop or adapt to new distribution methods that provide competitive user experiences.

Economic conditions

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 Ontario economy specifically, have had and may continue to have a negative impact on the advertising industry and on Torstar's operations. Local downturns in the general economic environment may continue to cause Torstar's customers to reduce the amounts they spend on advertising which could result in a decrease in demand for advertising and lower advertising rates.

Torstar's advertising revenue is also dependent on the prospects of its advertising customers. A significant portion of Torstar's advertising revenue is derived from retail, real estate and automotive sector advertisers. Weakness and continuing uncertainty in these sectors has had, and may continue to have, an adverse impact on Torstar's advertising revenues.

Content and readership

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.

Torstar has implemented a pay model for online readership for thespec.com, guelphmercury.com and therecord.com and intends to implement a pay model for thestar.com. Torstar's ability to build a paid subscriber base for its digital news content will depend on market acceptance, consumer habits, the timely development of an adequate online infrastructure, practices of delivery platforms, pricing and other factors. Torstar also faces the risk that although implementing a pay model could increase revenue, it could also reduce online readership levels and page views and have a negative impact on advertising revenues.

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, relevant and entertaining by readers and advertisers. Public preferences and tastes, general economic conditions, the availability of alternative sources of content 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.

With the increase in alternative digital 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. If traffic levels decline or stagnate, Torstar may not be able to create sufficient advertiser interest in its digital businesses to maintain or increase the advertising rates of its advertising inventory. Torstar may incur additional marketing costs to attract subscribers and increase its online traffic and may not be able to recover these costs through online circulation and advertising revenues.

Maintenance of satisfactory circulation, readership and online traffic levels attractive to advertisers cannot be guaranteed.

Product Revenue

TMGTV's product business is dependent on Torstar's ability to continue to source and market products that have consumer appeal and there is no guarantee that Torstar will be able to do so. The appeal of products can change for a variety of reasons, including customer preference and the perceived value of the products. In addition, product distribution is a relatively new business for Torstar, and there is a limited historical basis to predict customer demand for new products.

Book Publishing Segment – Revenue Risks

Revenue from Torstar's Book Publishing Segment accounted for approximately 29% of Torstar's consolidated operating revenue in the year ended December 31, 2012. Book Publishing revenue is generated from Harlequin. 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 – Harlequin.com).

Competition

Harlequin competes not only with other book publishers but also with other providers of entertainment including television, music, movies, games and magazines. These global markets are very competitive and this is not expected to change in the future. More recently, online retailers have also entered into the book publishing business creating additional competition. In addition, authors have greater opportunity to self-publish.

Economic conditions

Historically, Harlequin's book publishing revenue has not been as sensitive to economic conditions as has advertising revenue for the Media Segment. While consumers generally reduce spending during economic downturns, book sales have tended to be relatively more stable. There is no assurance that this will continue to be the case in the future.

Harlequin has also benefited from geographic diversification to lessen the impact of changes in the general economic performance in any one individual country, although it does have significant exposure to the economic conditions in the U.S. market. In 2012, 5% of Harlequin's revenues were derived from Canada, 48% from the U.S., and 47% from all other markets (the largest of which were Japan, Germany, the U.K., Australia, Nordic and France).

Authors

Harlequin's single title 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 may decide to publish future books with another publisher. There is also no guarantee that an author will continue to be popular with readers or that future titles will be successful. In addition, as the digital book market grows, it is increasingly possible for authors to self-publish.

Price

In recent years, the book publishing industry, in particular in North America, has seen increased price competition among book retailers in both printed and digital formats, including self-publishing. Harlequin primarily publishes paperback books which to date, have not experienced the same pricing pressures as hardcover books, however, there is no guarantee that this will continue.

Retail market
The significant growth of the digital book market has resulted in a contraction of the retail print market. Distribution for the retail print market is also relatively concentrated with a small number of wholesalers and retailers in any market. These factors increase the risk of bankruptcy of a major retail customer or a wholesaler which could disrupt the distribution channels, increase competition for shelf-space and/or increase costs.

Books sold through the retail print 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 do not 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. The difference between the initial estimate of returns and the actual returns realized has an impact on Harlequin's results during subsequent periods as returns are received. This impact could be significant.

As a result of the increasing popularity of digital formats, a number of digital-only publishers and other digital distribution models have emerged. These new competitors have very low cost structures and may be able to attract quality authors and take market share from the traditional publishers, including Harlequin.

Within the global digital marketplace, there is the risk that online retailer control could become increasingly concentrated. In the U.S. market, over 80% of Harlequin's 2012 digital sales were with two online retailers. The impact of such concentration is currently uncertain but it could have a negative impact on Harlequin's sales volumes, pricing and costs.

The low cost of digitization has also led to a proliferation in the number of digital titles available and increased competition. While Harlequin has been digitizing its backlist for a number of years and now has more than 18,000 digital titles available for sale in North America, there is no assurance that the company will be able to successfully compete against new or potential competitors.

Direct-to-consumer market
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, Harlequin.com, to attract new customers. Despite this, the customer base has declined over time and is expected to continue to do so in the future.

Labour Disruptions
Torstar has a number of collective agreements at its newspaper operations that have historically tied annual wage increases to the 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 or structural shifts in Torstar's business that negatively impact revenue.

The Toronto Star has approximately 795 staff covered by four collective agreements. The largest agreement covers approximately 445 employees at One Yonge Street, Toronto. This collective agreement expired at the end of December 2012 and negotiations have started. There are three agreements covering approximately 350 employees at the Toronto Star's Vaughan Press Centre. One agreement covering approximately 310 employees will expire in December 2014. Two other agreements, covering approximately 20 employees each will expire at the end of December 2013 and December 2014 respectively.

Sing Tao has two collective agreements covering approximately 125 employees that will expire in December 2015. Metro's Toronto operations have a collective agreement covering approximately 65 employees that will expire in early March of 2013.

Metroland Media Group has a total of 20 collective agreements covering approximately 725 employees. There are ten collective agreements covering approximately 280 employees within the community newspapers. Three agreements covering approximately 55 employees will expire in November 2013. Two agreements covering approximately 145 employees will expire in December 2013, three agreements covering approximately 50 employees will expire in December 2014 and two agreements covering approximately 30 employees will expire in August 2015.

At the Metroland Media Group daily newspapers, there are ten agreements covering approximately 445 employees. Two agreements covering approximately 145 employees at the Hamilton Spectator expired at the end of December 2012 and negotiations are expected to begin shortly. Two agreements covering approximately 75 employees at the Hamilton Spectator will expire in May 2013. One agreement covering approximately 10 employees at the Guelph Mercury will expire in May 2014. One agreement covering approximately 70 employees at the Hamilton Spectator and four agreements covering approximately 145 employees at the Waterloo Region Record will expire in December 2014.

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 salaries and 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 2012, the price that Torstar paid for newsprint was on average equal to the price paid in 2011. Torstar's newspapers consume approximately 110,000 tonnes of newsprint each year.

The pulp and paper industry has faced difficulties over the past few years with some newsprint suppliers experiencing financial instability. 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 three main suppliers. Pursuant to arrangements with two suppliers, Torstar has fixed the price of the majority of its newsprint requirements for 2013 at prices less than those realized in 2012. There can be no assurance that Torstar will be able to extend these arrangements in future years or that Torstar's newspapers will not be exposed in the future to volatile or increased newsprint costs which could have an adverse effect on Torstar's financial performance.

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 financial performance.

Foreign Exchange

As an international publisher, approximately 95% of Harlequin's revenues (approximately 27% of Torstar's operating revenues) are earned in currencies other than the Canadian dollar. As a result, Harlequin's revenues and operating earnings 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, British Pound and Australian dollar.

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 12 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 is net of applicable book revenue provisions and allowances for doubtful accounts. The allowances for doubtful accounts 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 $23.5 million (U.S. $23.6 million) as at December 31, 2012 related to its U.S. sales. To date, the credit risk associated with this balance has been mitigated by the financial stability and payment history of the third party.

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 restrictions 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 not to exceed a maximum level of debt compared to cash flow and a minimum interest coverage test. In addition, Torstar cannot experience a material adverse change in its business. Failure to comply with these restrictions and financial covenants could trigger early payment obligations and could have an adverse effect on Torstar. A full description of these restrictions and financial covenants can be found in the amended and restated loan agreement filed on www.sedar.com.

Pension Fund Obligations

Relative to its size, and when compared to other companies, Torstar has large pension liabilities, funding requirements and costs. The funded status of Torstar's defined benefit pension plans and its contribution obligations may be impacted by several factors, including changes to pension laws and regulation, changes to benefits provided to plan participants, changes to actuarial assumptions and methods, changes in participant demographics and plan experience, and changes to prevailing economic conditions, including the discount rate used to measure Torstar's contribution obligations, the rate of return on plan assets, long-term interest rates and other changes to economic conditions. Changes in investment performance or in a change in the mix of plan assets may result in increases or decreases in the valuation of plan assets, or in a change to the expected rate of return on plan assets. Significant variations in plan performance and changes to any of the foregoing factors could produce further underfunding in Torstar's defined benefit pension plans as well as increases to the net pension cost in subsequent financial years that could require increased funding contributions to those plans, which could have an adverse effect on Torstar's cash flows, liquidity and financial condition.

As at December 31, 2012 Torstar had a net liability of $181.4 million for its registered defined benefit pension plans. The most significant group of Torstar's registered defined benefit pension plans (in terms of assets and obligations) completed the preparation of actuarial reports as of December 31, 2011 during 2012. Torstar's funding for these registered defined benefit pension plans was $72.5 million in 2012. Funding for 2013 is expected to be approximately $65.0 million. There is no guarantee that these funding requirements will not increase in the future (whether due to changes in long–term interest rates, lower than expected pension fund returns, changes in the discount rate used to assess the pension plan obligations, actuarial losses or otherwise).

In addition to the registered defined benefit pension plans, Torstar also has an unregistered, unfunded defined benefit pension plan that provides pension benefits to eligible senior management executives of Torstar (liability of $25.0 million at December 31, 2012) and a post employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the newspaper operations (liability of $47.6 million at December 31, 2012). These plans are being funded as payments are made.

Impairment

Economic, market, legal, regulatory, competitive, customer, contractual and other factors may affect the value of Torstar's long-lived assets, intangible assets and goodwill. If any of these factors impair the value of these assets, IFRS requires Torstar to reduce their carrying value and recognize an impairment charge. This would reduce Torstar's reported assets and earnings in the year the impairment charge is recognized.

In addition, Torstar holds investments in businesses that it does not hold a controlling interest in and Torstar does not exercise control over the management, strategic direction or daily operations of these businesses. A change in the operation of these businesses could require Torstar to record its share of any asset or goodwill impairment recorded by these businesses and could require Torstar to take a charge to earnings in order to reduce its carrying value.

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 including those of third party service providers. 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 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 an adverse effect on Torstar's ability to successfully compete in the future.

Business Development and Acquisition Integration

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. In addition, Torstar may not be successful in integrating new businesses, could incur unforeseen costs in connection with the acquisition of a business or may not fully realize anticipated synergies, any of which could have an adverse effect on financial performance.

Interest Rates

Torstar has long-term debt in the form of bankers' acceptances issued under its long-term bank credit 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 and the specific borrowing spread, Torstar is exposed to fluctuations in market interest rates on its bankers' acceptances that are issued at floating rates. From time to time, 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, that amounts owing from insurers will be collected 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, 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 have, litigation claims filed which are related to the publication of its editorial content, copyright or trademark infringement, privacy, personal injury,

product liability, breach of contract, unfair competition or other legal claims. Although Torstar maintains insurance for many of these types of claims, there can be no assurance that 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 negative impact on Torstar's results. In addition, Torstar could incur significant costs in investigating and defending such claims, even if ultimately found not to be liable.

Government Regulations

General

Torstar's businesses are subject to a variety of laws and regulations, including laws applicable generally to business and environmental, privacy, communications and e-commerce laws. Torstar may also be notified from time to time of additional laws and regulations which governmental organizations or others may claim should be applicable to certain of its businesses. If Torstar is required to alter its business practices as a result of any laws and regulations, revenue could decrease, costs could increase and/or certain of Torstar's businesses could otherwise be harmed. In addition, the costs and expenses associated with defending any actions related to such additional laws and regulations and any payments of related penalties, judgements or settlements could adversely impact certain of Torstar's businesses.

Environmental

Torstar is subject to a variety of environmental laws concerning, among other things, emissions to the air, water and sewer discharges, handling and disposal of wastes, recycling, the use of recycled materials, 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 has 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.

E-Commerce, Privacy and Confidential Information

Laws relating to privacy, anti-spam, 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 and the distribution of certain communications. In addition, the costs of compliance and/or non-compliance with industry or legislative initiatives to address consumer protection concerns or other related issues such as copyright infringement, unsolicited commercial e-mail, cyber-crime and access could adversely impact certain of Torstar's businesses.

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.

Dependence on Key Personnel

Torstar is dependent to a large extent upon the continued services of its senior management team and other key employees including editorial, technical and sales personnel. There is intense competition for qualified managers and skilled employees and Torstar's failure to recruit, train and retain such employees could have an adverse effect on its business, financial condition or operating results.

Dependence on Third-Party Suppliers and Service Providers

Torstar relies on third-party suppliers and service providers for certain key services including product distribution, call center services, certain information technology functions and certain printing, advertising production, and sales and content supply requirements. Torstar may outsource additional components of its business operations in the future. Torstar's business or operations could be interrupted or otherwise adversely impacted by its third party suppliers and service providers experiencing business difficulties or interruptions, the suppliers or service

providers being unable to provide services as anticipated or by Torstar being unable to integrate or effectively utilize the services of the third party suppliers and service providers.

Loss of Reputation

Torstar, its customers, shareholders and employees place considerable reliance on Torstar's good reputation. Torstar's ability to maintain its existing customer relationships and generate new customers depends greatly on the quality of its services, brand reputation and business continuity. The loss or tarnishing of the reputation of Torstar or any of its significant businesses through negative publicity or otherwise, whether true or not, could have an adverse impact on the business, operations or financial condition of Torstar.

Product Liability

Torstar may be exposed to potential liability in connection with the sale and promotion of products (including claims from purchasers, distributors, regulators and law enforcement) which could include claims for personal injury, wrongful death, damage to personal property, claims relating to misrepresentation of product features and benefits or violation of applicable laws. Although Torstar maintains insurance for many of these types of claims, there can be no assurance that insurance will be available or sufficient 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 negative impact on Torstar's results. In addition, Torstar could incur significant costs in investigating and defending such claims, even if ultimately found not to be liable.

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. If third parties were to contest the validity or scope of Torstar's intellectual property rights, such challenges could result in the limitation or loss of intellectual property rights and regardless of their validity, such claims could cause Torstar to incur significant costs in investigating and defending such claims and have a negative impact on Torstar's results.

