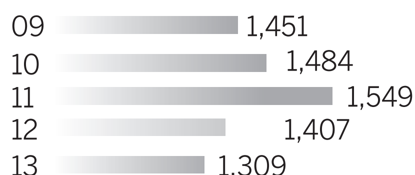
2013
ANNUAL REPORT

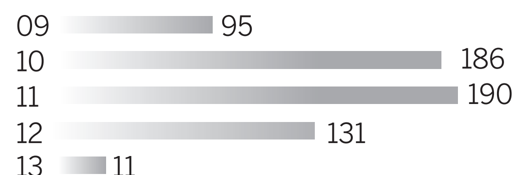
OPERATING RESULTS ($000)	2013	2012 (2)
Operating revenue	**$1,308,791**	$1,406,768
EBITDA (1)	**161,900**	185,742
Operating profit	**11,321**	131,077
Net income (loss)	**(27,413)**	82,933
Cash from operating activities	**80,732**	89,835
EBITDA – Percentage of revenue	**12.4%**	13.2%
Operating profit – percentage of revenue	**0.9%**	9.3%
Cash from operating activities – percentage of average equity	**10.6%**	12.6%
PER CLASS A AND CLASS B SHARES		
Net income (loss)	**($0.35)**	$1.03
Dividends	**$0.5250**	$0.5188
Price range (high/low)	**$8.36/$5.20**	$11.30/$6.56
FINANCIAL POSITION ($000)		
Long-term debt	**$175,898**	$178,027
Equity	**$796,784**	$723,680

The Annual Meeting of shareholders will be held Wednesday, May 7, 2014 at The Westin Harbour Castle Hotel, 1 Harbour Square, Toronto beginning at 10 a.m. It will also be webcast live on the Internet.

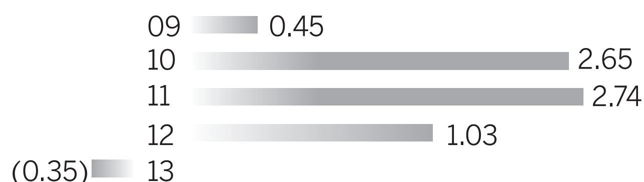
OPERATING REVENUE ($MILLIONS) (2)



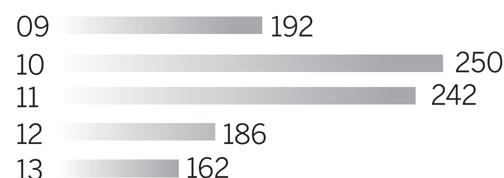
OPERATING PROFIT ($MILLIONS) (2)



INCOME (LOSS) PER SHARE (2)



EBITDA ($MILLIONS) (1) (2)



(1) Consolidated operating profit, as presented on the consolidated statement 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 39.

(2) 2012 is restated for the impact of the adoption of IAS 19R, IFRS 11, IFRS 12 and IAS 28; prior periods have not been restated. 2009 is based on Canadian GAAP and is 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 8. under the heading "Forward-Looking Statements".

MESSAGE FROM THE CHAIR

John Honderich
Chair, Board of Directors

It has been a year of economic challenge for Torstar, but also one of unparalleled publishing excellence.

The economic headwinds combined with the relentless challenges presented by the new digital era certainly made 2013 a daunting year financially. Yet we remained Canada's most-read weekday English-language newspaper company, Canada's leading community newspaper group and one of the world's leading publishers of books for women.

Torstar has always prided itself on the quality of its work. It seems even in the toughest of times, we buckle down and excel at what we know how to do best. At Harlequin, 61 of our books appeared on The New York Times bestseller lists for a total of 195 weeks. Four of those titles won the coveted number one spot. And Harlequin was named Mass Market Publisher of the Year in the United States. At Metroland Media Group, the company's community newspapers won 129 Local Media Association (LMA) editorial awards, the highest across North America. The Waterloo Region Record won first place in the daily newspaper category. On the advertising and marketing side, Metroland won 38 LMAs, again leading all media companies in North America. At the Toronto Star, the paper showed extraordinary leadership and courage in its ongoing coverage of Toronto Mayor Rob Ford. It also won four National Newspaper Awards and was nominated for the prestigious Michener Award in Public Service Journalism. Finally, Torstar's The Grid, a weekly city publication published in Toronto, was named one of the best designed newspapers in the world by the Society for News Design.

In a world where quality content is so critical, Torstar stands out for its publishing excellence. This provides a critical strategic advantage for Torstar as we continue to compete in a very competitive environment.

2013 also marked the departure of Donna Hayes, Harlequin's Publisher and Chief Executive Officer. After 28 glorious years with the company, 12 of them at the helm, Ms Hayes decided to retire. She was replaced by veteran Harlequin executive Craig Swinwood, who took over in December. As part of a restructuring, Torstar Digital was absorbed by other divisions, with President Chris Goodridge returning to corporate headquarters in charge of several digital operations. At the top, President and Chief Executive Officer David Holland and Chief Financial Officer and Executive Vice-President Lorenzo DeMarchi continued to provide the critical strategic thinking and steady hand on the corporate tiller required in such difficult times. Ian Oliver, President of Metroland Media Group, enriched the consolidation of Metroland as Ontario's premier community newspaper company. Finally, John Cruickshank, Publisher of the Toronto Star and President of Star Media Group, carried on with the innovative transformation of operations at Canada's largest newspaper.

As the economic times have toughened, so has the need to trim cost, realign and restructure. One of Torstar's greatest assets is its workforce of more than 6,000 employees. The dedication, sense of innovation, and professionalism shown by this group is simply amazing. Despite all the outside pressures, they prove day in and day out why we remain so competitive and so highly regarded. Given the downward trends, we have continued to scrutinize carefully how we operate and where we can do things differently. This has resulted in some tough decisions on downsizing across the company. To those who have left, we salute your contribution and recognize your significant contribution to the company.

Torstar is also served by an exceptional and inquisitive Board of Directors. Throughout the year, they have brought a collective insight, wisdom and strategic perspective to our discussions. 2013 also marked the last full year of board service for Don Babick, one of Canada's true newspaper icons. Don has served as Publisher for many of Canada's leading newspapers, including a stint as interim Publisher of The Star. Mr. Babick has served for 10 years on the Board, always bringing his trademark savvy, wit and extensive experience to every discussion.

TO OUR SHAREHOLDERS

David Holland
President and Chief Executive Officer

Torstar's evolution continued in 2013 with increasing emphasis on publishing across multiple platforms. The operating environment continues to be challenging in the newspaper industry and change continues in the book publishing industry. We were encouraged by the earnings performance of our media operations and the meaningful improvement in the condition of our pension plans in 2013. Harlequin continues to make the necessary adjustments to succeed in the more digital environment. The strength of our financial position enables us to take the long-term view in the best interest of our shareholders.

OPERATING RESULTS

Segment EBITDA of $173 million was down $29 million from $202 million earned in 2012. Segment revenue was $1.38 billion, down 7% from $1.49 billion in the prior year. Media Segment EBITDA of $131 million was down $8 million. Harlequin's EBITDA was $56 million, down $21 million from the previous year.

Torstar remains in a strong financial position and made further progress in reducing debt in 2013. Net debt at the end of 2013 was $159 million, down $4 million from the end of 2012. We also continued to take steps to improve the condition of our employee pension plans by making significant contributions to lower their deficits. These contributions in combination with rising interest rates and good investment returns have resulted in a major improvement to the condition of the pension plans. The strength of this financial position allows Torstar to take the long-term view, making investments in areas of opportunity that will be critical to our future and taking steps on the cost base necessary to our continued transformation.

As in past years, Harlequin proved to be a major contributor in 2013 to Torstar's results.

Although revenue and earnings were down, Harlequin's management team remained focused on executing against its strategy including expanding on its position in digital publishing, building its single title franchise and diversifying the publishing program.

In the year, Harlequin had total segment revenues of $398 million. This was down $29 million from 2012. In North America, the decrease in revenue was due to declines in the retail print and direct-to-consumer channels. Overseas, growth in digital was not sufficient to offset print declines. As well, revenues continued to be affected by challenging economic conditions, particularly in Europe.

In 2013, Harlequin enjoyed an excellent year for bestsellers. A total of 61 books appeared on The New York Times bestseller lists for a total of 195 weeks, including four books that reached the number one spot. An indication of the success Harlequin is achieving in extending its publishing into non-fiction was JJ Virgin's The Virgin Diet, which spent 24 weeks on The New York Times bestseller list. Harlequin also successfully secured all its top authors through 2016 and signed an unprecedented 70 new authors to series.

Harlequin is a world-class publisher and its management team remains focused on providing great reading entertainment to women around the world.