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.

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 consolidated financial statements have been prepared in conformity with International Financial Reporting Standards using the best estimates and judgements of management, where appropriate. Information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

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

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

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

David P. Holland
President and Chief Executive Officer
March 5, 2013

Lorenzo DeMarchi
Executive Vice-President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Torstar Corporation

We have audited the accompanying consolidated financial statements of Torstar Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011, 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 International Financial Reporting Standards, 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

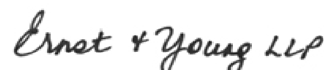
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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, 2012 and 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.



Chartered Accountants
Licensed Public Accountants

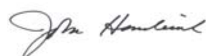
Toronto, Canada
March 5, 2013

Torstar Corporation
Consolidated Statement of Financial Position

(Thousands of Canadian Dollars)	***As at December 31 2012***	*As at December 31* 2011
Assets		
Current:		
Cash and cash equivalents	**$39,021**	$50,588
Receivables (note 12)	**274,383**	278,010
Inventories (note 3)	**34,001**	36,995
Derivative financial instruments (note 12)	**1,272**	367
Prepaid expenses and other current assets	**44,236**	47,063
Prepaid and recoverable income taxes	**11,195**	2,451
Total current assets	**404,108**	415,474
Property, plant and equipment (note 4)	**167,104**	177,245
Investment in associated businesses (note 5)	**42,835**	16,935
Intangible assets (note 6)	**108,130**	107,845
Goodwill (note 7)	**648,861**	665,029
Other assets (note 9)	**11,823**	1,798
Deferred income tax assets (note 10)	**88,383**	100,441
Total assets	**$1,471,244**	$1,484,767
Liabilities and Equity		
Current:		
Bank overdraft	**$9,962**	$7,661
Current portion of long-term debt (note 11)		196,191
Accounts payable and accrued liabilities	**212,741**	210,567
Provisions (note 14)	**15,964**	22,599
Income tax payable	**11,522**	17,398
Total current liabilities	**250,189**	454,416
Long-term debt (note 11)	**178,027**	
Derivative financial instruments (note 12)	**7,018**	8,761
Provisions (note 14)	**14,520**	16,906
Other liabilities (note 15)	**25,847**	26,749
Employee benefits (note 16)	**255,434**	264,027
Deferred income tax liabilities (note 10)	**8,315**	7,644
Equity:		
Share capital (note 17)	**397,425**	395,334
Contributed surplus	**16,057**	14,828
Retained earnings	**325,247**	301,863
Accumulated other comprehensive loss (note 19)	**(9,699)**	(8,286)
Total equity attributable to equity shareholders	**729,030**	703,739
Minority interests	**2,864**	2,525
Total equity	**731,894**	706,264
Total liabilities and equity	**$1,471,244**	$1,484,767

(see accompanying notes)

ON BEHALF OF THE BOARD



John Honderich
Director

Paul Weiss
Director

Torstar Corporation
Consolidated Statement of Income

(Thousands of Canadian Dollars except per share amounts)

	Year ended December 31	
	2012	2011
Operating revenue	**$1,485,744**	$1,548,757
Salaries and benefits	**(520,835)**	(511,083)
Other operating costs	**(757,177)**	(795,425)
Amortization and depreciation	**(38,182)**	(33,165)
Restructuring and other charges (note 14)	**(17,778)**	(19,411)
Impairment of assets (note 8)	**(13,003)**	
Operating profit	**138,769**	189,673
Interest and financing costs (note 11(c))	**(8,759)**	(16,629)
Adjustment to contingent consideration (note 14)	**(258)**	630
Foreign exchange	**(246)**	(3,477)
Loss of associated businesses (note 5)	**(3,295)**	(2,157)
Gain on sale of assets (note 21)	**9,811**	
Other income (note 21)	**10,407**	19,055
Gain on sale of CTV Inc.		74,590
Investment write-down and loss (note 22)	**(93)**	(544)
	146,336	261,141
Income and other taxes (note 10)	**(42,500)**	(43,000)
Net income	**$103,836**	$218,141
Attributable to:		
Equity shareholders	**$103,247**	$217,721
Minority interests	**$589**	$420
Net income attributable to equity shareholders per Class A (voting) and Class B (non-voting) share (note 17(c)):		
Basic	**$1.30**	$2.74
Diluted	**$1.29**	$2.72

(see accompanying notes)

Torstar Corporation
Consolidated Statement of Comprehensive Income

(Thousands of Canadian Dollars)

	Year ended December 31	
	2012	2011
Net income	**$103,836**	$218,141
Other comprehensive income (loss):		
Unrealized foreign currency translation adjustment (no income tax effect)	**(5,102)**	6,041
Net movement on available-for-sale financial assets (no income tax effect)	**123**	(29)
Net movement on cash flow hedges	**2,648**	846
Income tax effect	**(600)**	(400)
Unrealized gain (loss) on hedge of net investment	**1,768**	(1,792)
Income tax effect	**(250)**	250
Actuarial losses on employee benefits (note 16)	**(51,927)**	(91,509)
Income tax effect	**13,400**	23,200
Other comprehensive loss, net of tax	**(39,940)**	(63,393)
Comprehensive income, net of tax	**$63,896**	$154,748
Attributable to:		
Equity shareholders	**$63,307**	$154,328
Minority interests	**$589**	$420

(see accompanying notes)

Torstar Corporation
Consolidated Statement of Changes in Equity
(Thousands of Canadian Dollars)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total attributable to equity shareholders	Minority interests	Total equity
At December 31, 2010	$392,816	$13,235	$189,586	($13,202)	$582,435	$2,125	$584,560
Net income			217,721		217,721	420	218,141
Other comprehensive income (loss)			(68,309)	4,916	(63,393)		(63,393)
Total comprehensive income			149,412	4,916	154,328	420	154,748
Dividends (note 17)	273		(37,135)		(36,862)		(36,862)
Issue of share capital – other (note 17)	1,869				1,869		1,869
Exercise of share options (note 17)	376	(52)			324		324
Share-based compensation expense		1,645			1,645		1,645
Acquisition of non-controlling interest						(20)	(20)
At December 31, 2011	**$395,334**	**$14,828**	**$301,863**	**($8,286)**	**$703,739**	**$2,525**	**$706,264**
Net income			**103,247**		**103,247**	**589**	**103,836**
Other comprehensive loss			**(38,527)**	**(1,413)**	**(39,940)**		**(39,940)**
Total comprehensive income			**64,720**	**(1,413)**	**63,307**	**589**	**63,896**
Dividends (note 17)	**282**		**(41,336)**		**(41,054)**		**(41,054)**
Issue of share capital – other (note 17)	**1,331**				**1,331**		**1,331**
Exercise of share options (note 17)	**478**	**(65)**			**413**		**413**
Share-based compensation expense		**1,294**			**1,294**		**1,294**
Distribution						**(250)**	**(250)**
At December 31, 2012	**$397,425**	**$16,057**	**$325,247**	**($9,699)**	**$729,030**	**$2,864**	**$731,894**

(see accompanying notes)

Torstar Corporation
Consolidated Statement of Cash Flows

(Thousands of Canadian Dollars)

	Year ended December 31	
	2012	2011
Cash was provided by (used in)		
Operating activities	**$90,605**	$114,955
Investing activities	**(47,733)**	137,428
Financing activities	**(56,112)**	(245,582)
Increase (decrease) in cash	**(13,240)**	6,801
Effect of exchange rate changes	**(628)**	93
Cash, beginning of year	**42,927**	36,033
Cash, end of year	**$29,059**	$42,927
Operating activities:		
Net income	**$103,836**	$218,141
Amortization and depreciation (notes 4 and 6)	**38,182**	33,165
Deferred income taxes (note 10)	**24,200**	4,300
Loss of associated businesses (note 5)	**3,295**	2,157
Gain on sale of CTV Inc.		(74,590)
Impairment of assets (note 8)	**13,003**	
Non-cash employee benefit expense (note 16)	**16,284**	14,646
Employee benefits funding (note 16)	**(76,540)**	(51,236)
Other (note 23)	**(24,854)**	(13,491)
	97,406	133,092
Increase in non-cash working capital	**(6,801)**	(18,137)
Cash provided by operating activities	**$90,605**	$114,955
Investing activities:		
Additions to property, plant and equipment and intangible assets (notes 4 and 6)	**($33,012)**	($35,046)
Proceeds from sale of CTV Inc.		291,590
Investment in associated businesses	**(11,265)**	(17,268)
Acquisitions and portfolio investments (note 20)	**(11,883)**	(101,793)
Proceeds from sale of assets	**8,407**	
Other	**20**	(55)
Cash provided by (used in) investing activities	**($47,733)**	$137,428
Financing activities:		
Issuance of bankers' acceptances	**$5,991**	$71,630
Repayment of bankers' acceptances	**(22,211)**	(281,430)
Dividends paid	**(41,054)**	(36,862)
Exercise of share options	**413**	324
Other	**749**	756
Cash used in financing activities	**($56,112)**	($245,582)
Cash represented by:		
Cash	**$29,248**	$42,733
Cash equivalents – short-term deposits	**9,773**	7,855
Cash and cash equivalents	**39,021**	50,588
Bank overdraft	**(9,962)**	(7,661)
	$29,059	$42,927

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of Canadian dollars except per share amounts)

1. CORPORATE INFORMATION

Torstar Corporation is incorporated under the laws of Ontario, Canada and its Class B (non-voting) shares are publicly traded on the Toronto Stock Exchange. The registered office is located at One Yonge Street, Toronto, Canada. The principal activities of the Company and its subsidiaries are described in Note 27.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS policies effective as of December 31, 2012. The Board of Directors approved the consolidated financial statements on March 5, 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair value as described in the accounting policies.

(c) Principles of consolidation

The consolidated financial statements of the Company include the accounts of Torstar Corporation and all its subsidiaries and joint ventures. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences and are deconsolidated on the date when control ceases.

Intra-group balances and transactions are eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company's interest in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(d) Joint ventures

Joint ventures are entities where the Company has contractual arrangements with other venturer(s) that establish joint control over the economic activities of the entity. It exists only when the decisions require the unanimous consent of the parties sharing control. The Company recognizes its interests in joint ventures using the proportionate consolidation method. The Company combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. Unrealized gains and losses resulting from transactions between the Company and the joint ventures are eliminated to the extent of the interest in the joint ventures.

(e) Foreign currency translation

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Each entity consolidated by the Company determines its own functional currency based on the primary economic environment in which the entity operates.

Transactions in foreign currencies are initially recorded by the entities in their respective functional currencies on the date of the transaction. Monetary assets and liabilities denominated in currencies other than the entity's functional currency are translated at the rates as at the date of the consolidated statement of financial position (period end rates). Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statement of income, except for qualifying cash flow and net investment hedges for which these exchange differences are deferred in accumulated other comprehensive income ("AOCI") within equity. These deferred foreign exchange gains and losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. Non-monetary assets and liabilities are translated into functional currencies at historical exchange rates.

Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and items of income and expense are translated into Canadian dollars at the rates prevailing on the dates of the transactions, or average rates of exchange where these approximate actual rates. The resulting translation adjustments are included in other comprehensive income ("OCI"). Upon reduction of the Company's investment in a foreign subsidiary due to a sale or liquidation, the proportionate amount of AOCI is recognized in income.

(f) Financial instruments

Financial assets and liabilities

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

- Financial instruments at fair value through profit or loss
- Loans and receivables
- Financial assets classified as available-for-sale ("AFS")
- Other financial liabilities

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

Financial instruments are recognized on the trade date – the date on which the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities at fair value through profit or loss

The Company classifies certain financial assets and liabilities as either held for trading or designated at fair value through profit or loss. Assets and liabilities in this category include derivative financial instruments that are not designated as hedging instruments in hedge relationships.

Financial instruments at fair value through profit or loss are carried at fair value. Related realized and unrealized gains and losses are included in the consolidated statement of income.

Loans and receivables

Loans and receivables include originated and purchased non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category include current receivables and cash and cash equivalents and are classified as current assets in the consolidated statement of financial position. Non-current receivables are classified as other assets.

Loans and receivables 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 book revenue provisions and estimated bad debt provisions which are determined by reference to past experience and expectations. Cash and cash equivalents consist of cash in bank and short-term investments with maturities on acquisition of 90 days or less.

Financial assets classified as AFS

Financial assets that are not classified as at fair value through profit or loss or as loans and receivables are classified as AFS. A financial asset classified as AFS is initially recognized at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Financial assets classified as AFS are carried at fair value with the changes in fair value reported as unrealized gains or losses on AFS assets within OCI, unless the asset is subject to a fair value hedge, in which case changes in fair value resulting from the risk being hedged are recorded in the consolidated statement of income.

Financial assets classified as AFS are assessed for impairment at each reporting date and the Company recognizes any impairment in the consolidated statement of income.

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. 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. Any unrealized gains and losses recorded in AOCI are transferred to the consolidated statement of income on disposal of an AFS asset.

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

Derivative instruments and hedging

In the normal course of business, the Company uses derivative financial instruments to manage its risks related to foreign currency exchange rate fluctuations, interest rates and share-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 in the consolidated statement of financial position at fair value. The treatment of changes in the 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 intercompany Book Publishing revenues. Gains and losses on these instruments are accounted for as a component of the related hedged transaction. Gains and losses on foreign exchange contracts which do not qualify for hedge accounting are reported in the consolidated statement of income.

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 the consolidated statement of financial position.

The Company uses derivative instruments to manage its exposure to 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 share price between the settlement date and the reporting date is included in the consolidated statement of financial position at the fair value of these derivative instruments at each reporting date.

The treatment of changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. In order for a derivative to qualify for hedge accounting, the derivative must be formally designated as a fair value, cash flow or net investment hedge by documenting the relationship between the derivative and the hedged item. Documentation includes a description of the hedging instrument, the hedged item, the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge, the method for assessing the effectiveness of the hedge and the method for measuring hedge ineffectiveness. Additionally, the hedge relationship must be expected to be highly effective at offsetting changes in either the fair value or cash flows of the hedged item at both the inception of the hedge and on an ongoing basis. The Company assesses the ongoing effectiveness of its hedges at each reporting date.

Amounts in AOCI are recycled to the consolidated statement of income in the period when the hedged item will affect profit and loss (for instance, when the forecast sale that is hedged takes place). If a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any unrealized cumulative gain or loss remains in AOCI and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of income. If a forecast transaction is no longer expected to occur, the unrealized cumulative gain or loss that was reported in AOCI is recognized in the consolidated statement of income.

Fair value hedges

These are hedges of the fair value of recognized assets, liabilities or a firm commitment. Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the consolidated statement of income together with any changes in the fair value of the hedged asset or liability 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 statement of income.

Net investment hedges

These are hedges of the Company's net investment in its foreign operations. The effective portion of the change in the fair value of the hedging instrument is recorded directly in OCI. The ineffective portion is recognized in the consolidated statement of income in the period in which the change occurs. Upon the sale or liquidation of the foreign operations, the amounts deferred in AOCI are recognized in the consolidated statement 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 a portion of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative in the consolidated statement of financial position, at its fair value. Any future changes in the fair value are recorded in the consolidated statement of income.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments, while providing effective economic hedges, are not designated as hedges for accounting purposes. Changes in the fair value of any derivatives that are not designated as hedges for accounting purposes are recognized in the consolidated statement 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 quoted in active markets is determined using quoted prices where they represent those at which regularly and recently occurring transactions take place. The Company uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. 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 judgement, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

The Company categorizes fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used in 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 the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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 the reporting date. 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 DSU plans and the cost of its RSU plan. The fair value of foreign exchange forward contracts is classified within Level 2 as it is based on foreign currency rates quoted by banks and is the difference between the forward exchange rate and the contract rate.

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 is

recorded in the consolidated statement of income. The fair value for the interest rate swaps is based on forward yield curves which are observable inputs provided by banks and available in other public data sources, and are classified within Level 2.

The fair value of the derivative instruments used to manage the Company's exposure under the DSU and RSU plans is classified within Level 2 and is based on the movement in the Company's share price between the quarterly settlement date and the reporting date which are observable inputs.

The fair value of portfolio investments that have quoted market prices is classified within Level 2 because even though the securities are listed, they are not actively traded. The fair value of portfolio investments that do not have quoted market prices is determined when possible using a valuation technique that maximizes the use of observable market inputs, and is classified within Level 3.

(g) Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of finished goods and work in progress includes raw materials, translation and printing and production costs. Raw materials are valued at purchase cost on a first in, first out basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. Provisions are made for slow moving and obsolete inventory. If the carrying value exceeds the net realizable amount, a writedown is recognized. The writedown may be reversed in a subsequent period if the circumstances causing it no longer exist.

(h) 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.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation and any accumulated impairment losses. On transition to IFRS, the Company had elected to measure specific items of property, plant and equipment at fair value as deemed cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred.

Depreciation is calculated using the straight-line basis over the estimated useful life of the asset as follows:

- Buildings
  - Structural — 35 – 60 years
  - Components — 15 – 25 years
- Machinery and Equipment
  - Machinery and Equipment — 20 – 40 years
  - Furniture and Fixtures — 5 – 15 years
- Leasehold Improvements — Term of the lease plus renewal periods, when renewal is reasonably assured

The useful lives and methods of depreciation and the assets' residual values are reviewed at least annually, and the depreciation charge is adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of income when the asset is derecognized.

(j) Borrowing costs

Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they are incurred.

(k) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed in the consolidated statement of income.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the Company's previously held equity or jointly controlled interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the Company will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement,* either in the consolidated statement of income or as a change to OCI.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in the consolidated statement of income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(l) Intangible assets

Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets which have a finite useful life are amortized over the useful economic life of the asset and are stated at cost less accumulated amortization and any accumulated impairment losses. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits is accounted for by changing the amortization period or method, as appropriate, and adjusted prospectively.

Amortization is calculated using the straight-line basis over the estimated useful life of the asset as follows:

- Software 3 – 10 years
- Customer relationships and other 4 – 10 years
- Franchise agreements 10 years

Intangible assets with indefinite useful lives are not amortized. These include newspaper mastheads and trade and domain names. The assessment of indefinite life is reviewed at each reporting date to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

(m) Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with an indefinite useful life are subject to an annual impairment test. For the purpose of measuring recoverable values, assets are grouped at the lowest levels for which there are separately identifiable cash flows (a cash generating unit or "CGU"). The recoverable value is the higher of an asset's fair value less costs to sell and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the value by which the asset's carrying value exceeds its recoverable value.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Goodwill acquired through a business combination is allocated to each CGU or group of CGUs that is expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which goodwill is monitored for internal management purposes, which is not higher than an operating segment. Goodwill is not amortized.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

The test for impairment for either an intangible asset or goodwill is to compare the recoverable value of the asset, CGU or group of CGUs to the carrying value. The recoverable value is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets (such as goodwill). If this is the case, the recoverable value is determined for the CGU to which the asset belongs.

The Company generally uses the value in use calculation to determine the recoverable value but in certain circumstances may use fair value less costs to sell. The value in use calculation uses cash flow projections for a five year period and a terminal value. The terminal value is the value attributed to the cash flow beyond the projected period using a perpetual growth rate. The key assumptions in the value in use calculations are:

- EBITDA growth rates (for periods within the cash flow projections and in perpetuity for the calculation of the terminal value), future levels of maintenance expenditures on capital and discount rates:
- EBITDA growth rates and future levels of capital expenditures 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 CGU operates. The projections are based on the most recent financial budgets and three year strategic plans approved by the Company's Board of Directors and management forecast beyond that period.
- In calculating the value in use, the Company uses a discount rate in order to establish a range of values for each CGU or group of CGUs. The discount rate applied to each calculation is an after-tax rate that reflects an optimal debt-to-equity ratio and considers the risk free rate, market equity risk premium, size premium and the risks specific to each CGU or group of CGUs cash flow projections.
- The perpetuity growth rate is based on management's best estimates considering the industry, operating income trends and growth prospects for that specific CGU or group of CGUs.

(n) Investments in associated businesses

An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not represent control or joint control over those decisions. Investments in associates are accounted for using the equity method, whereby the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Company's share of the net assets of the associate. Goodwill arising on the acquisition of the associates is included in the cost of the investments and is not amortized.

The consolidated statement of income reflects the Company's share of the results of operations of the associate. Where there has been a change recognized directly in the OCI of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in OCI. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

After the initial application of the equity method, the Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired and consequently whether it is necessary to recognize an impairment loss with respect to the Company's investment in its associate. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

(o) Revenue recognition

Advertising revenue is recognized when publications are delivered or advertisements are placed on the Company's digital platforms. 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 print 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 all other distribution channels when title has transferred to the buyer. Book publishing revenue is recorded net of provisions for estimated returns and direct-to-consumer bad debts ("book revenue provisions"). Retail print books are sold with a right of return. The retail returns provision is estimated based primarily on point-of-sale information, returns patterns and historical sales performance for the type of book and the author. Direct-to-consumer books are shipped with no obligation to the customer who may return the books or cancel their subscription at any time. The direct-to-consumer book revenue provision recognizes that not all books shipped will be purchased by the customer. Book revenue provisions are made at the time of shipment for the anticipated physical return of the books or a non-payment for the shipment. The direct-to-consumer book revenue provisions are estimated based on historical payment rates for the type of book as well as how long the customer has been a subscriber. Book publishing revenue attributable to the customer loyalty points program is deferred at the date of the initial sale and is recognized as revenue when the Company fulfills its obligations.

Other revenue is recognized when the related service or product has been delivered. Amounts received in advance are included in the consolidated statement of financial position in accounts payable and accrued liabilities until the revenue is recognized in accordance with the policies noted above.

(p) Employee benefits

The Company maintains both defined benefit and capital accumulation (defined contribution) employee benefit 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 is calculated annually by independent actuaries using the projected unit credit method prorated on service and management's best estimate of assumptions of future investment returns for funded plans, salary increases, retirement ages of employees and expected health care costs. On an interim basis, management estimates the changes in the actuarial gains and losses. These estimates are adjusted when the annual valuation or estimate is completed by the independent actuaries.

- For the purpose of calculating the expected return on plan assets, assets are valued at fair value. Plan assets are assets that are held in a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company without regulatory approval.
- The present value of the defined benefit obligation is determined by discounting estimated future cash flows using the current interest rate at the reporting date on high quality fixed income investments with maturities that match the expected maturity of the obligations.
- The vested portion of past service cost arising from plan amendments is recognized in the consolidated statement of income. The unvested portion is recognized as an expense on a straight-line basis over the average remaining period until the benefits become vested.
- Changes in actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized in OCI in the period in which they arise and charged or credited to retained earnings.
- The asset or liability recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets and unrecognized past service costs. For the funded plans, the value of any minimum funding requirements (as determined by applicable pension legislation) is recognized to the extent that the amounts are considered recoverable. Recoverability is primarily based on the extent to which the Company can reduce the future contributions to the plan.

Company contributions to capital accumulation plans are expensed as incurred.

(q) Share-based compensation plans

The Company has a share option plan, an employee share purchase plan (“ESPP”), two DSU plans and an RSU plan.

Share option plan and ESPP

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. Share options vest, and are expensed, over four years from the date of grant.

Under the Company’s ESPP, 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.

The fair value of share options granted and ESPP subscriptions are measured using the Black-Scholes pricing model. For share options, the model considers each tranche with graded vesting features as a separate share option grant. Forfeitures are estimated on the grant date and are revised as the actual forfeitures differ from estimates.

The fair value of share options granted and ESPP subscriptions is recognized as compensation expense over the vesting and subscription periods with a related credit to contributed surplus. The contributed surplus balance is reduced as options are exercised and as the ESPP matures through a credit to share capital. The consideration paid by option holders and the ESPP subscribers is credited to share capital when the options are exercised or when the plan matures.

DSUs

Eligible executives may elect to receive certain cash incentive compensation in the form of DSUs. Each DSU is equal in value to one Class B non-voting share of the Company and 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. DSUs also accrue dividend equivalents payable in additional units in an amount equal to dividends paid on Class B non-voting shares of the Company.

The Company has also adopted a DSU plan for non-employee directors. Each non-employee director receives an award of DSUs 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, DSUs, or a combination thereof, receives the cash portion of his or her annual Board retainer in the form of DSUs. Any non-employee director may also 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.

Compensation expense is recorded in the year DSUs are granted and changes in the fair value of outstanding DSUs, including deemed dividend equivalents, are recorded as an expense in the period that they occur. DSUs can only be redeemed once the executive or director is no longer employed with the Company whereupon the executive or director is entitled to receive the fair market value of the equivalent number of Class B non-voting shares, net of withholdings, in cash. Outstanding DSUs are recorded as long-term liabilities.

RSUs

Eligible 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. 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. Forfeitures are estimated on the grant date and revised if the actual forfeitures differ from the estimates. The liability is recorded at fair value at each reporting date. 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.

(r) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of income, unless it relates to items recognized outside the consolidated statement of income. Tax expense relating to items recognized outside of the consolidated statement of income is recognized in correlation to the underlying transaction in either OCI or equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided using the liability method for temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured using substantively enacted tax rates and laws at the reporting date that are expected to be in effect when the temporary differences are expected to reverse.

Deferred taxes are recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are not recognized for temporary differences that arise on initial recognition of assets and liabilities other than in a business combination.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that sufficient taxable profit will be available against which they can be utilized.

(s) Provisions

Provisions are recognized if the Company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation as of the date of the consolidated statement of financial position, taking into account the risks and uncertainties surrounding the obligation.

Provisions are discounted and measured at the present value of the expenditure expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party (for example, because the obligation is covered by an insurance policy), an asset is recognized if it is virtually certain that reimbursement will be received.

(t) Use of estimates and judgements

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent liabilities, at the end of the reporting period.

Management uses estimates when accounting for certain items such as revenues, allowance for doubtful accounts, useful lives of long-lived assets, asset impairments, provisions, share-based compensation plans, employee benefit plans, deferred income taxes and goodwill impairment. Estimates are also made by management when recording the fair value of assets acquired and liabilities assumed in a business combination.

Estimates are based on a number of factors, including historical experience, current events and other assumptions that management believes are reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty and actual results could differ. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The more significant estimates and assumptions made by management are described below:

Book revenue provisions

Book revenue provisions are estimated based on the following key inputs and assumptions: point-of-sale information, returns patterns, historical sales performance for the type of book and author, historical payment rates for the type of book and the length of time the customer has been a member of the direct-to-consumer program. The variance between the original estimate for returns and direct-to-consumer bad debts, and the actual experience is recorded in the period when the data becomes available.

Employee benefits

The valuation by independent actuaries uses management's assumptions for the discount rate to measure obligations, expected long-term rate of return on pension plan assets, rate of compensation increase, trends in healthcare costs, employee turnover and expected mortality. The most significant assumptions are the discount rate and the expected long-term rate of return on pension plan assets.

The discount rate, used to determine the present value of the future cash flows that are expected to be needed to settle employee benefit obligations, is based on the yield on long-term high-quality corporate bonds with maturities matching the estimated cash flows from the benefit plan. A lower discount rate would result in a higher employee benefit obligation.

The expected long-term rate of return is a weighted average of estimated long-term returns on each of the major plan asset categories in the Company's pension funds. A lower expected rate would result in a lower fair value of the plan assets and a higher employee net benefit obligation. Further details about the assumptions used are provided in Note 16.

Impairment of non-financial assets

The Company tests goodwill and indefinite life intangible assets for impairment annually, or more frequently if there are indicators that impairment may have arisen. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The key estimates and assumptions used in the discounted cash flow model are cash flow growth rates for the projection period and in perpetuity for the calculation of the terminal value and discount rates. More details on the key assumptions used by the Company to assess its assets and CGUs are provided in Note 8.

Taxes

The Company is subject to income taxes in Canada and foreign jurisdictions. Significant judgement is required in determining the world-wide provision for income taxes. In 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 deferred 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.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that sufficient taxable profit will be available against which they can be utilized. When assessing the probability of taxable profit being available, management primarily considers prior years' results, forecasted future results and non-recurring items. As such, the assessment of the Company's ability to utilize tax losses carried forward is to a large extent judgement-based. If the future taxable results of the Company differ significantly from those expected, the Company would be required to increase or decrease the carrying value of the deferred tax assets with a potentially material impact on the Company's consolidated statement of financial position and consolidated statement of comprehensive income. The carrying amount of deferred tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable profits to allow all or part of the asset to be recovered.

Further details on taxes are disclosed in Note 10.

A significant judgement made by management is described below:

Classification of investments as portfolio investments, associated businesses, joint ventures and subsidiaries

Classification of investments requires judgement on whether the Company controls, has joint control or significant influence over the strategic financial and operating decisions relating to the activity of the investee. In assessing the level of control or influence that the Company has over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements. If an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

The Company has classified its investments in Black Press and Shop.ca as associated businesses based on management's judgement that the Company has significant influence, based on rights to board representation and other provisions in the respective shareholders' agreements.

(u) Changes in accounting policies

Policies adopted in 2012:

On January 1, 2012, the Company adopted the amendments to IFRS 7 *Financial Instruments: Disclosures* and IAS 12 *Income Taxes*.

IFRS 7 *Financial Instruments: Disclosures*

The amendment relates to enhanced disclosures around transfers of financial assets and the possible effects of any risks that remain in an entity after an asset has been transferred.