Complementing our global Harlequin operation is our Canadian media business. We are extremely proud of the role our media operations play in the communities they serve. Our geographic coverage is diverse. Our media operations include the Toronto Star, our flagship, the largest daily newspaper in Canada, the award-winning Metroland community newspapers with operations throughout Ontario, and the Metro English newspapers in cities across Canada.

We made considerable progress in 2013 on the cost base, a necessary element of the continued transformation of the media division. This cost reduction combined with investment in areas of opportunity should enable us to take advantage of the new opportunities ahead for both our print and digital businesses. We have made these changes while ensuring the high quality of publishing and services that our readers and our advertisers have come to expect from Torstar is maintained.

In the Canadian Media division, segment revenues of $984 million were down 7% in 2013, largely because of print advertising declines at our newspapers. On a more positive note, distribution revenues were up in the year and multi-platform subscriber revenues were stable. As well, while digital profitability was up, digital revenues were down 6% due primarily to lower revenues at WagJag and Workopolis, offset partially by growth in local digital revenue at thestar.com and revenues at other digital properties including eyeReturn Marketing and Olive Media.

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

Metroland Media is one of the country's premier community publishing companies, publishing in print and digital in three daily and more than 110 community newspapers across Ontario. Over the years, Metroland has evolved into a highly diversified division, with an emphasis on continuous innovation to satisfy its readers and advertisers. In addition to publishing of newspapers and their associated digital sites, Metroland also has operations in flyer distribution, magazines, specialty publications, consumer shows, commercial printing, directories and numerous digital businesses.

Metroland Media was affected in 2013 like many other newspaper publishers by continuing declines in print advertising revenues. Overall, Metroland Media saw its revenues decline 8% to $510 million, including an $18-million drop in revenue from Metroland Media Group's TMGTV, primarily attributable to lower product sales. Metroland Media's EBITDA was $71 million, down from $75 million in 2012, a very solid accomplishment in a tough environment.

During 2013, Metroland focused on building on its longstanding strength in providing distribution services across its Ontario platform and evolving their digital offerings, forming the Metroland Digital Commerce group by bringing together the WagJag business and the digital flyers and coupons business of Save.ca. Also, Metroland continued to stay strongly connected to its communities through its unique position in providing relevant local coverage and information, both in print and digitally.

Star Media Group, which includes the Toronto Star, Metro, Sing Tao, The Grid, the Kit and many of our digital properties, also was affected by drops in print advertising revenues. Revenues declined $32 million, or 6%, with print advertising revenues down 13% at the Toronto Star, partly offset by growth in local digital advertising. At our Metro newspapers, declines in Ontario markets were partly offset by growth in certain markets in western Canada and recent expansion markets. Star Media Group EBITDA was $60 million in 2013, down $3 million from 2012 as an excellent effort on cost control was nearly sufficient to offset the revenue decline.

Digital revenues from Star Media Group properties increased 2.0% in 2013, reflecting revenue growth in eyeReturn Marketing, Olive Media and local digital revenue at thestar.com, partially offset by lower revenue from Workopolis.

During the year, we completed a reorganization of the media operation. We transferred Torstar Digital's Commerce operations, including the WagJag business, to Metroland Media. Olive Media was transferred into Star Media Group. The remaining operations and investments, eyeReturn Marketing and our interests in Workopolis, Tuango, Kanetix, Teamsnap and Golden Ventures all now report into Chris Goodridge, Senior Vice-President, Digital Ventures at Torstar corporate.

Torstar Digital was created in 2005 and the organization benefitted greatly from the innovation demonstrated and the dedication of its employees. Much has changed since 2005. Torstar's media operations are uniformly embracing their multi-platform future. The reorganization is a part of our evolution and has simplified structure, improved alignment and enabled improvement of execution of strategy.

As in past years, our newspapers and digital properties were recognized for their outstanding editorial, advertising and marketing efforts.

The Toronto Star received widespread praise and admiration for its ground-breaking investigative coverage of Toronto mayor Rob Ford, which received international recognition. The paper also captured four prestigious National Newspaper Awards and was nominated for the Michener Award in Public Service Journalism. Metroland newspapers won a total of 129 editorial awards presented by the Local Media Association, the highest number of any newspaper organization in North America. Among the winners were the Waterloo Region Record, which captured the Newspaper of the Year award, and the Mississauga News, which was named Best Overall Local News Site. In addition, Metroland newspapers won 38 Local Media Association awards for advertising and marketing. Also, The Grid, a weekly city paper published in Toronto, was once again named one of the best designed newspapers in the world by the Society for News Design.

Torstar also has minority investments in associated businesses, including a 23-per-cent interest in Blue Ant Media Inc., an independent media company led by media veteran Michael MacMillan. We were pleased with Blue Ant's performance in 2013 and remain confident in the company as it focuses on growth opportunities moving forward.

In addition, Torstar has a minority investment in Black Press, a company well led by David Black that publishes more than 150 newspapers, including weeklies, dailies and shoppers in Canada and the U.S.

LOOKING FORWARD

As we saw in 2013, Torstar's businesses are facing challenging times as the behavior of audiences and advertisers continues to evolve. The challenge of adapting to change is not unique to Torstar, and is being felt by publishing companies around the globe.

We are confident, though, that Torstar has the strength and diversity of operations, with more than 100 respected brands, to successfully adapt and meet the challenges that will confront us in the future.

We expect print advertising revenues to continue to be under pressure in 2014. However, digital revenue and distribution revenue are expected to grow. Multi-platform subscriber revenues should be stable. The media segment will benefit from the ongoing effort to restructure, lower defined benefit pension expense and lower newsprint costs. At Harlequin, we continue to make the adjustments necessary to succeed in the more digital environment. We expect Harlequin results to be relatively stable compared to 2013, including the positive benefit of foreign exchange, given the depreciation of the Canadian dollar.

Building on our strengths and our willingness to continually adapt will allow us to better compete and build value in the years ahead.

Our strengths include the diversity of our operations, from our daily and community newspaper operations across Canada to our global book publishing business; our commitment to the value of quality content and connection to the communities in which we operate; our enduring and trusted brands in every area of our business, including Harlequin and across our media operations; our expanding digital operations, which is an area we are committed to investing in and succeeding in; our ambition to be a progressive media company that will be innovative in taking advantage of the breadth of assets at our disposal; our financial strength; and, finally, the depth and quality of the talent throughout our many businesses.

I feel fully confident in our future because of these strengths.

OUR GREATEST STRENGTH – PEOPLE

At Torstar, we have always been privileged to have talented and dedicated employees across all our divisions.

At Harlequin, Donna Hayes, one of the world's top book publishing executives, announced she was retiring effective December 31, 2013, after 28 years with the company. She guided Harlequin with distinction in 2013 in what was another year of rapidly evolving transition in the publishing industry. Her commitment to the company, the employees and the Harlequin authors throughout her career was always exemplary. We thank her deeply for all of her many contributions. As part of the succession planning process, Craig Swinwood became the new Publisher and CEO starting January 1, 2014.

Craig Swinwood is a natural successor to Donna Hayes. Since joining Harlequin 26 years ago, he has served in a variety of progressive sales and marketing roles, most recently as the Chief Operating Officer, responsible for North America. During his career at Harlequin, he has played a key role in the growth of the single title business, the development of the Harlequin non-fiction and teen strategies and has been a driving force in the transition from print to digital publishing in North America.

At Metroland Media Group, Ian Oliver is demonstrating why he is one of the most respected community newspaper executives in North America. His embracing of change and commitment to continuing to strengthen connection to the communities in which its publications operate across platforms are evidence of his vision for the community media organization of the future.

At Star Media Group, John Cruickshank is providing outstanding leadership as he continues to lead the necessary transformation of the Toronto Star as it adapts and capitalizes on the opportunity in its multi-platform future. He is also positioning the growing Metro franchise and other properties in the Star Media Group for sustained success in the future.

At the corporate office, Lorenzo DeMarchi, our Executive Vice-President and Chief Financial Officer and an experienced and committed team continue to make invaluable contributions to the Torstar organization. I thank them for all their support.

I would also like to thank John Honderich, our Chair, and all the members of the Board of Directors for their support and wise counsel during the year.

I would also like to acknowledge the support, hard work and dedication of the more than 6,000 Torstar employees as we continue to take the necessary, and often difficult, steps forward in the evolution of Torstar. Because of their commitment and passion to succeed, I remain fully confident in Torstar's future for years to come.

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For the year ended December 31, 2013

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, 2013.

Torstar reports its financial results under International Financial Reporting Standards ("IFRS") as set out in the CPA Canada Standards and Guidance Collection. 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 4, 2014 and all amounts are in Canadian dollars unless otherwise noted.

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

Effective January 1, 2013, Torstar applied, for the first time, certain IFRS accounting standards and amendments which required restatement of previously presented financial statements. These include IAS 1 *Presentation of Financial Statements*, IAS 19 (Revised 2011) *Employee Benefits* ("IAS 19R"), IAS 28 *Investments in Associates and Joint Ventures*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement.* Accordingly, the comparative financial information provided in this MD&A has been restated to reflect the adoption of these accounting standards. The effect of Torstar's application of these standards is discussed further in Section 8 of this MD&A.

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. This MD&A includes, among others, forward-looking statements regarding Torstar's expected net savings from restructuring initiatives and labour savings in Section 2 of this MD&A, Torstar's outlook for 2014 in Section 4 of this MD&A, expectations regarding cash flows, long-term bank credit facilities and US dollar debt in Section 5 of this MD&A, expectations regarding the costs, obligations, contributions, return on plan assets and other expectations in Section 7 of this MD&A and expectations described in connection with critical accounting policies and estimates in Section 8 of this MD&A. 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;
- the Company's ability to attract and retain advertisers;
- the Company's ability to maintain adequate circulation/subscription 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;
- general economic conditions in the principal markets in which the Company operates;
- the Company's ability to compete with book publishers, self-publishing and other providers of entertainment;
- the trend towards digital books and the Company's ability to distribute its books through the changing distribution landscape;
- the popularity of its authors and its ability to retain popular authors;

- the contraction and concentration of the wholesale and retail print channels;
- the Company's ability to accurately estimate the rate of book returns through the wholesale and retail channels;
- the decline of the Company's direct-to-consumer book publishing operations;
- labour disruptions;
- the Company's ability to reduce costs;
- loss of reputation;
- newsprint costs;
- foreign operations and foreign exchange fluctuations;
- credit risk;
- restrictions imposed by existing credit facilities, debt financing and availability of capital;
- changes in pension fund obligations;
- reliance on its printing operations;
- reliance on technology and information systems;
- interest rates;
- availability of insurance;
- litigation;
- privacy, anti-spam, communications, e-commerce and environmental laws and other laws and regulations applicable generally to the Company's businesses;
- dependence on key personnel;
- dependence on third party suppliers and service providers;
- intellectual property rights;
- results of impairment tests;
- risks related to business development and acquisition integration;
- product revenue and product liability;
- 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 and global economies; 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.

Management's Discussion and Analysis – Contents

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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 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").

Media Segment

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

Star Media Group includes the daily Toronto Star newspaper and thestar.com; a 90% interest in Free Daily News Group Inc. ("Metro English Canada") which publishes the Metro free daily newspapers in Toronto, Vancouver, Ottawa, Calgary, Edmonton, Regina, Saskatoon, London and Winnipeg (pursuant to a franchise agreement with Metro International) and in Halifax (through a joint venture between Metro English Canada and Transcontinental Media G.P.); Sing Tao Daily, a Chinese-language daily newspaper published in Toronto, Vancouver and Calgary (pursuant to a joint venture with Sing Tao Holdings Limited); toronto.com; and several other specialty publications, magazines and distribution services. Star Media Group also includes eyeReturn Marketing and Torstar's interests in Olive Media and Workopolis.

Metroland Media Group publishes in print and online approximately 115 weekly community newspapers, three daily newspapers (The Hamilton Spectator, the Waterloo Region Record and the Guelph Mercury), numerous other specialty and monthly publications, magazines, telephone directories, consumer shows and flyer distribution operations, a number of websites and digital applications and product sales. Its online properties include save.ca, wagjag.com ("WagJag", a daily deal website), travelalerts.ca (an online publisher of travel promotional emails), HomeFinder.ca, gottarent.com, and a 50% interest in LeaseBusters.com. Metroland Media Group also participates in Wheels.ca (in partnership with Star Media Group). Metroland Media Group also operates Torstar Media Group Television ("TMGTV") - a product sourcing and distribution business which until November 2013, also operated a teleshopping channel. Metroland Media Group has six web press facilities which print the Metroland newspapers but also engage in commercial printing.

Torstar's printing plant interests are comprised of: Metroland Media Group's six printing plants, each of which is engaged in commercial printing in addition to supporting internal printing needs; Star Media Group operates the Toronto Star's Vaughan Press Centre, which primarily supports the Toronto Star's printing needs but is also engaged in commercial printing; and Sing Tao's printing plants in Toronto and Vancouver, which primarily support Sing Tao's printing requirements.

Book Publishing Segment

The Book Publishing Segment represents Harlequin, a leading global publisher of books for women. Harlequin publishes books around the world in a variety of formats, including digital. Harlequin sells books through the retail channel, in stores and online, and directly to the consumer through its direct mail businesses and from its internet sites (in North America – Harlequin.com). Harlequin's publishing operations are comprised of two divisions: North America and Overseas. In 2013 Harlequin published books in 33 languages in 102 international markets.

Harlequin sells books under several imprints including Harlequin, Harlequin MIRA, Harlequin HQN, Harlequin Nonfiction, Harlequin TEEN, Harlequin Kimani Press and Carina Press. Different types of stories are published under the various imprints.

Associated Businesses

At December 31, 2013, Torstar had a 19.4% equity investment in Black Press, a 23.3% equity investment in Blue Ant, a 33.3% equity investment in Canadian Press, a 19.1% 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, Cottage Life and AUX TV, and four premium high definition channels Oasis HD, HIFI, Smithsonian, radX and their companion websites as well as a digital publishing division. Blue Ant also owns the Cottage Life Media group (publisher of Cottage Life, Cottage, Outdoor Canada, and producer of the Cottage Life consumer shows). In 2013, Torstar invested an additional $2.5 million in Blue Ant.

Canadian Press operates The Canadian Press news agency. During 2013, Torstar invested $0.5 million in Canadian Press and invested an additional $0.4 million in early 2014.

Shop.ca is an online e-commerce marketplace aimed at Canadian shoppers. On June 15, 2012, Torstar made an initial investment in Shop.ca consisting of $5.0 million in exchange for a 14.4% equity interest and an additional $4.8 million of media inventory which was provided through the end of the first quarter of 2013 bringing Torstar's interest to 21.6%. As at December 31, 2013, Torstar's equity interest in Shop.ca was 19.1%.

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

2. Annual Operating Results

A discussion of Torstar's operating results for 2013 and 2012

Unless otherwise noted, the following is a discussion of Torstar's 2013 operating results relative to the comparable periods in 2012.

Overall Performance

Torstar has identified two reportable segments: Media and Book Publishing. Corporate is the provision of corporate services and administrative support. Management of each segment is accountable for the revenues, EBITDA (EBITDA is a non-IFRS measure, refer to Section 13 of this MD&A) and operating profit of these segments which include its proportionately consolidated share of joint venture operations. When reported in the consolidated statement of income, joint ventures are accounted for using the equity method and accordingly the net income of joint ventures is included in "Income from joint ventures". The following tables set out the segmented results which include Torstar's proportionate share of joint venture results for the years ended December 31, 2013 and December 31, 2012 and provide a reconciliation to the consolidated statement of income.

2013						
(in $000's)	Media*	Book Publishing*	Corporate	Total Segmented*	Adjustments & Eliminations for Joint Ventures	Total Per Consolidated Statement of Income
Operating revenue	$984,047	$397,719		$1,381,766	($72,975)	$1,308,791
Salaries and benefits	(398,298)	(96,570)	($10,743)	(505,611)	25,314	(480,297)
Other operating costs	(454,972)	(244,834)	(2,860)	(702,666)	36,072	(666,594)
EBITDA**	130,777	56,315	(13,603)	173,489	(11,589)	161,900
Amortization & depreciation	(34,924)	(4,288)	(40)	(39,252)	2,986	(36,266)
Operating earnings**	95,853	52,027	(13,643)	134,237	(8,603)	125,634
Restructuring and other charges	(33,829)	(4,095)		(37,924)	705	(37,219)
Impairment of assets	(86,094)			(86,094)	9,000	(77,094)
Operating profit (loss)**	($24,070)	$47,932	($13,643)	$10,219	$1,102	$11,321

2012						
(in $000's)	Media*	Book Publishing*	Corporate	Total Segmented*	Adjustments & Eliminations for Joint Ventures	Total Per Consolidated Statement of Income
Operating revenue	$1,059,261	$426,483		$1,485,744	($78,976)	$1,406,768
Salaries and benefits	(420,441)	(95,674)	($10,528)	(526,643)	27,158	(499,485)
Other operating costs	(500,417)	(253,550)	(3,210)	(757,177)	35,636	(721,541)
EBITDA**	138,403	77,259	(13,738)	201,924	(16,182)	185,742
Amortization & depreciation	(34,027)	(4,107)	(48)	(38,182)	2,909	(35,273)
Operating earnings**	104,376	73,152	(13,786)	163,742	(13,273)	150,469
Restructuring and other charges	(16,498)	(1,280)		(17,778)	389	(17,389)
Impairment of assets	(13,003)			(13,003)	11,000	(2,003)
Operating profit (loss)**	$74,875	$71,872	($13,786)	$132,961	($1,884)	$131,077

* Includes proportionately consolidated share of joint venture operations
**These are Non-IFRS or Additional IFRS measures, refer to Section 13 of this MD&A

Revenue

Segmented revenue was $1,381.8 million down $104.0 million or 7.0% in 2013 inclusive of a $17.6 million decrease in revenue at Metroland Media Group's TMGTV primarily resulting from lower product sales. The decline in product sale revenues in TMGTV operations is consistent with expected product life cycles in this business.