IAS 12 *Income Taxes*

The amendment, which relates to the recovery of underlying assets and the impact on deferred taxes, provides a solution to the problem of assessing whether recovery would be through use or through sale when the asset is measured at fair value under IAS 40 *Investment Property*, by adding the presumption that the recovery would normally be through sale. The amendment also incorporates the remaining guidance in SIC-21 *Income Taxes – Recovery of Revalued Non-depreciable Assets,* as SIC-21 was withdrawn.

There was no impact from these changes in accounting policies on the net income for the years ended December 31, 2012 and 2011.

Future changes in accounting standards:

The following changes in accounting standards will be adopted by the Company on the effective date of January 1, 2013:

IFRS 10 *Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 supersedes SIC -12 *Consolidations - Special Purpose Entities* and replaces parts of IAS 27 *Consolidated and Separate Financial Statements*. The adoption of this standard is not expected to have a significant impact on the consolidated financial statements.

IFRS 11 *Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This new standard eliminates the use of the proportionate consolidation method to account for jointly controlled entities and will require jointly controlled entities that meet the definition of a joint venture to be accounted for using the equity method of accounting. The Company currently proportionately consolidates its joint ventures including its interest in Sing Tao, Workopolis and Harlequin's operations in France and Italy. With the new standard, the revenues, expenses, assets and liabilities from these operations will no longer appear in the Company's consolidated financial statements but will be replaced by a single investment amount in the consolidated statement of financial position and a single income amount in the consolidated statement of income. Upon adoption of the new standard, the Company's restated revenue and operating profit for 2012 is estimated to be lower by $79.0 million and $1.9 million respectively but with no change to net income.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. IFRS 12 replaces the previous requirements included in IAS 27 *Consolidated and Separate Financial Statements*; IAS 31 *Interests in Joint Ventures* and IAS 28 *Investment in Associates*. The adoption of this standard will affect disclosures but will not have an impact on the financial results.

IFRS 13 *Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. IFRS 13 defines fair value and establishes disclosures about fair value measurement. The adoption of this standard will affect disclosures but will not have an impact on the financial results.

IAS 28 *Investments in Associates and Joint Ventures*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. Under the amended standard, the $10.4 million gain recognized on the remeasurement of Tuango (Note 21) would be reversed in the restated consolidated statement of income for 2012, reducing the carrying amount of the investment.

IAS 1 *Presentation of Financial Statements*

The IASB amended IAS 1 by revising how certain items are presented in other comprehensive income ("OCI"). Items within OCI that may be reclassified to profit and loss will be separated from items that will not. The amendment affects presentation only and will not have an impact on the Company's financial position or performance.

IAS 19 *Employee Benefits*

The amendments to IAS 19 introduce a net interest approach for defined benefit obligations by replacing the expected return on plan assets and interest costs on the defined benefit obligation with a single net interest component determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation. In 2012, the expected long-term rate of return on plan assets was 6.5% compared with the discount rate of 4.3% used to determine the expense on the defined benefit obligation. Under the amended standard, the discount rate of 4.3% would be applied to the net benefit liability. It is estimated that the 2012 expense for the defined benefit pension plans would increase from approximately $11.2 million to $28.0 million, an increase of $16.8 million ($12.5 million after tax), with no impact on funding requirements.

The following amendments to accounting standards will be effective for the Company subsequent to 2013:

IFRS 9 *Financial Instruments: Classification and Measurement*

In November 2009, the IASB issued IFRS 9, which covers classification and measurement as the first part of its project to replace IAS 39. In October 2010, the Board also incorporated new accounting requirements for liabilities. The standard introduces new requirements for measurement and eliminates the current classification of loans and receivables, available-for-sale and held-to-maturity, currently in IAS 39. There are new requirements for the accounting of financial liabilities as well as a carryover of requirements from IAS 39. The Company does not anticipate early adoption and will adopt the standard on the effective date of January 1, 2015. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

In December 2011, the IASB amended both IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures* by moving the disclosure requirements in IAS 32 to IFRS 7 and enhancing the

disclosures about offsetting financial assets and liabilities. The effective date of the amendments is January 1, 2015. Earlier adoption is permitted but must be applied together with IFRS 9. The Company is in the process of reviewing the standard to determine the timing of adoption and the impact on the consolidated financial statements.

3. INVENTORIES

	December 31, 2012	December 31, 2011
Finished goods	**$12,323**	$15,349
Work in progress	**10,371**	9,873
Raw materials	**11,307**	11,773
	$34,001	$36,995

The Company expensed $192.8 million of inventory costs during the year ended December 31, 2012 (2011 – $215.2 million). The Company recorded an inventory write-down of $3.7 million during the year ended December 31, 2012 (2011 – $3.7 million).

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and leasehold improvements	Machinery and equipment	Total
Cost				
Balance at December 31, 2010	$6,619	$136,352	$203,249	$346,220
Acquisitions – business combinations	175	1,274	7,266	8,715
Additions		6,462	12,028	18,490
Disposals		(1,678)	(15,440)	(17,118)
Reclassifications		390	528	918
Foreign exchange	56	274	482	812
Balance at December 31, 2011	**6,850**	**143,074**	**208,113**	**358,037**
Acquisitions – business combinations			**18**	**18**
Additions		**3,656**	**12,668**	**16,324**
Disposals	**(967)**	**(2,976)**	**(8,283)**	**(12,226)**
Foreign exchange	**(57)**	**(288)**	**(487)**	**(832)**
Balance at December 31, 2012	**$5,826**	**$143,466**	**$212,029**	**$361,321**
Depreciation and impairment				
Balance at December 31, 2010		$46,839	$127,838	$174,677
Additions		8,011	13,754	21,765
Disposals		(1,674)	(15,348)	(17,022)
Reclassifications		(315)	1,174	859
Foreign exchange		199	314	513
Balance at December 31, 2011		**53,060**	**127,732**	**180,792**
Additions		**7,673**	**15,374**	**23,047**
Impairments			**578**	**578**
Disposals		**(1,614)**	**(8,055)**	**(9,669)**
Foreign exchange		**(207)**	**(324)**	**(531)**
Balance at December 31, 2012		**$58,912**	**$135,305**	**$194,217**
Net book value				
At December 31, 2010	$6,619	$89,513	$75,411	$171,543
At December 31, 2011	$6,850	$90,014	$80,381	$177,245
At December 31, 2012	**$5,826**	**$84,554**	**$76,724**	**$167,104**

5. INVESTMENT IN ASSOCIATED BUSINESSES

As of December 31, 2012, the Company's Investment in associated businesses includes a 19.4% equity interest in Black Press Ltd. ("Black Press"); a 23.7% equity investment in Blue Ant Media Inc. ("Blue Ant"); a 33.3% equity interest in Canadian Press Enterprises Inc. ("Canadian Press"); a 38.2% equity investment in Tuango Inc, and a 20.4% equity investment in Shop.ca Network Inc. ("Shop.ca"). The Company's 30.0% equity interest in Q-ponz Inc. ("Q-ponz") was also classified as an investment in associated businesses until January 2012 when the Company sold its interest in Q-ponz to the controlling shareholder for nominal consideration.

Black Press

Black Press is a privately held company that publishes more than 150 titles in print and online in Canada and the U.S. and has operations in British Columbia, Alberta, Washington State, California, Hawaii and Ohio. The Company has not recorded its share of Black Press' results in either 2012 or 2011 as the Company's carrying value in Black Press was previously reduced to nil. The Company will report its share of Black Press's results once the unrecognized losses ($0.7 million as of December 31, 2012 and $0.3 million as of December 31, 2011) have been offset by net income or other comprehensive income. For the year ended December 31, 2012, the

Company would have reported income of $3.9 million and other comprehensive loss of $4.4 million from Black Press (2011 – income of $3.3 million and other comprehensive loss of $2.4 million).

Blue Ant

Blue Ant is an independent media company which owns and operates specialty channels Travel+Escape, Bite TV and AUX TV, and four premium high definition channels Oasis HD, eqhd, radX and HIFI as well as the Cottage Life Media group (publisher of Cottage Life, Cottage, Outdoor Canada Canadian Home Workshop and operator of the Cottage Life consumer trade shows).

The Company invested $16.9 million in 2011 and a further $5.8 million on August 1, 2012 simultaneous with the completion of the acquisition by Blue Ant of 100% of High Fidelity TV subsequent to receiving approval from the Canadian Radio-television and Telecommunications Commission ("CRTC"). As a result of the above transactions, the Company's equity interest at December 31, 2012 changed to the current 23.7% from 25.0% at December 31, 2011.

The Company's share of Blue Ant's net loss in 2012 was $2.2 million (2011 – $nil). The net loss includes expenses for CRTC benefit obligations and reorganization charges related to the acquisition of High Fidelity HDTV.

Canadian Press

Canadian Press operates The Canadian Press news agency. During 2012, the Company invested $0.3 million and has committed to invest an additional $0.5 million in early 2013.

The Company recorded a loss of $0.8 million in 2012 to reduce the carrying value to nil. The Company recorded its share of Canadian Press's results through the third quarter of 2011 when the Company's carrying value was reduced to nil. The Company will begin to report its share of Canadian Press's results once the unrecognized losses ($6.4 million as of December 31, 2012 and $3.9 million as of December 31, 2011) have been offset by net income, other comprehensive income or additional investments are made. For the year ended December 31, 2012, the Company would have reported an additional loss of $0.3 million (including income of $0.7 million, net of $1.0 million goodwill impairment loss) and other comprehensive loss of $3.0 million from Canadian Press (2011 – loss of $0.7 million and other comprehensive loss of $3.2 million).

Tuango

Tuango is a Quebec-based daily deal business. Prior to February 29, 2012, the Company had a 50% interest until a portion was sold to bring the remaining interest to 38.2% as detailed in Note 21. The Company's share of Tuango's net income for the period from February 29, 2012 to December 31, 2012 was $0.4 million.

Shop.ca

Shop.ca is an online e-commerce marketplace aimed at Canadian shoppers.

The Company made an initial investment of $5.0 million on June 15, 2012 for a 14.4% equity interest with a commitment to increase its interest to 30% in three tranches over a three-year period based on the achievement of certain performance milestones in exchange for an additional $1.0 million in cash and up to $12.4 million in promotional support ("media inventory") provided through the Company's media properties. After the end of every quarter, Shop.ca issues shares to the Company at the predetermined price in exchange for media inventory provided. The Company has agreed to provide $4.8 million of media inventory by March 2013, bringing the Company's interest to 21.6%. As of December 31, 2012, the Company's equity interest in Shop.ca was 20.4% and the Company had provided approximately $3.8 million of media inventory (Note 23). The remaining two tranches will only apply if the milestones are met.

For the year ended December 31, 2012, the Company's share of the Shop.ca's net loss was $0.7 million.

The following is a continuity of Investment in associated businesses:

	Year ended December 31	
	2012	2011
Balance, beginning of year	**$16,935**	$2,201
Loss of associated businesses	**(3,295)**	(2,157)
Investment in Tuango (note 21)	**13,750**	
Investment in Shop.ca	**8,847**	
Investment in Blue Ant	**5,765**	16,935
Investment in Canadian Press	**833**	500
Write-down of investment in Q-ponz		(544)
Balance, end of year	**$42,835**	$16,935

6. INTANGIBLE ASSETS

	Indefinite life	**Finite life**			
		Software	**Other**	**Total**	**Total**
Cost					
Balance at December 31, 2010	$32,018	$73,874	$22,668	$96,542	$128,560
Acquisitions – business combinations	9,856	61	28,455	28,516	38,372
Additions – internally developed		3,135		3,135	3,135
Additions – purchased	12	13,409		13,409	13,421
Disposals		(10,798)	(752)	(11,550)	(11,550)
Reclassifications		288	(9)	279	279
Foreign exchange	8	99	(3)	96	104
Balance at December 31, 2011	**41,894**	**80,068**	**50,359**	**130,427**	**172,321**
Acquisitions – business combinations	**151**	**50**	**1,628**	**1,678**	**1,829**
Additions – internally developed		**3,854**		**3,854**	**3,854**
Additions – purchased		**12,834**		**12,834**	**12,834**
Disposals	**(543)**	**(5,378)**	**(2,877)**	**(8,255)**	**(8,798)**
Foreign exchange	**(32)**	**(155)**	**(6)**	**(161)**	**(193)**
Balance at December 31, 2012	**$41,470**	**$91,273**	**$49,104**	**$140,377**	**$181,847**
Amortization and impairment					
Balance at December 31, 2010	$1,723	$53,439	$9,105	$62,544	$64,267
Amortization		7,277	4,123	11,400	11,400
Disposals		(10,707)	(752)	(11,459)	(11,459)
Reclassifications		184		184	184
Foreign exchange		83	1	84	84
Balance at December 31, 2011	**1,723**	**50,276**	**12,477**	**62,753**	**64,476**
Amortization		**9,027**	**6,108**	**15,135**	**15,135**
Impairment		**1,425**		**1,425**	**1,425**
Disposals	**475**	**(5,082)**	**(2,595)**	**(7,677)**	**(7,202)**
Foreign exchange		**(113)**	**(4)**	**(117)**	**(117)**
Balance at December 31, 2012	**$2,198**	**$55,533**	**$15,986**	**$71,519**	**$73,717**
Net book value					
At December 31, 2010	$30,295	$20,435	$13,563	$33,998	$64,293
At December 31, 2011	$40,171	$29,792	$37,882	$67,674	$107,845
At December 31, 2012	**$39,272**	**$35,740**	**$33,118**	**$68,858**	**$108,130**

7. GOODWILL

	2012	2011
Cost and net book value:		
Balance, beginning of year	**$665,029**	$595,899
Acquisitions (note 20)	**1,074**	68,998
Dispositions (note 21)	**(6,114)**	
Impairment (note 8)	**(11,000)**	
Foreign exchange and other	**(128)**	132
Balance, end of year	**$648,861**	$665,029

Goodwill acquired in a business combination is allocated to a CGU or groups of CGUs which are expected to benefit from the synergies of the combination. Each CGU or group of CGU to which goodwill is allocated is the lowest level at which the goodwill is monitored for internal management purposes but is not larger than an operating segment.

Goodwill has been allocated to the following groups of CGUs:

	December 31, 2012	December 31, 2011
Harlequin	**$111,024**	$111,151
Metroland Media Group	**257,832**	258,826
Star Media Group		
Toronto Star Group	**139,788**	141,191
Metro	**75,851**	75,851
Workopolis	**28,632**	39,632
Others	**35,734**	38,378
Total	**$648,861**	$665,029

8. IMPAIRMENT TESTING

In 2012, the Company incurred impairment losses as indicated in the chart below:

	2012
Property, plant and equipment (note 4)	**$578**
Finite-life Intangible assets (note 6)	**1,425**
Goodwill (note 7)	**11,000**
	$13,003

As a result of restructuring initiatives which included the shut-down and consolidation of some facilities, the Company incurred impairments of $0.4 million for equipment in the Metroland Media Group of CGUs; $0.2 million for equipment and $1.4 million with respect to finite-life intangible assets in the Toronto Star Group CGU.