Media Segment revenues were down $75.2 million or 7.1% in 2013, inclusive of the $17.6 million decrease in revenue at Metroland Media Group's TMGTV. This decrease was largely due to print advertising declines at the newspapers partially offset by growth in distribution revenue. The 2013 Media Segment revenues were generated as follows: $628.8 million (64.0%) from print and digital advertising, $149.0 million (15.1%) from flyer distribution, $138.2 million (14.0%) from subscribers and $68.0 million (6.9%) from other activities including printing.

The 2012 Media Segment revenues were generated as follows: $694.8 million (65.6%) from print and digital advertising, $143.8 million (13.6%) from flyer distribution, $139.7 million (13.2%) from subscribers and $81.0 million (7.6%) from other activities including printing.

While digital profitability increased during 2013, digital revenues in the Media Segment were down 5.6% in 2013. This decline was primarily the result of lower revenues at WagJag and Workopolis partially offset by growth in other digital properties including eyeReturn Marketing, Olive Media and local digital revenue at thestar.com. Digital revenues were 11.7% of total Media Segment revenues in 2013 up slightly from 11.5% in 2012.

Book Publishing Segment revenues were down $28.8 million in 2013 including a $4.1 million increase from the impact of foreign exchange. In North America, this decrease was the result of revenue declines in the retail print and direct-to-consumer channels. Overseas, growth in digital was insufficient to offset print declines and revenues continued to be affected by challenging economic conditions, particularly in Europe.

Salaries and benefits

Total segmented salaries and benefits expense decreased $21.0 million or 4.0% in 2013 as savings of $27.3 million from restructuring initiatives in the Media Segment and $3.1 million in the Book Publishing Segment, reduced the impact of regular wage increases and additional pension costs.

Other operating costs

Total segmented other operating costs were down $54.5 million or 7.2% in 2013. Media Segment other operating costs were down $45.4 million or 9.1% attributable to: (i) variable cost reductions resulting from revenue declines; (ii) a decrease in costs at TMGTV from lower product sales; and (iii) the impact of cost reduction initiatives. In the Book Publishing Segment other operating costs were down $8.7 million or 3.4% resulting from variable cost reductions due to revenue declines and reduced advertising and promotional spending in 2013.

EBITDA

Segmented EBITDA was $173.5 million in 2013, down $28.4 million or 14.1% from $201.9 million in 2012. Media Segment EBITDA was down $7.6 million or 5.5% primarily due to print advertising revenue declines, general wage increases as well as higher pension costs partially offset by cost reduction initiatives. Book Publishing Segment EBITDA was down $20.9 million primarily due to lower sales of print books, higher author royalties for digital sales and lower favourable adjustments to prior year returns provisions. This was partially offset by higher digital sales, lower advertising and promotional spending and savings from restructuring initiatives.

Amortization and depreciation

Total segmented amortization and depreciation increased $1.1 million or 2.8% in 2013.

Operating earnings

Segmented operating earnings were $134.2 million in 2013, down $29.5 million or 18.0% from $163.7 million in 2012.

Restructuring and other charges

Total segmented restructuring and other charges of $37.9 million were recorded in 2013. This included $33.2 million for restructuring initiatives and $0.6 million for other charges in the Media Segment and $3.1 million for restructuring initiatives and $1.0 million for other charges in the Book Publishing Segment. The 2013 restructuring initiatives in the Media Segment are expected to result in annualized net labour savings of approximately $36.6 million and a reduction of approximately 510 positions. The 2013 restructuring initiatives in the Book Publishing Segment are expected to result in annualized savings of approximately $3.3 million and a reduction of 31 positions. $15.8 million of the savings were realized in 2013.

Total segmented 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.

Torstar has undertaken several restructuring initiatives between 2011 and 2013 in order to reduce ongoing operating costs. The following chart provides a summary year over year comparable effect of the realized and expected net savings (including rent savings) by year:

	Year of Initiative			
(in $000's)	**2011**	**2012**	**2013**	**Total**
Realized net savings in:				
2011	$1,800			$1,800
2012	7,900	$6,000		13,900
2013	1,100	12,400	$15,800	29,300
Expected net savings in:				
2014			22,000	22,000
2015			2,100	2,100
Annualized net savings	$10,800	$18,400	$39,900	$69,100

Impairment of assets

During 2013, Torstar incurred charges related to asset impairment on a segmented basis totaling $86.1 million related to certain intangible assets and goodwill in the Media Segment. These charges did not impact cash flows.

During the third quarter of 2013, Torstar conducted an impairment test on the carrying 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 certain intangible assets within the Metroland Media Group of CGUs and the carrying value of the Star Media Group of CGUs exceeded the value in use. Accordingly, Torstar recorded impairment of $12.5 million for intangible assets in the Metroland Media Group and $64.0 million for goodwill in the Star Media Group of CGUs. These impairments were the result of lower forecasted revenues reflecting shifts in spending by advertisers. Certain of the impairment charges related to intangible assets within

the Metroland Media Group of CGUs were also the result of internal reorganization, realignment and integration of certain digital businesses within the Media Segment which occurred during the third quarter of 2013. As a result of this and factors noted above, Torstar also recorded a $9.0 million impairment charge in respect of its Sing Tao Daily joint venture investment.

Other impairment charges totalling $0.6 million were also recorded in 2013 in respect of certain equipment and intangible assets associated with restructuring activities in the Media Segment.

In 2012, Torstar incurred charges related to asset impairment on a segmented basis totalling $13.0 million related to certain equipment, intangible assets and joint venture investments in the Media Segment. 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 CGUs and $0.2 million with respect to equipment and $1.4 million of finite-life intangible assets in the Star Media Group of CGUs. 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 joint venture as a result of increased competition in the online recruitment and job search markets and prevailing economic conditions.

Operating profit

Segmented operating profit was $10.2 million in 2013, down $122.8 million from $133.0 million in 2012 and reflects a $93.2 million increase in impairment of assets and restructuring and other charges.

Interest and financing costs

Interest and financing costs in 2013 and 2012 were broken down as follows:

(in $000's)	2013	2012
Interest expense (net)	$7,778	$7,807
Interest accretion costs	494	1,018
Net financing costs related to employee benefit plans	9,188	11,081
Interest and financing costs	$17,460	$19,906

Interest and financing costs were down $2.4 million in 2013. The lower costs primarily reflect lower financing costs related to employee benefit plans. Net debt[1] was $158.5 million at December 31, 2013, down $4.5 million from $163.0 million at December 31, 2012. Torstar's effective interest rate on long-term debt was 4.2% in 2013, up slightly from 4.1% in 2012.

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

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 2013, Torstar reported a non-cash foreign exchange loss of $1.5 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. In 2012, Torstar reported a non-cash foreign exchange loss of $0.2 million.

[1] Net debt is a non-IFRS measure, refer to Section 13 of this MD&A.

Adjustment to contingent consideration
Adjustments to contingent consideration estimates resulted in income of $1.0 million in 2013 and additional costs of $0.3 million in 2012. 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.

Income (loss) from joint ventures
Loss from joint ventures was $2.6 million in 2013 compared to income of $2.2 million in 2012. This reflects a combination of lower revenues included in the discussion of Segmented Revenue as well as impairment charges of $9.0 million recorded in 2013 related to Torstar's joint venture investment in Sing Tao Daily and $11.0 million recorded in 2012 related to Torstar's joint venture investment in Workopolis, as discussed above.

Income (loss) of associated businesses
Income of associated businesses was $2.3 million in 2013 compared to a loss of $2.8 million in 2012.

2013 included income of $5.5 million from Black Press and income of $0.7 million from Tuango, partially offset by a loss of $3.1 million from Shop.ca, a loss of $0.4 million related to Canadian Press, a loss of $0.2 million from Blue Ant and a loss of $0.2 million from other investments.

Torstar's share of Black Press's net income was $5.5 million in 2013, representing Black Press's results through November 30, 2013. Black Press has a February fiscal year end and therefore does not have coterminous quarter-ends with Torstar. Torstar did not record its share of Black Press's results in 2012 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. Torstar began to report its share of Black Press's results in 2013 when the unrecognized losses ($0.7 million as of December 31, 2012) had been offset by net income or OCI.

Torstar's share of Tuango's net income was $0.7 million in 2013 compared to income of $0.9 million for the period from February 29, 2012 to December 31, 2012.

Torstar's share of the Shop.ca net loss was $3.1 million in 2013 compared to $0.7 million in 2012. 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 $0.4 million in 2013 ($0.8 million in 2012) in Canadian Press in respect of its additional investment commitment as the carrying value had previously been reduced to nil. Torstar will begin to report its share of Canadian Press's results once the unrecognized losses (nil as of December 31, 2013 and $6.4 million as of December 31, 2012) have been offset by net income, OCI or as additional investments are made. In 2013, Torstar's share of Canadian Press's net income would have been $0.5 million ($0.3 million loss in 2012).

During 2013, Torstar made investments in other associated businesses totaling $0.5 million for which a loss of $0.2 million was recorded in the year.

Gain on sale of assets
During 2013, the Book Publishing Segment sold its 50% joint venture interest in its book publishing business in Greece for nominal consideration incurring a loss of $0.2 million. This was partially offset by a gain of $0.1 million from the sale of an available-for-sale equity investment for which Torstar received proceeds of $0.3 million.

During 2012, Torstar recognized a gain on sale of assets of $6.1 million. In the first quarter of 2012, Torstar sold a portion of its 50% joint venture interest in Tuango for proceeds of $3.9 million and recorded a gain on sale of assets of $3.4 million. Torstar retained a 38.2% interest in Tuango. 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. 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.

Investment write-down and loss
Investment write-down and loss was $0.6 million in 2013 and $0.1 million in 2012. During 2013, Torstar management determined that there had been an other than temporary decline in the value of two portfolio investments. Accordingly a $0.6 million write-down was recorded during the third quarter reducing the carrying value to nil.

Income and other taxes
With the exception of impairment charges in respect of certain intangible assets, impairment charges incurred during 2013 and 2012 were not deductible for tax purposes. Excluding the impact of the impairment charges in both 2013 and 2012, Torstar's effective tax rate was 27.8% in 2013 compared to 26.0% in 2012. The effective tax rate was higher in 2013 as compared to 2012 as there were several items in 2012 income which were capital in nature and taxed at a lower rate. In addition, Torstar recorded $0.8 million in 2012 as a tax benefit from the recognition of tax losses that had previously not been recognized.

Torstar's effective tax rate is higher than the Canadian statutory tax rates due to the large portion of its income that is taxed in foreign jurisdictions with higher tax rates as well as the impact of expenses that are not deductible for income tax purposes.

Net income (loss) attributable to equity shareholders
Torstar reported net loss attributable to equity shareholders of $28.0 million or $0.35 per share in 2013 down $110.3 million or $1.38 per share from net income attributable to equity shareholders of $82.3 million or $1.03 per share in 2012 and reflects a $94.9 million increase in impairment of assets and restructuring and other charges over 2012.

The average number of Class A voting shares and Class B non-voting shares outstanding was 79.8 million in 2013, up slightly from 79.7 million in 2012.

The following chart provides a continuity of earnings per share from 2012 to 2013:

Earnings per share attributable to equity shareholders 2012		$1.03
Changes		
• Operations	(0.28)	
• Interest and financing costs	0.02	
• Income (loss) of associated businesses	0.07	
Change in adjusted earnings per share 2013 *		($0.19)
• Restructuring and other charges	(0.19)	
• Impairment of assets	(0.92)	
• Non-cash foreign exchange	(0.02)	
• Adjustment to contingent consideration	0.02	
• Investment write-down and loss	(0.01)	
• Gain on sale of assets (2012)	(0.07)	
Earnings (loss) per share attributable to equity shareholders 2013		($0.35)

* Adjusted earnings per share is a Non-IFRS measure, refer to Section 13 of this MD&A

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

During 2013, Torstar realigned certain digital businesses within the Media Segment between Metroland Media Group and Star Media Group. The results for 2013 and 2012 have been restated on a comparative basis to reflect these changes. The following tables set out operating earnings for the Media Segment for the years ended December 31, 2013 and December 31, 2012.

	2013			2012		
(in $000's)	MMG	SMG	Total	MMG	SMG	Total
Operating revenue	$509,862	$474,185	$984,047	$552,822	$506,439	$1,059,261
Salaries and benefits	(229,554)	(168,744)	(398,298)	(245,726)	(174,715)	(420,441)
Other operating costs	(209,435)	(245,537)	(454,972)	(231,683)	(268,734)	(500,417)
EBITDA	70,873	59,904	130,777	75,413	62,990	138,403
Amortization & depreciation	(15,221)	(19,703)	(34,924)	(14,168)	(19,859)	(34,027)
Operating earnings	$55,652	$40,201	$95,853	$61,245	$43,131	$104,376

Metroland Media Group

Metroland Media Group revenues were down $43.0 million or 7.8% inclusive of a $17.6 million decrease in revenue from Metroland Media Group's TMGTV primarily resulting from lower product sales. Excluding the decrease in TMGTV revenue, Metroland Media Group revenues were down $25.4 million or 4.7%. This decrease primarily reflects print advertising revenue declines at the newspapers of 10.4% which were partially offset by a 3.7% increase in distribution revenues.

While digital profitability increased during 2013, digital revenue was down 17.8% relative to 2012 largely reflecting a decline in WagJag revenues, and to a lesser extent, the loss of revenues resulting from the sale of Insurance Hotline in the fourth quarter of 2012.

Metroland Media Group expenses decreased by $38.4 million or 8.0% in 2013 resulting from a decrease in variable expenses tied to revenue declines, including a decrease in costs at TMGTV resulting from lower product sales, and cost reduction initiatives which included $17.0 million of savings from restructuring initiatives. Savings from cost reduction initiatives were partially offset by general wage increases and increased pension expenses.

Metroland Media Group EBITDA was $70.9 million in 2013, down $4.5 million from $75.4 million in 2012 as revenue declines, more than offset cost reductions. Profitability in the Metroland Media Group digital properties improved in 2013. Operating earnings were $55.7 million in 2013 down $5.6 million or 9.1% from 2012.

Star Media Group

Star Media Group revenues were down $32.3 million or 6.4% with print advertising revenues down 13.4% at the Toronto Star partially offset by growth in local digital advertising. Subscriber revenues at the Toronto Star decreased slightly by 0.7% in 2013. At the Metro newspapers, declines in Ontario markets were partially offset by growth in certain markets in Western Canada and recent expansion markets. Digital revenue from properties in the Star Media Group increased 2.0% in 2013 reflecting revenue growth in eyeReturn Marketing, Olive Media and local digital revenue at thestar.com, partially offset by decreased revenue from Workopolis.

Star Media Group expenses decreased by $29.2 million or 6.6% in 2013 as a result of variable cost reductions, including newsprint consumption and price, as well as cost reduction initiatives, including $10.3 million of savings from restructuring initiatives. Savings from cost reduction initiatives were partially offset by investment in staff in the digital operations, investment spending related to Metro including the ongoing support for new markets and increased pension expenses.

Star Media Group EBITDA was $59.9 million in 2013, down $3.1 million from $63.0 million in 2012 as revenue declines more than offset cost reductions. Star Media Group operating earnings were $40.2 million in 2013, down $2.9 million or 6.8% from 2012.

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, 2013 and 2012.

(in $000's)	2013	2012
Operating revenue	$397,719	$426,483
Salaries and benefits	(96,570)	(95,674)
Other operating costs	(244,834)	(253,550)
EBITDA	56,315	77,259
Amortization & depreciation	(4,288)	(4,107)
Operating earnings	$52,027	$73,152

(in $000's)	
Reported revenue, prior year	$426,483
Impact of currency movements and foreign exchange contracts	4,053
Change in underlying revenue	(32,817)
Reported revenue, current year	$397,719
Reported operating earnings, prior year	$73,152
Impact of currency movements and foreign exchange contracts	(234)
Change in underlying operating earnings	(20,891)
Reported operating earnings, current year	$52,027

Book Publishing Segment revenues were down $32.8 million or 7.6% excluding the impact of foreign exchange with North American revenues down $21.4 million and Overseas revenues down $11.4 million. The decrease in North American revenues was the result of declines in the retail print and direct-to-consumer channels. Digital revenues in North America were relatively flat in the year. Overseas revenues remained below prior year levels as growth in digital revenue was insufficient to offset print declines and revenues continued to be affected by challenging economic conditions, particularly in Europe. Global digital revenues were 24.1% of total revenue in 2013, up from 20.7% in 2012.