During the fourth quarter of 2012, the Company performed its annual impairment test on the value of intangible assets with a finite useful life, intangible assets with an indefinite useful life and goodwill. In carrying out this testing, it was determined that the carrying amount of the Workopolis CGU exceeded the value in use. This CGU represents the Company's 50% ownership of Workopolis. Accordingly, the Company recorded an impairment of $11.0 million for goodwill in the Workopolis CGU as a result of increased competition in the online recruitment and job search markets, and prevailing economic conditions. In its assessment of the recoverable amounts of the Workopolis CGU, the Company performed a sensitivity analysis of the discount rates. A 1% increase in the discount rate and a 1% decrease in the perpetual growth rate would have an impact of approximately $4.0 million and $2.8 million respectively.

These impairments had no effect on the Company's operations or cash flows. There were no other impairments or reversals of impairments recorded as a result of the testing.

The after-tax discount and perpetual growth rates used by the Company for the purpose of impairment testing for each of the following CGU or group of CGUs in the following periods were:

	Fiscal 2012		Fiscal 2011	
	Discount	**Growth**	Discount	Growth
Harlequin	**9.7%**	**1.0%**	9.5%	1.0%
Metroland Media Group	**9.5%**	**0.0%**	9.6%	0.0%
Toronto Star Group	**8.8%**	**0.0%**	9.0%	0.0%
Metro	**15.6%**	**1.5%**	n/a	
Workopolis	**13.5%**	**3.0%**	13.0%	3.0%
Others	**10.1% - 13.2%**	**0.0% - 3.0%**	10.4% - 13.3%	1.0% - 3.0%

These after-tax rates correspond to pre-tax rates in an estimated range of 11% - 21% for 2012; 11% - 23% for 2011. For the 2011 impairment testing, Metro was assessed for impairment based on the transaction value whereby the Company increased its ownership in Metro to 90%.

In its assessment of the recoverable amounts of the CGUs or group of CGUs, the Company performed a sensitivity analysis of the discount and perpetual growth rates. The results of the sensitivity analysis show that a reasonable change to key assumptions would not result in an impairment loss to the other CGUs or CGU groups for which no impairment loss was required.

9. OTHER ASSETS

	December 31, 2012	December 31, 2011
Portfolio investments	**$6,899**	$774
Mortgage receivable (note 21)	**3,500**	
ESPP receivable	**332**	431
Other long term receivables	**1,092**	593
	$11,823	$1,798

10. INCOME TAXES

Income tax expense is made up of the following:

	Year ended December 31	
	2012	2011
Current income tax expense (recovery):		
Current year	**$18,300**	$39,200
Adjustment for prior years		(500)
	18,300	38,700
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	**25,700**	14,500
Recognition of previously unrecognized tax losses	**(800)**	(10,000)
Change in future tax rates	**(200)**	
Adjustment for prior years	**(500)**	(200)
	24,200	4,300
Income tax expense in the consolidated statement of income	**$42,500**	$43,000

	Year ended December 31	
	2012	2011
Income tax expense in the consolidated statement of income	**$42,500**	$43,000
Current income tax expense (recovery) in OCI	**250**	(250)
Deferred income tax recovery in OCI	**(12,800)**	(22,800)
Income tax recovery in OCI	**(12,550)**	(23,050)
Total income taxes	**$29,950**	$19,950

Income taxes of $37.0 million were paid and refunds of $3.4 million were received during the year (2011 – $58.5 million paid and refunds of $2.4 million received).

Reconciliation of effective tax rate

The combined Canadian federal and provincial statutory rate was 26.5% in 2012 (28.25% in 2011). The combined rate had previously been expected to reduce to 26.25% in 2012 and further to 25% by 2014. In June 2012, the Ontario government passed legislation to indefinitely postpone the provincial component of these planned tax rate reductions.

	Year ended December 31	
	2012	2011
Income before taxes	**$146,336**	$261,141
Provision for income taxes based on Canadian statutory rate of 26.5% (2011: 28.25%)	**$38,800**	$73,800
Increase (decrease) in taxes resulting from:		
Gain on sale of CTV Inc. not recognized		(21,100)
Loss of associated businesses not recognized	**900**	800
Impairment not deductible	**2,900**	
Gain on remeasurement not recognized	**(1,100)**	(5,400)
Prior years' losses not previously recognized	**(800)**	(10,000)
Effect of higher foreign tax rates	**2,500**	3,900
Foreign losses not recognized	**200**	100
Non-taxable portion of capital gains	**(900)**	
Non-deductible expenses	**1,100**	2,200
Change in future tax rates	**(200)**	
Other	**(900)**	(1,300)
Income tax expense in the consolidated statement of income	**$42,500**	$43,000
Effective income tax rate	**29.0%**	16.5%

In 2011 the Company sold its 20% interest in CTV Inc. and recognized a gain of $74.6 million which was not subject to tax, as the Company had previously written down the cost of the investment below its tax basis. The Company realized a capital loss for tax purposes of $45.6 million on the disposition and was able to utilize a small portion of this capital loss to offset other capital gains recognized in 2011 and 2012. No tax benefit has been recognized in respect of $44.1 million of the capital loss (2011 – no tax benefit had been recognized on $44.4 million of the capital loss).

Deferred tax assets and liabilities

Net deferred tax assets

Deferred 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 deferred income tax assets and liabilities as at December 31, 2012 and December 31, 2011 are as follows:

	December 31, 2011	Recognized in net income	Recognized in OCI	Acquired in business combinations	Foreign exchange & other	December 31, 2012
Book revenue provisions	**$10,918**	**$7**			**($632)**	**$10,293**
Property, plant & equipment	**(8,654)**	**(22)**			**(8)**	**(8,684)**
Intangible assets	**(11,285)**	**(1,176)**			**50**	**(12,411)**
Financial instruments	**2,070**		**($600)**			**1,470**
Provision for employee benefit obligations	**68,277**	**(14,439)**	**13,400**		**(170)**	**67,068**
Share-based payment transactions	**1,607**	**(24)**				**1,583**
Tax loss carry forwards	**32,214**	**(1,535)**			**(598)**	**30,081**
Other	**(2,350)**	**(7,011)**			**29**	**(9,332)**
Net deferred tax assets	**$92,797**	**($24,200)**	**$12,800**		**($1,329)**	**$80,068**
As reported in the consolidated statement of financial position						
Deferred tax assets	**$100,441**					**$88,383**
Deferred tax liabilities	**(7,644)**					**(8,315)**
Net deferred tax assets	**$92,797**					**$80,068**

	December 31, 2010	Recognized in net income	Recognized in OCI	Acquired in business combinations	Foreign exchange & other	December 31, 2011
Book revenue provisions	$12,456	($1,845)		$76	$231	$10,918
Property, plant & equipment	(8,054)	621		(1,282)	61	(8,654)
Intangible assets	(9,098)	(866)		(1,268)	(53)	(11,285)
Financial instruments	2,470		($400)			2,070
Provision for employee benefit obligations	54,835	(9,830)	23,200		72	68,277
Share-based payment transactions	1,938	(331)				1,607
Tax loss carry forwards	22,286	8,488		783	657	32,214
Other	(2,356)	(537)		275	268	(2,350)
Net deferred tax assets	$74,477	($4,300)	$22,800	($1,416)	$1,236	$92,797
As reported in the consolidated statement of financial position						
Deferred tax assets	$84,804					$100,441
Deferred tax liabilities	(10,327)					(7,644)
Net deferred tax assets	$74,477					$92,797

Tax loss carryforwards

The Company has tax loss carryforward balances and has recognized a deferred tax asset in respect of these losses to the extent that it is probable that they will be utilized before they expire.

The Company has capital loss carryforwards in Canada of $44.2 million (2011 – $47.9 million) that can be carried forward indefinitely and applied to only offset capital gains. No deferred tax asset has been recognized in respect of the capital loss as there is no current intent to dispose of capital properties.

The U.S. subsidiaries have combined net operating loss carryforwards of U.S. $129.0 million (2011 – U.S. $133.9 million). These tax losses arose in prior years from the operation and disposition of businesses that are no longer carried on by the Company. The current U.S. business has no relation to the former business operations, and has a history of profits. A deferred tax asset has been recognized for a portion of the U.S. tax loss carryforward based upon expectations of future operating profits for the current operations, as determined by reference to historic operating results and forecasts.

The tax loss carryforward balance at December 31, 2012, the portion of the loss recognized in the deferred tax assets, and year of expiry are summarized as follows:

	Tax loss carryforward		Portion recognized in deferred tax assets	Expiry
	Local currency	Canadian dollars		
As at December 31, 2012:				
Canada – net operating losses	**$21,100**	**$21,100**	**$21,100**	**2028 to 2032**
Canada – capital losses	**$44,200**	**$44,200**		**No expiry**
U.S. – net operating losses	**U.S. $129,000**	**$128,400**	**$72,600**	**2019 to 2031**
Other foreign losses		**$3,200**		**Various**
As at December 31, 2011:				
Canada – net operating losses	$21,600	$21,600	$21,600	2025 to 2031
Canada – capital losses	$47,900	$47,900		No expiry
U.S. – net operating losses	U.S. $133,900	$136,100	$79,400	2019 to 2029
Other foreign losses		$1,700	$400	Various

Investments in subsidiaries, associates and joint ventures

The excess of the tax basis over the carrying value of investments in subsidiaries, associates and joint ventures for which a deferred tax asset has not been recognized, is $171.9 million as at December 31, 2012 (2011 – $192.4 million).

11. LONG-TERM DEBT

	December 31, 2012	December 31, 2011
Bankers' acceptances:		
Cdn. dollar denominated	**$87,009**	$108,020
U.S. dollar denominated	**91,018**	88,171
	$178,027	$196,191
Current		$196,191
Long-term	**$178,027**	

(a) Bank debt

i. In January 2012, the Company renewed its long-term credit facilities with its bankers, which consists of a $150.0 million revolving facility maturing January 2016 ("Tranche A") and a $200.0 million revolving facility maturing in January 2014 ("Tranche B"). Either or both tranches can be extended with the consent of all parties for additional 364-day periods. In February 2013, the Company extended both tranches A and B for an additional 364-day period to January 2017 and January 2015 respectively. Prior to January 2012, the Company had long-term credit facilities with its bankers consisting of a $275 million revolving term loan (reduced from $425 million in April 2011 at the Company's request). The term loan matured in January 2012 and was classified as current at December 31, 2011. Prior to April 2011, the long-term credit facilities also included a revolving operating loan of $175 million, which was cancelled in April 2011 at the Company's request.

ii. The credit facilities may be drawn in Canadian or U.S. dollars and are subject to financial tests and other covenants with which the Company was in compliance at December 31, 2012. 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. Effective January 2012, 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 net debt to operating cash flow ratio (range of 1.4% to 2.5%) for borrowings under either tranche. The interest rate spread at December 31, 2012 was 1.4% (December 31, 2011 – 0.6% based on the Company's long-term credit rating spread for borrowings under the revolving term loan which matured in January 2012).

iii. 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 11(a)(ii) for seven years ending May 2015. These swaps have been designated as cash flow hedges. The fair value of the U.S. interest rate swap arrangements at December 31, 2012 was $7.0 million unfavourable (December 31, 2011 – $8.8 million unfavourable).

iv. Bank debt outstanding at December 31, 2012 included U.S. dollar borrowings of U.S. $91.8 million (December 31, 2011 – U.S. $87.0 million) at an average rate of 1.6% (December 31, 2011 – 0.7%). Including the effect of the interest rate swap noted in 11(a)(iii), the effective rate was 5.2% at December 31, 2012 (December 31, 2011 – 4.6%).

v. In September 2006, the Company entered into interest rate swap agreements for five years through September 2011, with major Canadian chartered banks that fixed the interest rate on $250 million of Canadian dollar borrowings. As a result, the Company paid quarterly a fixed rate of 4.3% per annum (plus the interest rate spread referred to in 11(a)(ii)) and received quarterly floating rate payments based on 90 day bankers' acceptance rates. These swap contracts were designated as cash flow hedges until the Company extinguished these swap agreements in March 2011 and paid $3.8 million, which was included in interest and financing costs in 2011.

vi. The average rate on Canadian dollar bank borrowings outstanding at December 31, 2012 was 2.6% (December 31, 2011 – 1.8%).

(b) 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, 2012.

(c) Interest and financing costs for the year ended December 31, 2012 consists of interest on long-term debt of $7.8 million and interest accretion costs of $1.0 million (2011 – interest on long-term debt of $14.1 million (including $3.8 million paid to extinguish the swap agreements in 11(a)(v)) and interest accretion costs of $2.7 million partially offset by interest income of $0.2 million).

(d) Interest paid during the year ended December 31, 2012 was $7.9 million (2011 – $14.2 million including $3.8 million paid to extinguish the swap agreements in 11(a)(v)).

12. FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

	December 31, 2012	December 31, 2011
Financial assets:		
Loans and receivables, measured at amortized cost:		
Cash and cash equivalents	**$39,021**	$50,588
Trade accounts receivable	**267,480**	271,784
Other receivables	**6,903**	6,226
Receivables	**274,383**	278,010
Mortgage receivable[1]	**3,500**	
Available-for-sale, measured at fair value:		
Portfolio investments[1]	**6,899**	774
Derivatives designated as effective hedges, measured at fair value:		
Foreign currency forward contracts	**1,272**	367
Interest rate swaps – cash flow hedges	**(7,018)**	(8,761)
Other financial liabilities, measured at amortized cost:		
Bank overdraft	**9,962**	7,661
Current portion of long-term debt		196,191
Long term debt	**178,027**	
Accounts payable and accrued liabilities	**212,741**	210,567
Deferred payments on acquisitions[1]	**99**	
Call option liability[1]	**10,951**	10,821
Provisions (current)	**15,964**	22,599
Provisions (non-current)	**14,520**	16,906

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

Risk management

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

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 credit facilities. At December 31, 2012, the unused capacity net of letters of credit was approximately $138.1 million (December 31, 2011 - $50.9 million; if the renewal of the credit facilities in January 2012 had been in place at December 31, 2011, the unused capacity would have been $125.9 million).