Book Publishing operating earnings were down $20.9 million in 2013, excluding the impact of foreign exchange. North American operating earnings were down $18.0 million and Overseas operating earnings decreased $2.9 million as a result of lower revenues, higher author royalties for digital sales and lower favourable adjustments to prior year returns provisions, partially offset by lower costs including advertising and promotional spending and $3.1 million of savings from restructuring initiatives.

3. Fourth Quarter Operating Results

A discussion of Torstar's fourth quarter operating results

Unless otherwise noted, the following is a discussion of Torstar's fourth quarter 2013 operating results relative to the fourth quarter of 2012.

Overall Performance

The following table sets out the segmented results for the three months ended December 31, 2013 and 2012.

Fourth Quarter 2013						
(in $000's)	**Media***	**Book Publishing***	**Corporate**	**Total Segmented***	**Adjustments & Eliminations for Joint Ventures**	**Total Per Consolidated Statement of Income**
Operating revenue	$271,449	$95,026		$366,475	($18,100)	$348,375
Salaries and benefits	(98,070)	(23,616)	($2,643)	(124,329)	5,851	(118,478)
Other operating costs	(118,387)	(59,866)	(673)	(178,926)	8,897	(170,029)
EBITDA	54,992	11,544	(3,316)	63,220	(3,352)	59,868
Amortization & depreciation	(8,862)	(1,211)	(10)	(10,083)	767	(9,316)
Operating earnings	46,130	10,333	(3,326)	53,137	(2,585)	50,552
Restructuring and other charges	(16,512)	(77)		(16,589)	403	(16,186)
Impairment of assets	(266)			(266)		(266)
Operating profit (loss)	$29,352	$10,256	($3,326)	$36,282	($2,182)	$34,100

Fourth Quarter 2012						
(in $000's)	**Media***	**Book Publishing***	**Corporate**	**Total Segmented***	**Adjustments & Eliminations for Joint Ventures**	**Total Per Consolidated Statement of Income**
Operating revenue	$290,757	$104,989		$395,746	($17,854)	$377,892
Salaries and benefits	(107,816)	(23,665)	($2,498)	(133,979)	6,460	(127,519)
Other operating costs	(133,376)	(64,490)	(786)	(198,652)	8,839	(189,813)
EBITDA	49,565	16,834	(3,284)	63,115	(2,555)	60,560
Amortization & depreciation	(8,910)	(1,080)	(16)	(10,006)	717	(9,289)
Operating earnings	40,655	15,754	(3,300)	53,109	(1,838)	51,271
Restructuring and other charges	(5,706)	(944)		(6,650)	389	(6,261)
Impairment of assets	(11,734)			(11,734)	11,000	(734)
Operating profit (loss)	$23,215	$14,810	($3,300)	$34,725	$9,551	$44,276

* Includes proportionately consolidated share of joint venture operations

Revenue

Segmented Revenue was down $29.2 million or 7.4% in the fourth quarter of 2013. Media Segment revenues were down $19.3 million or 6.6% in the fourth quarter. The fourth quarter Media Segment revenues reflect print advertising revenue declines but also include the impact of having five fewer publishing days at the Metroland Media Group daily newspapers and at least one fewer publishing day at the weekly newspapers in the fourth quarter of 2013 compared to the fourth quarter of 2012. This was the result of variations in the calendar and is the reversal of additional publishing days included in the first quarter of 2013. Media Segment revenues also reflect a $2.4 million decrease in revenue at Metroland Media Group's TMGTV primarily resulting from lower product sales. While print advertising revenues declined during the fourth quarter of 2013, the rate of decline slowed compared to the year to date trend experienced to the end of the third quarter, largely the result of improved trends in the Star Media Group.

Digital revenues in the Media Segment were down slightly by 0.8% in the fourth quarter of 2013 representing an improvement in the year to date trend experienced to the end of the third quarter. This decline was primarily the

result of lower revenues at WagJag and Workopolis largely offset by growth in other digital properties including eyeReturn Marketing, Olive Media and thestar.com. Digital revenues were 12.2% of total Media Segment revenues in the fourth quarter of 2013 up from 11.5% in the fourth quarter of 2012.

Book Publishing Segment revenues were down $10.0 million in the fourth quarter including a $3.2 million increase from the impact of foreign exchange with revenues down in both North America and Overseas. The decrease in North America was the result of revenue declines in all channels with digital revenues in North America believed to be negatively affected by increased discounts being offered on digital sales of other publishers' bestselling titles. Overseas, growth in digital revenue was insufficient to offset print declines and revenues continued to be affected by challenging economic conditions, particularly in Europe.

Salaries and benefits

Total segmented salaries and benefits expense was down $9.7 million or 7.2% in the fourth quarter as savings from restructuring initiatives of $7.9 million in the Media Segment and $0.9 million in the Book Publishing Segment were offset by the impact of regular wage increases and additional pension costs.

Other operating costs

Total segmented other operating costs were down $19.7 million or 9.9% in the fourth quarter of 2013. Media Segment other operating costs were down $15.0 million or 11.2% in the fourth quarter resulting from: (i) variable cost reductions resulting from revenue declines; (ii) the impact of having fewer publishing days at Metroland Media Group (discussed above); (iii) a decrease in costs at TMGTV resulting from lower product sales; and (iv) the impact of cost reduction initiatives. In the Book Publishing Segment, other operating costs were down $4.6 million or 7.2% in the fourth quarter resulting from variable cost reductions due to revenue declines and reduced advertising and promotional spending.

EBITDA

Segmented EBITDA was $63.2 million in the fourth quarter of 2013, up $0.1 million from the fourth quarter of 2012. Media Segment EBITDA was up $5.4 million or 10.9% as cost reductions more than offset revenue declines. Book Publishing Segment EBITDA was down $5.3 million reflecting declines in revenue partially offset by lower advertising and promotional spending and $0.9 million of savings from restructuring initiatives.

Amortization and depreciation

Segmented amortization and depreciation expense was $10.1 million in the fourth quarter of 2013, a $0.1 million increase over the fourth quarter of 2012.

Operating earnings

Segmented operating earnings were $53.1 million in the fourth quarter of 2013, consistent with the fourth quarter of 2012.

Restructuring and other charges

Total segmented restructuring and other charges of $16.6 million and $6.7 million were recorded in the fourth quarter of 2013 and 2012 respectively. Fourth quarter 2013 restructuring provisions primarily related to the Media Segment and are expected to result in annual net savings of $12.6 million and a reduction of approximately 190 positions with $1.2 million of the savings having been realized in the fourth quarter of 2013.

Impairment of assets

On a segmented basis during the fourth quarter of 2013, Torstar incurred charges related to asset impairment totaling $0.3 million in respect of certain equipment and intangible assets associated with restructuring activities in the Media Segment.

On a segmented basis during the fourth quarter of 2012, Torstar incurred charges related to asset impairment totaling $11.7 million related to certain equipment, intangible assets and joint venture investments in the Media Segment. In connection with restructuring activities, in the fourth quarter of 2012 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 Star Media Group of CGUs. 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 respect of the Workopolis joint venture as a result of increased competition in the online recruitment and job search markets and prevailing economic conditions.

Operating profit
Operating profit was $36.3 million in the fourth quarter of 2013, up $1.6 million from $34.7 million in the fourth quarter of 2012.

Interest and financing costs
Interest and financing costs in the fourth quarter of 2013 and 2012 were broken down as follows:

(in $000's)	Fourth Quarter 2013	Fourth Quarter 2012
Interest expense (net)	$1,931	$1,850
Interest accretion costs	109	163
Net financing costs related to employee benefit plans	2,266	2,769
Interest and financing costs	$4,306	$4,782

Interest and financing costs decreased $0.5 million in the fourth quarter of 2013 relative to the fourth quarter of 2012 primarily reflecting lower financing costs related to employee benefit plans in the fourth quarter of 2013. Net debt was $158.5 million at December 31, 2013, down $16.0 million from $174.5 million at September 30, 2013. Torstar's effective interest rate on long-term debt was 4.2% in the fourth quarter of 2013, up slightly from 4.0% in the same period last year.

Foreign exchange
Torstar reported a non-cash foreign exchange loss of $1.0 million in the fourth quarter of 2013 and a loss of $0.1 million in the same period last year. The loss in the fourth quarter of 2013 was the result of the Canadian dollar being weaker at the end of the quarter relative to the beginning of the quarter and with Torstar's Canadian operations being in a net liability position in U.S. dollars for the quarter.