The maturity profile of the Company's financial liabilities, based on contractual undiscounted payments, is as follows:

	2013	2014	2015	2016	2017	2018+	Total
Foreign currency hedges[1]							
Outflows	$39,796	$9,949					$49,745
Inflows	(40,866)	(10,445)					(51,311)
	(1,070)	(496)					(1,566)
U.S. $ Interest rate swaps	3,308	3,308	$1,167				7,783
Bank overdraft	9,962						9,962
Accounts payable and accrued liabilities[1]	212,741						212,741
Call option liability		11,184					11,184
Provisions[1]	15,964	4,440	3,947	$2,191	$1,000	$4,781	32,323
Long term debt[1,2]			28,727		150,000		178,727
Total	$240,905	$18,436	$33,841	$2,191	$151,000	$4,781	$451,154

[1] All foreign currency denominated amounts have been translated at the December 31, 2012 spot rates.
[2] The long-term credit facilities were extended in February 2013 as indicated in note 11(a)(i).

Credit risk

In the normal course of business, the Company is exposed to credit risk from its accounts receivable from customers. The carrying amounts of accounts receivable are net of applicable book revenue provisions and allowances for doubtful accounts. Allowances for doubtful accounts 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 $23.5 million (U.S. $23.6 million) at December 31, 2012 (December 31, 2011 - $29.1 million (U.S. $28.6 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 exposed to credit related losses in the event of non-performance by counterparties to the derivative instruments described above. Given their high credit ratings, the Company does not anticipate any counterparties failing to meet their obligations. The Company has a policy, approved by the Board of Directors, of only contracting with major financial institutions as counterparties.

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

The following table sets out the ageing of the trade receivables:

	December 31, 2012	December 31, 2011
Gross accounts receivable:		
Current	**$236,844**	$251,802
Up to three months past due date	**98,978**	102,317
Three to twelve months past due date	**15,813**	12,535
Impaired	**487**	613
	352,122	367,267
Book revenue provisions	**(76,538)**	(88,362)
Allowances for doubtful accounts	**(8,104)**	(7,121)
	$267,480	$271,784

The continuity of the allowance for doubtful accounts is as follows:

	Year ended December 31	
	2012	2011
Balance, beginning of year	**($7,121)**	($7,841)
Utilized	**4,072**	3,800
Income statement movements	**(4,773)**	(2,805)
Exchange differences and other	**(282)**	(275)
Balance, end of year	**($8,104)**	($7,121)

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's primary exposure to foreign currency risk is 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 below. A $0.05 higher (lower) average U.S. dollar/Cdn. dollar exchange rate during the year ended December 31, 2012 would have increased (decreased) net income by approximately $0.6 million (2011 – $1.5 million).

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 establish a rate of exchange of Canadian dollar per U.S. dollar of $1.02 for U.S. $40.0 million in 2013 and $1.04 for U.S. $10.0 million in 2014 (December 31, 2011 – $1.03 for U.S. $52.4 million in 2012, $1.02 for U.S. $30.0 million in 2013 and $1.05 for U.S. $5.0 million in 2014). These forward foreign exchange contracts have been designated as cash flow hedges and the net fair value of these contracts was $1.3 million favourable at December 31, 2012 (December 31, 2011 – $0.4 million favourable).

Forward foreign exchange contracts settled in 2012 established a rate of exchange of Canadian dollar per U.S. dollar of $1.03 for U.S. $52.4 million (2011 - $1.07 for U.S. $35.5 million).

In order to offset the exchange risk on its consolidated statement of financial position from net U.S. dollar denominated assets, the Company maintains a certain level of U.S. dollar denominated debt as indicated in Note 11(a)(iii). Effective January 1, 2011, the Company designated $80 million of its U.S. dollar debt as a hedge of its U.S. dollar denominated net investment in subsidiaries with the U.S. dollar as their functional currency. Gains or losses on the translation of the designated hedge amount are transferred to OCI to offset any gains or losses on translation of the net investments in subsidiaries with the U.S. dollar as their functional currency. There was no hedge ineffectiveness during the years ended December 31, 2012 and 2011.

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.

b) Interest rate risk

The Company's interest rate risk arises from borrowings issued at 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 11.

An assumed increase of 1% in the Company's short term borrowing rates during the year ended December 31, 2012 would have decreased net income by $0.9 million (2011 – $0.9 million), with an equal but opposite effect for an assumed decrease of 1% in short term borrowing rates.

13. 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:

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

Total managed capital was as follows:

	December 31, 2012	December 31, 2011
Total equity	**$731,894**	$706,264
Long term debt (including current portion)	**178,027**	196,191
Bank overdraft	**9,962**	7,661
Cash and cash equivalents	**(39,021)**	(50,588)
	$880,862	$859,528

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, 2012.

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.

14. PROVISIONS

Restructuring

During the year ended December 31, 2012, the Company recorded restructuring and other charges of $17.8 million, which included restructuring provisions of $17.4 million and other charges of $0.4 million.

Restructuring provisions of $16.5 million were recorded in the Media Segment for staff reductions and the Book Publishing Segment recorded $0.9 million for staff reductions in the United Kingdom and North America. Other charges of $0.4 million were recorded for litigation expenses in the Book Publishing Segment.

During the year ended December 31, 2011, the Company recorded restructuring and other charges of $19.4 million. This included restructuring provisions of $18.8 million related to staff reductions in the Media Segment and $0.6 million in the Book Publishing Segment. The Media Segment restructuring provisions included $15.6 million relating to staff reductions and a $3.2 million charge for rented spaces that were vacated as reduced staff counts allowed for space consolidation. The $0.6 million recorded in the Book Publishing Segment related to staff reductions in the North American Retail business and were classified as current provisions.

The non-current restructuring provisions are expected to be paid out through 2028 within the Media Segment.

Legal

The Company is involved in various legal actions, which arise in the ordinary course of business.

In 2012, Harlequin was named as defendant in a class action complaint pertaining to ebook author royalties. Harlequin believes that the authors have been recompensed fairly and properly for their work and will be defending itself vigorously. A motion to dismiss the complaint is pending.

While the final outcome of these matters cannot be predicted with certainty, any additional 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.

Contingent consideration

The contingent consideration provision is an estimate of the fair value of contingent consideration for acquisitions, which are primarily based on revenue and earnings levels estimated to be realized by the acquired businesses for specified periods following the acquisition.

	Restructuring	Legal	Contingent consideration	Total
Balance at December 31, 2010	$32,387	$2,560	$7,146	$42,093
Provisions made during the year	19,794		1,087	20,881
Reversals of provisions during the year	(383)	(427)		(810)
Adjustment to contingent consideration			(630)	(630)
Foreign exchange	3	2		5
Provisions paid during the year	(21,622)	(1,795)	(823)	(24,240)
Interest accretion	1,338		868	2,206
Balance at December 31, 2011	**31,517**	**340**	**7,648**	**39,505**
Provisions made during the year	**17,716**	**92**	**693**	**18,501**
Reversals of provisions during the year	**(288)**	**(123)**		**(411)**
Adjustment to contingent consideration			**258**	**258**
Foreign exchange	**5**	**(1)**	**(4)**	
Provisions paid during the year	**(22,290)**	**(20)**	**(5,947)**	**(28,257)**
Interest accretion	**376**		**512**	**888**
Balance at December 31, 2012	**$27,036**	**$288**	**$3,160**	**$30,484**
Current	**$13,472**	**$288**	**$2,204**	**$15,964**
Non-current	**$13,564**		**$956**	**$14,520**
Balance at December 31, 2011:				
Current	$15,725	$340	$6,534	$22,599
Non-current	$15,792		$1,114	$16,906
Balance at December 31, 2010:				
Current	$18,094	$2,560	$516	$21,170
Non-current	$14,293		$6,630	$20,923

15. OTHER LIABILITIES

	December 31, 2012	December 31, 2011
Employees' shares subscribed (note 18(b))	**$2,928**	$3,617
RSU Plan (note 18(c))	**1,096**	1,597
DSU Plan (note 18(e))	**3,123**	2,655
Other employment benefits	**3,616**	3,785
Call option liability (note 20)	**10,951**	10,821
Lease inducements	**1,729**	2,075
Other	**2,404**	2,199
	$25,847	$26,749

16. EMPLOYEE FUTURE BENEFITS

The Company maintains a number of defined benefit plans which provide pension benefits to its employees primarily in Canada and the United States. Pension benefits are calculated based on a combination of years of service and compensation levels. The Company also maintains capital accumulation plans in Canada, the United States and in certain overseas operations of Harlequin. Post employment benefits other than pensions which provide for various health and life insurance benefits are also available primarily to employees in the newspaper operations hired prior to August 23, 2000.

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

Net defined benefit plan obligations

Changes to the net defined benefit obligation were as follows:

	Pension plans			Post employment benefit plans	Total[1]
	Funded				
	Canada	United States	Unfunded[1]		
At December 31, 2010	$124,302	$8,892	$24,308	$51,416	$208,918
Expense recognized in statement of income	8,324	1,176	2,098	3,048	14,646
Amounts recognized in OCI	85,258	2,838	(470)	3,883	91,509
Contributions to plan	(45,146)	(1,273)	(2,509)	(2,308)	(51,236)
Foreign exchange		200	(10)		190
At December 31, 2011	**$172,738**	**$11,833**	**$23,417**	**$56,039**	**$264,027**
Expense recognized in statement of income	**9,862**	**1,370**	**2,154**	**2,898**	**16,284**
Amounts recognized in OCI	**56,483**	**1,879**	**2,529**	**(8,964)**	**51,927**
Contributions to plan	**(69,979)**	**(2,504)**	**(1,637)**	**(2,420)**	**(76,540)**
Foreign exchange		**(257)**	**(7)**		**(264)**
At December 31, 2012	**$169,104**	**$12,321**	**$26,456**	**$47,553**	**$255,434**

[1] The unfunded pension plan includes an executive retirement plan liability of $25.0 million (December 31, 2011 - $22.3 million) which is supported by an outstanding letter of credit of $31.1 million as at December 31, 2012 (December 31, 2011 - $25.2 million.)

A summary of the components of the net defined benefit obligation as at December 31, 2012 and 2011 is as follows:

2012	**Pension plans**			**Post employment benefit plans**	**Total**
	Funded				
	Canada	**United States**	**Unfunded**		
Defined benefit obligations	**$954,239**	**$28,794**	**$26,456**	**$47,553**	**$1,057,042**
Fair value of plan assets	**(785,135)**	**(16,473)**			**(801,608)**
Net defined benefit obligation	**$169,104**	**$12,321**	**$26,456**	**$47,553**	**$255,434**

2011	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Defined benefit obligations	$881,845	$25,186	$23,417	$56,039	$986,487
Fair value of plan assets	(709,107)	(13,353)			(722,460)
Net defined benefit obligation	$172,738	$11,833	$23,417	$56,039	$264,027

The following table provides a summary of changes in the defined benefit obligation and the fair value of plan assets during 2012 and 2011:

2012	**Pension plans**			**Post employment benefit plans**	**Total**
	Funded				
	Canada	**United States**	**Unfunded**		
Accrued benefit obligations:					
Balance, beginning of year	**$881,845**	**$25,186**	**$23,417**	**$56,039**	**$986,487**
Current service cost	**17,620**	**1,148**	**876**	**480**	**20,124**
Interest cost	**38,843**	**1,119**	**1,061**	**2,418**	**43,441**
Benefits paid	**(56,074)**	**(435)**	**(1,637)**	**(2,420)**	**(60,566)**
Actuarial losses (gains)	**66,985**	**2,323**	**2,529**	**(8,964)**	**62,873**
Participant contributions	**4,928**				**4,928**
Past service cost			**217**		**217**
Special termination benefits	**560**				**560**
Curtailment gain	**(770)**				**(770)**
Settlement loss	**302**				**302**
Foreign exchange		**(547)**	**(7)**		**(554)**
Balance, end of year	**$954,239**	**$28,794**	**$26,456**	**$47,553**	**$1,057,042**
Plans' assets:					
Fair value, beginning of year	**$709,107**	**$13,353**			**$722,460**
Expected return on plan assets	**46,693**	**897**			**47,590**
Actuarial gains	**10,502**	**444**			**10,946**
Benefits paid	**(56,074)**	**(435)**	**($1,637)**	**($2,420)**	**(60,566)**
Employer contributions	**69,979**	**2,504**	**1,637**	**2,420**	**76,540**
Participant contributions	**4,928**				**4,928**
Foreign exchange		**(290)**			**(290)**
Fair value, end of year	**$785,135**	**$16,473**			**$801,608**
Funded status – deficit	**$169,104**	**$12,321**	**$26,456**	**$47,553**	**$255,434**

2011	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Accrued benefit obligations:					
Balance, beginning of year	$778,462	$20,623	$24,308	$51,416	$874,809
Current service cost	16,062	960	919	474	18,415
Interest cost	39,657	1,089	1,179	2,574	44,499
Benefits paid	(43,923)	(353)	(2,509)	(2,308)	(49,093)
Actuarial losses (gains)	86,235	2,402	(470)	3,883	92,050
Participant contributions	5,352				5,352
Foreign exchange		465	(10)		455
Balance, end of year	$881,845	$25,186	$23,417	$56,039	$986,487
Plans' assets:					
Fair value, beginning of year	$694,354	$11,731			$706,085
Expected return on plan assets	47,395	873			48,268
Actuarial losses	(39,217)	(436)			(39,653)
Benefits paid	(43,923)	(353)	($2,509)	($2,308)	(49,093)
Employer contributions	45,146	1,273	2,509	2,308	51,236
Participant contributions	5,352				5,352
Foreign exchange		265			265
Fair value, end of year	$709,107	$13,353			$722,460
Funded status – deficit	$172,738	$11,833	$23,417	$56,039	$264,027

Net benefit expense for defined benefit plans included in salaries and benefits in the 2012 and 2011 consolidated statement of income is as follows:

2012	**Pension plans**			**Post employment benefit plans**	**Total**
	Funded				
	Canada	**United States**	**Unfunded**		
Current service cost	**$17,620**	**$1,148**	**$876**	**$480**	**$20,124**
Interest cost on benefit obligation	**38,843**	**1,119**	**1,061**	**2,418**	**43,441**
Expected return on plan assets	**(46,693)**	**(897)**			**(47,590)**
Past service cost			**217**		**217**
Special termination benefits	**560**				**560**
Curtailment gain	**(770)**				**(770)**
Settlement loss	**302**				**302**
Net benefit expense	**$9,862**	**$1,370**	**$2,154**	**$2,898**	**$16,284**

2011	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Current service cost	$16,062	$960	$919	$474	$18,415
Interest cost on benefit obligation	39,657	1,089	1,179	2,574	44,499
Expected return on plan assets	(47,395)	(873)			(48,268)
Net benefit expense	$8,324	$1,176	$2,098	$3,048	$14,646

Amounts recognized in the 2012 and 2011 consolidated statement of comprehensive income (before tax):

2012	**Pension plans**			**Post employment benefit plans**	**Total**
	Funded				
	Canada	**United States**	**Unfunded**		
Actuarial (losses) gains and Amounts recognized in OCI	**($56,483)**	**($1,879)**	**($2,529)**	**$8,964**	**($51,927)**

2011	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Actuarial (losses) gains	($125,452)	($2,838)	$470	($3,883)	($131,703)
Change in minimum funding liability	40,194				40,194
Amounts recognized in OCI	($85,258)	($2,838)	$470	($3,883)	($91,509)

The significant assumptions used by the Company in 2012 and 2011 were:

	Pension plans		Post employment benefit plans	
	2012	2011	**2012**	2011
To determine benefit obligation at end of year:				
Discount rate	**3.4% to 3.9%**	4.3% to 4.4%	**3.9%**	4.4%
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	**4.3% to 4.4%**	4.7% to 5.1%	**4.4%**	5.1%
Expected long-term rate of return on plan assets	**6.5%**	6.75%	**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	**7.5%**	8.0%
Ultimate rate	**N/A**	N/A	**5.0%**	5.0%
Year ultimate rate reached	**N/A**	N/A	**2017**	2017

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, 2012:

	Net benefit expense		Accrued benefit obligation	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Pension plans:				
Discount rate	($818)	($206)	($130,921)	$151,387
Expected long-term rate of return on plan assets	(7,327)	7,327		
Rate of compensation increase	1,102	(1,059)	11,003	(10,686)
Post employment benefit plans:				
Discount rate	153	(204)	(5,305)	6,533
Per capita cost of health care	98	(85)	1,289	(1,117)

Pension plan assets, measured as at December 31, 2012 and 2011 are as follows:

	2012	2011
Equity investments	**48%**	51%
Fixed income investments	**52%**	49%
Total	**100%**	100%

The estimate for the expected long-term rate of return in plan assets is calculated based on the Company's targeted investment portfolio mix of 50% equity investment and 50% fixed income investment (December 31, 2011 – 55% and 45% respectively). In determining the expected rate of return, the Company considers historical returns and input from investment advisors and actuaries.