Income (loss) from joint ventures
Income from joint ventures was $1.8 million in the fourth quarter of 2013 compared to a loss of $9.8 million in the fourth quarter of 2012. This reflects a combination of lower revenues included in the discussion of Segmented Revenue as well as impairment charges of $11.0 million recorded in the fourth quarter of 2012 related to Torstar's joint venture investment in Workopolis, as discussed above.

Income (loss) of associated businesses
Loss from associated businesses was $0.6 million in the fourth quarter of 2013 compared to income of $0.2 million in the fourth quarter of 2012. The fourth quarter of 2013 included income of $1.3 million from Black Press and income of $0.4 million from Tuango, offset by a loss of $1.5 million from Shop.ca, a loss of $0.4 million from Canadian Press, a loss of $0.2 million from Blue Ant and a loss of $0.2 million related to other investments.

The income of $0.2 million in the fourth quarter of 2012 included income of $0.6 million from Blue Ant and income of $0.3 million from Tuango, partially offset by Torstar's share of losses of $0.2 million from Shop.ca and a loss of $0.5 million from Canadian Press.

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.

Income and other taxes
Torstar's effective tax rate was 29.9% in the fourth quarter of 2013 compared to 25.6% in the fourth quarter of 2012, excluding the impact of impairment charges. The effective tax rate was higher in 2013 as compared to 2012 as Torstar recognized a higher proportion of fourth quarter 2013 earnings in foreign jurisdictions which are subject to higher rates of tax.

Net income attributable to equity shareholders
Torstar reported net income attributable to equity shareholders of $20.6 million ($0.26 per share) in the fourth quarter of 2013, down $0.5 million from $21.1 million ($0.26 per share) in the fourth quarter of 2012.

The average number of Class A voting shares and Class B non-voting shares outstanding was 79.9 million in the fourth quarter of 2013, up from 79.7 million in the fourth quarter of 2012.

The following chart provides a continuity of earnings per share from the fourth quarter of 2012 to the fourth quarter of 2013:

Earnings per share attributable to equity shareholders in the fourth quarter of 2012		$0.26
Changes		
• Operations	0.00	
• Income (loss) of associated businesses	(0.01)	
Change in Adjusted earnings per share in the fourth quarter of 2013*		($0.01)
• Restructuring and other charges	(0.09)	
• Impairment of assets	0.14	
• Non-cash foreign exchange	(0.01)	
• Gain on sale of assets (2012)	(0.03)	
Earnings Per share attributable to equity shareholders in the fourth quarter of 2013		$0.26

* Adjusted earnings per share is a Non-IFRS measure, refer to Section 13 of this MD&A

Segment Results – Media

During 2013, Torstar realigned certain digital businesses within the Media Segment between Metroland Media Group and Star Media Group. The results for the fourth quarters of 2013 and 2012 have been restated on a comparative basis to reflect these changes. The following table sets out operating earnings for the Media Segment for the fourth quarters of 2013 and 2012 respectively.

	Fourth Quarter 2013			Fourth Quarter 2012		
(in $000's)	**MMG**	**SMG**	**Total**	**MMG**	**SMG**	**Total**
Operating revenue	$134,618	$136,831	$271,449	$153,537	$137,220	$290,757
Salaries and benefits	(57,873)	(40,197)	(98,070)	(64,451)	(43,365)	(107,816)
Other operating costs	(53,250)	(65,137)	(118,387)	(62,778)	(70,598)	(133,376)
EBITDA	23,495	31,497	54,992	26,308	23,257	49,565
Amortization & depreciation	(3,689)	(5,173)	(8,862)	(3,733)	(5,177)	(8,910)
Operating earnings	$19,806	$26,324	$46,130	$22,575	$18,080	$40,655

Metroland Media Group
Metroland Media Group revenues were down $18.9 million or 12.3% in the fourth quarter of 2013. Revenues in the fourth quarter of 2013 were negatively impacted by having five fewer publishing days at the daily newspapers and at least one fewer publishing day at the weekly newspapers in the fourth quarter of 2013 compared to the fourth quarter of 2012. The fourth quarter of 2013 was also negatively impacted by a $2.4 million decrease in Metroland Media Group's TMGTV primarily resulting from lower product sales. Adjusting for the impact of fewer publishing days relative to the fourth quarter of 2012, print advertising revenue decreased 10.7% in the fourth quarter of 2013, partially offset by an increase of 1.9% in distribution revenue. The print advertising revenue decline experienced in the fourth quarter was similar to the trend experienced for the full year. While profitability in the Metroland Media Group digital properties continued to improve in the fourth quarter of 2013, digital revenue was down 24.7% largely driven by a decline at WagJag.

Metroland Media Group expenses were down $16.1 million or 12.7% in the fourth quarter of 2013 resulting from: (i) fewer publishing days in the fourth quarter (noted above); (ii) a decrease in costs at TMGTV resulting from

lower product sales; and (iii) cost reduction initiatives including $3.9 million of savings from restructuring initiatives. Savings from cost reduction initiatives were partially offset by general wage increases.

Metroland Media Group's EBITDA was $23.5 million in the fourth quarter of 2013 down $2.8 million and includes the impact of lower revenues from TMGTV. Profitability in the Metroland Media Group digital properties continued to improve in the fourth quarter of 2013.

Metroland Media Group's operating earnings were $19.8 million in the fourth quarter of 2013 down $2.8 million from the same period last year.

Star Media Group

Star Media Group revenues were $136.8 million in the fourth quarter of 2013, down $0.4 million or 0.3% from $137.2 million in the fourth quarter of 2012 with print advertising revenues down 8.3% at the Toronto Star, an improvement over the year to date trend of 15.5% experienced to the end of the third quarter. At the Toronto Star, subscriber revenue increased by 3.7% in the fourth quarter, reflecting increases in both print and digital subscription revenue. At the Metro newspapers, revenues increased 1.1% in the fourth quarter, reflecting an improvement over the previous three quarters of 2013. On a geographic basis, declines in Metro's Ontario markets were more than offset by growth in certain markets in Western Canada and recent expansion markets.

Digital revenue from properties in the Star Media Group increased 14.3% in the fourth quarter of 2013 reflecting revenue growth in eyeReturn Marketing, Olive Media and thestar.com, partially offset by decreased revenue from Workopolis.

Star Media Group expenses were down $8.6 million or 7.6% in the fourth quarter of 2013 as a result of variable cost reductions, including newsprint consumption and price, as well as cost reduction initiatives including $4.0 million of savings from restructuring initiatives. Savings from cost reduction initiatives were partially offset by increased pension expenses.

Star Media Group EBITDA was $31.5 million in the fourth quarter of 2013, up $8.2 million from $23.3 million in the fourth quarter of 2012 primarily reflecting newspaper related cost reduction initiatives and higher profitability in the Star Media Group digital properties. Star Media Group operating earnings were $26.3 million in the fourth quarter of 2013 up $8.2 million from $18.1 million in the fourth quarter of 2012.

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 fourth quarters of 2013 and 2012.

(in $000's)	2013	2012
Operating revenue	$95,026	$104,989
Salaries and benefits	(23,616)	(23,665)
Other operating costs	(59,866)	(64,490)
EBITDA	11,544	16,834
Amortization & depreciation	(1,211)	(1,080)
Operating earnings	$10,333	$15,754

(in $000's)	
Reported revenue, fourth quarter prior year	$104,989
Impact of currency movements and foreign exchange contracts	3,178
Change in underlying revenue	(13,141)
Reported revenue, fourth quarter current year	$95,026
Reported operating earnings, fourth quarter prior year	$15,754
Impact of currency movements and foreign exchange contracts	87
Change in underlying operating earnings	(5,508)
Reported operating earnings, fourth quarter current year	$10,333

Book Publishing revenues were down $13.1 million in the fourth quarter excluding the impact of foreign exchange, with North American revenues down $10.4 million and Overseas revenues down $2.7 million. The decrease in North American revenues was the result of declines in all channels. In the fourth quarter of 2013, digital revenues in North America were believed to be negatively affected by increased discounts being offered on digital sales of other publishers' bestselling titles. Overseas revenues were down in the quarter in part due to challenging economic conditions, particularly in Europe. In addition, Overseas growth in digital revenue was insufficient to offset print declines.

Global digital revenues were 23.2% of total revenue in the fourth quarter of 2013, up from 21.4% in the same period last year but down from 25.2% in the third quarter of 2013.

Book Publishing operating earnings were down $5.5 million, excluding the impact of foreign exchange, reflecting the above noted declines in revenue partially offset by lower advertising and promotional spending and $0.9 million of savings from restructuring initiatives.