Based on actuarial reports that were completed as of December 31, 2011, Torstar's 2012 minimum funding obligation for its registered pension plans was $46 million. Actual Company contributions in 2012 were $72 million as the Company chose to fund beyond the minimum funding obligation. The Company will be required to prepare another set of actuarial reports as of December 31, 2012. Estimated minimum funding requirements in 2013 will be approximately $65 million.

Capital accumulation plans

The total amount expensed for capital accumulation plans in 2012 was $3.5 million (2011 - $3.1 million).

17. 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			
	2012		2011	
	Shares	**Amount**	Shares	Amount
Class A shares (voting)				
Balance, beginning of year	**9,868,706**	**$2,681**	9,873,337	$2,682
Converted to Class B	**(7,152)**	**(2)**	(4,631)	(1)
Balance, end of year	**9,861,554**	**$2,679**	9,868,706	$2,681
Class B shares (non-voting)				
Balance, beginning of year	**69,654,273**	**$392,653**	69,244,753	$390,134
Converted from Class A	**7,152**	**2**	4,631	1
Dividend reinvestment plan	**32,919**	**282**	24,624	273
Issued under ESPP	**127,739**	**1,315**	334,997	1,853
Share option plan	**58,450**	**478**	43,818	376
Other	**1,775**	**16**	1,450	16
Balance, end of year	**69,882,308**	**$394,746**	69,654,273	$392,653
Total Class A and Class B shares	**79,743,862**	**$397,425**	79,522,979	$395,334

An unlimited number of Class B shares is authorized. While the number of 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 net income attributable to equity shareholders 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 share 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 share options and ESPP does not result in an adjustment to income.

The reconciliation of the denominator in calculating diluted per share amounts is as follows:

	Year ended December 31	
(thousands of shares)	**2012**	2011
Weighted average number of shares outstanding, basic	**79,671**	79,400
Effect of dilutive securities		
- share options	**275**	536
- ESPP		13
Weighted average number of shares outstanding, diluted	**79,946**	79,949

Outstanding stock options totaling 1,989,134 (2011 – 2,651,922), which are out of the money have been excluded from the above calculation of dilutive securities.

(d) Dividends

The following dividends were declared and distributed by the Company per Class A (voting) share and Class B (non-voting) share:

	Year ended December 31	
	2012	2011
First quarter ended March 31: 12.5 cents (2011 – 9.25 cents)	**$9,945**	$7,320
Second quarter ended June 30: 13.125 cents (2011 – 12.5 cents)	**10,463**	9,937
Third quarter ended September 30: 13.125 cents (2011 – 12.5 cents)	**10,464**	9,939
Fourth quarter ended December 31: 13.125 cents (2011 – 12.5 cents)	**10,464**	9,939
Total dividends	**$41,336**	$37,135

18. SHARE-BASED COMPENSATION PLANS

(a) Share option plan

The maximum number of shares that may be issued under the share 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 share 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. As of December 31, 2012, options to purchase 9,713,058 shares have been granted, net of options cancelled (December 31, 2011 – 9,784,433).

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

	2012		2011	
	Share options	**Weighted average exercise price**	Share options	Weighted average exercise price
Units outstanding, beginning of year	**3,995,656**	**$16.11**	4,149,077	$17.19
Granted	**656,233**	**$8.28**	488,813	$12.21
Exercised	**(58,450)**	**($7.07)**	(43,818)	($7.40)
Forfeited or expired	**(727,608)**	**($20.32)**	(598,416)	($21.4)
Units outstanding, end of year	**3,865,831**	**$14.12**	3,995,656	$16.11

The weighted average share price when the options were exercised was $9.98.

As at December 31, 2012, outstanding share options were as follows:

Range of exercise price	**Share options outstanding**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Share options exercisable**	**Weighted average exercise price**
$5.75 – 8.37	1,876,697	7.4 years	$7.59	711,143	$7.24
$12.21 – 19.61	972,326	6.0 years	$15.88	628,122	$17.89
$21.85 – 22.14	541,221	2.2 years	$22.06	541,221	$22.06
$25.50 – 29.01	475,587	0.5 years	$27.27	475,587	$27.27
$5.75 – 29.01	3,865,831	6.4 years	$14.12	2,356,073	$17.53

The fair value of the share options on the date of grant and the key assumptions used are as follows:

	2012	2011
Fair Value	**$1.51 – $1.80**	$3.49 – $3.61
Risk-free interest rate	**1.3% – 1.5%**	2.4% – 2.7%
Expected dividend yield	**6.0%**	3.0%
Expected share price volatility	**36.7 – 42.8%**	35.4 – 41.1%
Expected weighted average time until exercise (years)	**6**	6

Subsequent to year-end, 835,752 share options were granted at an exercise price of $7.81 per share.

(b) ESPP

As at December 31, outstanding employee subscriptions were as follows:

	2012		2011	
Maturing in	**2013**	**2014**	2012	2013
Subscription price at entry date	**$12.53**	**$10.10**	$10.74	$12.53
Number of shares	**123,004**	**137,278**	163,339	148,690

The fair value of the subscriptions on the subscription date and the key assumptions used are as follows:

	2012	2011
Fair Value	**$1.35**	$2.30
Risk-free interest rate	**1.1%**	1.5%
Expected dividend yield	**5.2%**	4.0%
Expected share price volatility	**32.2%**	39.0%
Expected time until exercise (years)	**2**	2

(c) RSU plan

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

	2012	2011
Units outstanding, beginning of year	**657,307**	627,252
Vested and paid	**(262,053)**	(113,368)
Granted	**217,478**	146,341
Forfeited	**(37,528)**	(2,918)
Units outstanding, end of year	**575,204**	657,307

As at December 31, 2012, 374,456 units have been accrued at a value of $2.9 million of which 234,165 units have been accrued in Accounts payable and accrued liabilities at a value of $1.8 million and 140,291 units have been accrued in Other liabilities at a value of $1.1 million (December 31, 2011 – 455,055 units accrued at a value of $3.8 million of which 262,053 units have been accrued in Accounts payable and accrued liabilities at a value of $2.2 million and 192,952 units have been accrued in Other liabilities at a value of $1.6 million).

The Company has entered into a derivative instrument in order to hedge the expense for 441,194 RSUs. Changes in the fair value of this instrument are recorded as compensation expense and offset the impact of changes in the value of the RSUs that have been accrued. As RSUs are accrued over the three-year vesting period, there is not an exact offset each period.

(d) In 2012, the Company recognized share-based compensation expense totaling $2.8 million (2011 - $4.4 million).

(e) DSU plan

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

	2012	2011
Units outstanding, beginning of year	**320,605**	262,868
Granted	**50,724**	34,854
Mandatory retainer	**8,843**	9,467
Voluntary election	**41,223**	9,524
Dividends	**24,541**	22,880
Redemption	**(46,046)**	(18,988)
Units outstanding, end of year	**399,890**	320,605

As at December 31, 2012, the 399,890 units outstanding were valued at $3.1 million (December 31, 2011 – 320,605 units valued at $2.7 million).

The Company has entered into a derivative instrument in order to offset its exposure to 378,600 units. Changes in the fair value of this instrument are recorded as compensation expense and offset the impact of changes in the value of the outstanding DSUs.

19. ACCUMULATED OTHER COMPREHENSIVE LOSS (NET OF TAX)

	Foreign currency translation adjustment	**Cash flow hedges**	**Available-for-sale securities**	**Net investment hedge**	**Total**
As at December 31, 2010	($6,332)	($6,770)	($100)		($13,202)
OCI	6,041	446	(29)	(1,542)	4,916
As at December 31, 2011	**($291)**[1]	**($6,324)**[2]	**($129)**[1]	**($1,542)**[3]	**($8,286)**
OCI	**(5,102)**	**2,048**	**123**	**1,518**	**(1,413)**
As at December 31, 2012	**($5,393)**[1]	**($4,276)**[2]	**($6)**[1]	**($24)**[3]	**($9,699)**

[1]Net of deferred income tax asset of $nil (2011 – $nil).
[2]Net of deferred income tax asset of $1,470 (2011 – $2,070).
[3]Net of current income tax recovery of $nil (2011 – $250)

20. ACQUISITIONS AND INVESTMENTS

2012 Acquisitions

In 2012, the Company completed acquisitions with a total purchase price of $2.7 million, of which $2.2 million and $0.5 million related to the Media Segment and the Book Publishing Segment respectively. The $2.7 million total purchase price included $1.8 million of cash; $0.2 million of deferred purchase payments and a $0.7 million estimate of the fair value of contingent consideration. The Company also made portfolio investments for cash of $1.1 million.

In addition, the Company made deferred purchase payments of $3.1 million and payments of $5.9 million for contingent consideration in respect of prior year acquisitions in the Media Segment. The deferred purchase

payments were made in respect of the acquisitions of Performance Printing, Autocatch and Gottarent. The contingent consideration payments related to WagJag and Rosebud.

Total cash used for acquisitions and portfolio investments in 2012 was $11.9 million.

The Media Segment acquisitions included Flyermail (a flyer distributor in the Kingston and Belleville regions) on May 17, 2012; Target Vacations (an online retail e-commerce business-to-consumer travel agency) on August 3, 2012; Deal of The Day (a discount deal website) on August 7, 2012 and Carroll Publishing (a community newspaper in St. Thomas, Ontario) on October 31, 2012.

The Media Segment acquisitions were accounted for using the purchase method. The amount of goodwill that is deductible for tax purposes is $0.8 million. Goodwill recognized on the acquisitions was comprised of integration with existing web-based products; new market penetration; access to knowledge and expertise of travel management team and workforce.

On January 20, 2012, the Book Publishing Segment acquired Heartsong Presents (a book club).

These acquisitions contributed $0.6 million of revenue and $nil operating profit in the Media Segment and $1.4 million of revenue and $0.1 million of operating profit in the Book Publishing Segment in 2012. If the acquisitions had occurred on January 1, 2012, the Company's consolidated revenues and operating profit would have been $1,487.3 million and $139.1 million respectively.

The portfolio investments of $1.1 million included an investment of $1.0 million in TeamSnap, Inc. (an online activity management technology platform) on December 21, 2012. These portfolio investments have been classified as AFS financial assets.

The fair value of assets acquired and liabilities assumed from the acquisitions completed are as follows:

Year ended December 31, 2012	Media Segment	Book Publishing Segment	Total
Assets:			
Property, plant and equipment (note 4)	$18		$18
Indefinite-life intangible assets (note 6)	50	$101	151
Finite-life intangible assets (note 6)	1,172	506	1,678
Goodwill (note 7)	1,074		1,074
Non-cash working capital	(144)	(129)	(273)
Total purchase price	2,170	478	2,648
Deferred payments (Accounts payable)	(100)		(100)
Deferred payments (Other liabilities)	(99)		(99)
Contingent consideration	(546)	(147)	(693)
Cash consideration paid	1,425	331	1,756
Deferred payments on prior acquisitions	3,086		3,086
Contingent consideration on prior acquisitions	5,946		5,946
	10,457	331	10,788
Investments	1,095		1,095
Total cash used in acquisitions and investments	$11,552	$331	$11,883

2011 Acquisitions

During the year ended December 31, 2011, the Company completed acquisitions and portfolio investments in its Media Segment with a total purchase price of $124.4 million, including $0.6 million for portfolio investments. The purchase price included $91.3 million of cash; $2.1 million of deferred purchase payments; $10.8 million for a call option liability; a $1.1 million estimate of the fair value of contingent consideration and gains on remeasurement for step acquisitions of $19.1 million. The contingent consideration related to two of the Media Segment acquisitions. Both contingent consideration calculations are based on profit levels realized by the acquired businesses up to five years following the acquisition and are payable by the Company between 2013 and 2017.

In addition, the Company also made payments of $9.6 million for deferred purchase payments and $0.8 million of contingent consideration in respect of prior year acquisitions. The deferred purchase payments included $6.9 million in respect of the Book Publishing Segment's prior year acquisition of the remaining 50% of its German publishing business, Cora Verlag from Axel Springer Verlag, its joint venture partner in Germany since 1976. The remaining $2.7 million deferred purchase payments were in the Media Segment for eyeReturn Marketing and Gottarent. The $0.8 million contingent consideration was also paid in the Media Segment.

Total cash used for acquisitions and portfolio investments during the year was $101.8 million, as indicated in the chart below.

The Media Segment acquisitions included Autocatch.com (a web-based classified advertising solution for vehicle dealers and sellers) on February 15, 2011; Brant News (a community newspaper publishing and flyer distribution business operating in the Brantford area) on April 15, 2011; exercising the option to purchase an additional 16.67% of Tuango (a Quebec-based daily deal business) on April 18, 2011, bringing the Company's interest to 50%; Starmail Distributors (a distribution business operating in London, Ontario) on June 1, 2011; the remaining 50% of save.ca (an online coupon website providing consumers with savings on leading packaged goods brands) on June 16, 2011; The Kit (a digital beauty magazine) on July 28, 2011; Foodscrooge (an online group buying site focused on heavily discounted food offerings) on September 28, 2011; an additional 40% interest in Free Daily News Group (publishes the Metro newspapers in Toronto, Vancouver, Ottawa, Calgary, Edmonton, London, Winnipeg and Halifax, "Metro") on October 14, 2011 bringing the Company's interest to 90% and Performance Printing Limited (a newspaper publisher and flyer distributor in several Eastern Ontario communities with a commercial printing operation in Smiths Falls) on October 17, 2011.

The acquisition of the additional interest in Metro and save.ca were step acquisitions in which the Company obtained control of both entities. The Company remeasured its previously held interest to the acquisition dates' fair values of $58.0 million and $4.7 million for Metro and save.ca respectively, resulting in a gain on remeasurement of $19.1 million which has been recorded as Other income in the consolidated statement of income.

As part of the Metro transaction, the Company and Metro International S.A. entered into put and call arrangements with regards to the 10% of Metro that remains owned by Metro International S.A.. The put and call are both exerciseable at the same fixed price starting in October 2014. The Company recorded a $10.8 million discounted value of the call option liability as part of the business combination.

The Media Segment acquisitions were accounted for using the purchase method. The amount of goodwill that is deductible for tax purposes is $8.4 million. Goodwill recognized on the acquisitions was comprised of integration with existing web-based products; market reputation; access to existing network of carriers and existing readership. The Starmail acquisition facilitated the launch of a community newspaper in the London, Ontario region.

These acquisitions contributed $20.6 million of revenue and $2.4 million of operating profit in the Media Segment in 2011. If the acquisitions had occurred on January 1, 2011, the Company's consolidated revenues and operating profit would have been $1,594.6 million and $192.9 million respectively.

The portfolio investments of $0.6 million included $0.5 million in Social Game Universe (a Toronto-based developer and publisher of social games) on April 21, 2011. These portfolio investments have been classified as AFS financial assets.

The fair value of assets acquired and liabilities assumed from the acquisitions completed are as follows:

Year ended December 31, 2011	Media Segment Metro	Media Segment Others	Media Segment Total	Book Publishing Segment	Total
Assets:					
Property, plant and equipment (note 4)	$353	$8,362	$8,715		$8,715
Indefinite-life intangible assets (note 6)		9,856	9,856		9,856
Finite-life intangible assets (note 6)	20,047	8,469	28,516		28,516
Goodwill (note 7)	49,986	19,012	68,998		68,998
Deferred tax assets	492	350	842		842
Non-cash working capital	7,293	3,134	10,427		10,427
Liabilities:					
Other liabilities		(1,352)	(1,352)		(1,352)
Deferred tax liabilities		(2,258)	(2,258)		(2,258)
Minority interests	20		20		20
Total purchase price	78,191	45,573	123,764		123,764
Gain on remeasurement for step acquisitions	(19,026)	(29)	(19,055)		(19,055)
	59,165	45,544	104,709		104,709
Deferred payments (Accounts payable)		(2,080)	(2,080)		(2,080)
Call option liability	(10,789)		(10,789)		(10,789)
Contingent consideration		(1,087)	(1,087)		(1,087)
Cash consideration paid	48,376	42,377	90,753		90,753
Deferred payments on prior acquisitions		2,667	2,667	$6,950	9,617
Contingent consideration on prior acquisitions		823	823		823
	48,376	45,867	94,243	6,950	101,193
Investments		600	600		600
Total cash used in acquisitions and investments	$48,376	$46,467	$94,843	$6,950	$101,793

21. GAIN ON SALE OF ASSETS AND OTHER INCOME

During the year ended December 31, 2012, the Company recognized a gain on sale of assets of $9.8 million which consists of $2.7 million from the sale of assets of Insurance Hotline; $3.7 million from the sale of Sing Tao's land and buildings and $3.4 million from the sale of a portion of its interest in Tuango. The Company also recognized other income of $10.4 million related to the Tuango sale transaction.

Insurance Hotline

On November 15, 2012, the Company sold the assets of Insurance Hotline for net proceeds of $7.0 million which included cash of approximately $2.0 million and a 12.6% investment in Kanetix Ltd. (an online Canadian insurance marketplace) valued at $5.0 million. This investment has been classified as an AFS financial asset. The Company recorded a gain of $2.7 million on the transaction.

Sing Tao

On April 10, 2012, Sing Tao closed the sale of its land and buildings in Toronto. Sing Tao will continue to occupy the premises for a transition period of 10 to 18 months. The Company's share of the net proceeds was $6.0 million which included cash of $2.5 million and a mortgage receivable for $3.5 million which will mature in 18 to 24 months from the date of the sale. The Company recorded a gain of $3.7 million, its share of the gain on the sale.

Tuango

On February 29, 2012, the Company sold a portion of its 50% interest in Tuango for net proceeds of $3.9 million and recorded a gain on sale of assets of $3.4 million. The Company retained a 38.2% interest in Tuango.

In addition, the Company issued an option, exerciseable within three years, to the purchaser to acquire an additional 4.9% interest for $1.8 million which is at the same fair value basis as the sale transaction noted above. If the purchaser exercises this option, the Company's ownership interest in Tuango will be reduced to 33.3%. The option has been valued at an estimated current fair value of $0.3 million which has been included in Other liabilities in the consolidated statement of financial position.

As a result of the sale transaction and revised shareholders' agreement, the Company lost joint control and changed from proportionately consolidation to accounting for the investment as an associated business using the equity method.

Upon the loss of joint control, the Company remeasured its current investment at the sale date fair value of $13.8 million, resulting in a gain on remeasurement of $10.4 million which has been recorded as Other income in the consolidated statement of income.

22. INVESTMENT WRITE-DOWN

The Company recorded the following investment write-downs in 2012 and 2011:

	Year ended December 31	
	2012	2011
Write-down of investment in Multimedia Nova Corporation	**($93)**	
Write-down of investment in Q-ponz Inc.		($544)
	($93)	($544)

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

	Year ended December 31	
	2012	2011
Share-based compensation plans	**$1,263**	($350)
Foreign exchange	**246**	3,477
Restructuring provisions	**(2,604)**	82
Gain on remeasurement of Tuango (note 21)	**(10,407)**	(19,055)
Gain on sale of assets (note 21)	**(9,811)**	
Media inventory provided to Shop.ca (note 5)	**(3,847)**	
Interest accretion	**1,018**	2,667
Other	**(712)**	(312)
	($24,854)	($13,491)

24. COMMITMENTS AND CONTINGENCIES

The Company has guaranteed sub-lease payments to a third party of approximately U.S. $1 million for each of the next 6 years. The sub-lease is secured by a U.S. $0.7 million irrevocable letter of credit by the sub-lessee. Subsequent to year end, the sub-lessee has filed for protection under Chapter 11 of the United States Bankruptcy Code. It is unclear if the sub-lessee will be able to honour its commitments under the sub-lease going forward.

Along with the other shareholders of Kanetix Ltd., the Company has pledged its shares in Kanetix in support of the Kanetix credit facility. In addition, the Company has the following significant contractual obligations:

Nature of the Obligation	Total	2013	2014 - 2015	2016 - 2017	2018+
Office leases	$120,429	$19,423	$37,636	$33,902	$29,468
Services	14,888	7,811	5,418	1,354	305
Acquisitions	14,651	2,154	12,241	256	
Equipment leases	1,933	695	930	308	
Total	$151,901	$30,083	$56,225	$35,820	$29,773

25. RELATED PARTY TRANSACTIONS

The aggregate amounts of compensation expense for the Company's key management (including directors) are set out below:

	Year ended December 31	
	2012	2011
Salaries and benefits	**$7,012**	$8,603
Post-employment benefits	**2,996**	2,247
Share based payments	**2,611**	2,996
Other long-term benefits	**276**	986
Total	**$12,895**	$14,832

The following summarizes the sales to, purchases from and amounts owed to and by the Company's joint ventures and associates:

	Sales to	Purchases from	Amounts owed by	Amounts owed to
Joint Ventures				
2012	**$3,262**	**$695**	**$576**	**$281**
2011	3,180	1,152	823	368
Associates				
2012	**3,847**	**9,198**		**1,313**
2011		7,264		708

Sales to and purchases of goods and services from related parties were made at market prices. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

26. JOINT VENTURES

The Company proportionately consolidates its interest in joint ventures. The significant joint ventures in the Media Segment include Workopolis (50%) and Sing Tao Daily (approximately 50%). Prior to October 14, 2011, Free Daily News Group (publishes the Metro newspapers) was also a joint venture. Harlequin also conducts some of its business overseas with joint venture partners, the most significant of which are in France (50%) and Italy (50%). The Company's proportionate share of revenue from these businesses is $82.1 million (2011 – $140.4 million) and operating profit is $1.9 million (2011 – $18.4 million).

Below is the summarized financial information for the Company's proportionate share of its interest in joint ventures included in the consolidated statement of financial position:

	December 31, 2012	December 31, 2011
Current assets	**$29,365**	$31,228
Property, plant and equipment	**5,237**	6,970
Intangible assets	**20,655**	22,251
Goodwill	**47,419**	59,382
Other assets	**3,500**	
Deferred income tax assets	**118**	195
Current liabilities	**19,018**	19,007
Other liabilities	**485**	459
Deferred income tax liabilities	**722**	225

27. SEGMENTED INFORMATION

The Company has two reportable segments: Media and Book Publishing. “Corporate” is the provision of corporate services and administrative support.

The Media Segment publishes four daily newspapers: the Toronto Star, The Hamilton Spectator, the Waterloo Region Record, and the Guelph Mercury. The Media Segment also publishes over 100 community newspapers in Ontario. In addition the Company has a 90% interest in Free Daily News Group Inc. which publishes the English-language Metro newspapers in several Canadian cities; and through a joint venture arrangement, the Company owns an interest in the Chinese-language Sing Tao Daily and its related publications in Toronto, Vancouver and Calgary. Most of the Company’s newspapers have an established digital presence, and the Company also operates a number of other digital businesses including toronto.com, Wheels.ca, flyerland.ca, goldbook.ca, Workopolis, Olive Media, eyeReturn Marketing and wagjag.com. The Media Segment derives its revenues from advertising, circulation, distribution, third-party printing and other.

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. Harlequin derives its revenue from the publishing and distribution of books in both printed and digital formats.

The Company also has investments in Black Press, Blue Ant, Canadian Press, Shop.ca and Tuango, which the Company presents as associated businesses.

Segment profit or loss has been defined as operating profit which corresponds to operating profit as presented in the consolidated statement of income. All other income and expense items are managed on a Company basis and are not provided to the chief operating decision-maker (“CODM”) at the operating segment level. Assets and liabilities are also not provided to the CODM at the operating segment level. These items are therefore not allocated to the operating segments.

Year ended December 31, 2012	Media	Book Publishing	Total segments	Corporate	Consolidated
Operating Revenue	$1,059,261	$426,483	$1,485,744		$1,485,744
Salaries and benefits	(414,135)	(96,002)	(510,137)	($10,698)	(520,835)
Other operating costs	(500,417)	(253,550)	(753,967)	(3,210)	(757,177)
Amortization and depreciation	(34,027)	(4,107)	(38,134)	(48)	(38,182)
Restructuring and other charges	(16,498)	(1,280)	(17,778)		(17,778)
Impairment of assets	(13,003)		(13,003)		(13,003)
Reportable segment operating profit	$81,181	$71,544	$152,725	($13,956)	$138,769
Interest and financing costs					(8,759)
Adjustment to contingent consideration					(258)
Foreign exchange					(246)
Loss of associated businesses					(3,295)
Gain on sale of assets					9,811
Other income					10,407
Investment write-down and loss					(93)
Income before taxes					$146,336

Year ended December 31, 2011	Media	Book Publishing	Total segments	Corporate	Consolidated
Operating Revenue	$1,089,330	$459,427	$1,548,757		$1,548,757
Salaries and benefits	(398,842)	(100,014)	(498,856)	($12,227)	(511,083)
Other operating costs	(518,818)	(273,320)	(792,138)	(3,287)	(795,425)
Amortization and depreciation	(29,415)	(3,695)	(33,110)	(55)	(33,165)
Restructuring and other charges	(18,860)	(551)	(19,411)		(19,411)
Reportable segment operating profit	$123,395	$81,847	$205,242	($15,569)	$189,673
Interest and financing costs					(16,629)
Adjustment to contingent consideration					630
Foreign exchange					(3,477)
Loss of associated businesses					(2,157)
Other income					19,055
CTV Inc. – gain on sale					74,590
Investment write-down					(544)
Income before taxes					$261,141

Geographical information

Revenue is allocated based on the country in which the order is received.

The Company operates in the following main geographical areas:

	Revenue Year ended December 31,	
	2012	2011
Canada	**$1,056,198**	$1,111,538
United States	**219,809**	226,111
Other[1]	**209,737**	211,108
Total	**$1,485,744**	$1,548,757

[1] Principally – United Kingdom, Japan, Germany, Australia, Sweden and France.

28. COMPARATIVE INFORMATION

Some of the 2011 comparative figures have been reclassified to conform to the current year presentation.

29. SUBSEQUENT EVENTS

Subsequent to year end, a sub-lessee for which the Company had guaranteed sub-lease payments (Note 24) filed for protection under Chapter 11 of the United States Bankruptcy Code. It is unclear if the sub-lessee will be able to honour its commitments under the sub-lease going forward.

Through March 4, 2013, a series of restructuring initiatives have been undertaken in the Media Segment. These initiatives include the intended outsourcing of certain functions, and other voluntary and involuntary staff reductions which are currently expected to impact approximately 100 employees.

NOTES

BOARD OF DIRECTORS

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

Elaine B. Berger

Corporate Director

Director since 2006

Daniel A. Jauernig

President and Chief Executive Officer
Classified Ventures, LLC

Director since 2009

Joan T. Dea

Managing Director
Beckwith Investments

Director since 2009

Alnasir Samji

Managing Principal, 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 Emeritus, University of Alberta
Former Publisher, Edmonton Journal

Director since 2010

B. Neil Clark

Corporate Director

Director since 2011

CORPORATE OFFICE

One Yonge Street
Toronto, Ontario
Canada
M5E 1E6
Telephone: (416) 869-4010
Fax: (416) 869-4183
e-mail: torstar@torstar.ca
Website: www.torstar.com

TRANSFER AGENT & REGISTRAR

CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.
P.O. Box 700
Postal Station B
Montreal, QC
H3B 3K3
AnswerLine (416) 682-3680 or
1-800-387-0825
(toll-free in North America)

www.canstockta.com
inquiries@canstockta.com

Torstar Class B non-voting shares are traded on the Toronto Stock Exchange under the symbol TS.B

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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

JENNIFER BARBER
Senior Vice-President Finance

D. TODD SMITH
Treasurer

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