4. Outlook

The outlook for Torstar's business in 2014

In 2013, the Media Segment continued to face challenges as a result of shifts in spending by advertisers combined with economic uncertainty. The rate of decline of print advertising revenues slowed in the fourth quarter of 2013, relative to earlier in the year. While indications are that the revenue trends experienced in early 2014 are showing an improvement relative to full year 2013, print advertising revenues are likely to continue to be under pressure. However, digital revenue and distribution revenue are expected to grow. Across Torstar, restructuring and operating cost reduction has been and is expected to remain an important area of focus. The Media Segment is anticipated to realize $21.1 million of savings in 2014 from restructuring initiatives undertaken through the end of 2013. The Media Segment will also benefit from lower defined benefit pension expense, which is expected to be approximately $14 million lower in 2014, with $6 million reflected in salaries and benefit expenses and $8 million in interest and financing costs. In addition, pricing arrangements with the suppliers of a majority of Torstar's newsprint requirements are expected to result in lower newsprint costs in 2014. Net investment spending associated with growth initiatives in 2014 is currently expected to be consistent with 2013 levels.

Harlequin finished 2013 with operating earnings down compared to the prior year reflecting lower revenues, higher author royalties for digital sales and lower favourable adjustments to prior year returns provisions. With revenues weaker than anticipated in 2013 and some Overseas markets continuing to face economic challenges, Harlequin's 2014 results are expected to be relatively stable compared to 2013, including the benefit of foreign exchange. However, earnings are expected to be lower in the first quarter as a result of stronger results posted in the first quarter of 2013 relative to the balance of the year. If the Canadian dollar remains at its current levels relative to the U.S. dollar and overseas currencies, Harlequin anticipates a year over year positive foreign currency impact of approximately $5.0 million including the impact of U.S. dollar hedges currently in place.

From a cash flow perspective, in 2014, Torstar anticipates spending approximately $40.0 million for the funding of registered defined benefit pension plans based on September 1, 2013 actuarial valuations as further discussed in

Section 7 of this MD&A. Torstar also anticipates spending approximately $27.0 million for additions to property, plant, equipment and intangible assets; inclusive of Torstar's proportionate share of additions to property, plant, equipment and intangible assets of its joint ventures. The 2014 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's 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 2013, $80.7 million of cash was generated by operations, $28.7 million was used in investing activities and $50.2 million was used in financing activities. Cash and cash equivalents net of bank overdraft increased by $2.3 million in the year from $15.1 million to $17.4 million.

In the fourth quarter of 2013, $36.0 million of cash was generated by operations, $6.6 million was used in investing activities and $32.5 million was used in financing activities. Cash and cash equivalents net of bank overdraft decreased by $2.8 million in the quarter from $20.2 million to $17.4 million.

Operating Activities

Operating activities provided cash of $80.7 million in 2013, down $9.1 million from $89.8 million in 2012. The lower amount in 2013 reflects lower operating income partially offset by lower funding of employee future benefits, and a decrease in non-cash working capital.

Non-cash working capital decreased $10.7 million in 2013 resulting from timing of payments for accounts payable and accrued liability balances, lower tax installments in respect of 2013 and a net increase in current restructuring provisions. An amount of $26.8 million was paid against restructuring provisions during 2013. Non-cash working capital increased $9.0 million in 2012 primarily as a result of the final 2011 income tax payment combined with a net decrease in current restructuring provisions in 2012. Payments of $21.7 million were made in respect of restructuring provisions during 2012.

Cash provided by operating activities was $36.0 million in the fourth quarter of 2013, including a $5.3 million decrease in non-cash working capital. In the fourth quarter of 2012, cash provided by operating activities was $29.0 million including a $7.0 million increase in non-cash working capital. This increase is largely attributable to the movement in non-cash working capital combined with lower employee benefit funding, partially offset by lower distributions from joint ventures in the fourth quarter of 2013 relative to the fourth quarter of 2012.

Investing Activities

Cash used in investing activities was $28.7 million in 2013, compared to cash used in investing activities of $47.1 million in 2012.

Additions to property, plant and equipment and intangible assets were $23.1 million in 2013, down $7.1 million from $30.2 million in 2012. This excludes Torstar's proportionate share of additions of its joint ventures. The 2013 additions largely 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 used for investments in associated businesses was $3.5 million in 2013 and $11.3 million in 2012. The 2013 investments included $2.5 million in Blue Ant, $0.5 million in Canadian Press and $0.5 million in other

investments. The 2012 investments included $5.8 million in Blue Ant and $5.0 million in Shop.ca and $0.3 million in Canadian Press.

In 2013, Torstar used cash of $2.5 million for acquisitions and portfolio investments. This included $0.4 million for portfolio investments and $2.1 million of contingent consideration for prior year acquisitions primarily in the Media Segment. 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 from prior year acquisitions and $5.9 million of contingent consideration for prior year acquisitions primarily in the Media Segment.

Cash used in investing activities in the fourth quarter of 2013 was $6.6 million, including $6.1 million for additions to property, plant and equipment and intangible assets and $0.5 million in investments in associated businesses. In 2012, $7.1 million of cash was used in investing activities, including $7.6 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.

Financing Activities

Cash of $50.2 million was used in financing activities during 2013, including a net $9.0 million repayment of long-term debt and $41.5 million for cash dividends paid to shareholders. In the fourth quarter of 2013, cash of $32.5 million was used in financing activities including $22.4 million of long-term debt repayments and $10.3 million for cash dividends paid to shareholders.

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.

Net Debt

Net debt was $158.5 million at December 31, 2013, down $4.5 million from $163.0 million at December 31, 2012. The decrease in net debt was net of a $7.2 million increase in net debt resulting from foreign exchange.

Long-term Debt

As at December 31, 2013, Torstar had $175.9 million of debt outstanding under its long-term bank credit facility. The debt consisted of U.S. dollar bankers' acceptances of $107.2 million and Canadian dollar bankers' acceptances of $68.7 million. 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, 2013, Torstar's long-term bank credit facility consists of a $150 million revolving facility ("Tranche A") that will mature in January 2017 and a $200 million revolving facility ("Tranche B") that will mature in January 2015. Both Tranches provide for annual 364-day extensions upon the mutual agreement of Torstar and the lenders.

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, 2013, the interest rate spread was 1.5%.

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 in 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 2014.

Torstar's long-term bank credit facility also acts as a standby line in support of letters of credit. At December 31, 2013, a total of $205.0 million (December 31, 2012 - $211.9 million) was drawn under the facility, including a $26.8 million letter of credit relating to an executive retirement plan (December 31, 2012 - $31.1 million). As of December 31, 2013, Torstar had approximately $145.0 million of available credit, net of outstanding letters of credit (December 31, 2012 - $138.1 million).

Contractual Obligations

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

Nature of the Obligation[2]	Total	Less than 1 Year (2014)	1 – 3 Years 2015–2016	4 – 5 Years 2017–2018	After 5 Years 2019 +
Office leases	$103,613	$19,642	$36,724	$29,973	$17,274
Services	9,693	5,859	3,230	604	
Acquisitions	11,297	11,190	42	65	
Equipment leases	1,760	693	854	213	
Subtotal	126,363	37,384	40,850	30,855	17,274
Foreign currency forward contracts:					
- payments	75,540	54,268	21,272		
- receipts	(75,164)	(53,712)	(21,452)		
- net	376	556	(180)		
US $ Interest rate swaps	4,784	3,536	1,248		
Long-term debt	176,353		26,353	150,000[3]	
Total	$307,876	$41,476	$68,271	$180,855	$17,274

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 office 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 2011 purchase of The Kit and the call option liability for Metro.

The foreign currency forward contracts are the U.S. dollar and Euro contracts that Torstar uses to manage the exchange risk in Harlequin's U.S. operations and Overseas. 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, 2013.

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 the first quarter of 2013, the sub-lessee filed for protection under Chapter 11 of the United States Bankruptcy Code and emerged

[2] All foreign denominated obligations were translated at the December 31, 2013 Bank of Canada 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.

from its Chapter 11 reorganization in the second quarter of 2013. The sub-lessee assumed the sub-lease as part of its plan of reorganization and has provided a replacement letter of credit.

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, 2014 Torstar had 9,851,964 Class A voting shares and 70,066,724 Class B non-voting shares outstanding. More information on Torstar's share capital is provided in Note 20 of the consolidated financial statements.

As at February 28, 2014, Torstar had 5,161,290 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 21 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 2013, Torstar sold U.S. $50.0 million under forward foreign exchange contracts at an average exchange rate of $1.02. In 2012, Torstar sold U.S. $52.4 million under forward foreign exchange contracts at an average exchange rate of $1.03. The settlement of these contracts resulted in a foreign exchange loss of $0.4 million in 2013 and a foreign exchange gain of $1.5 million in 2012. Torstar has entered into forward foreign exchange contracts to sell $40.0 million U.S. dollars during 2014 at an average rate of $1.05 and $20.0 million U.S. dollars in 2015 at an average rate of $1.07. These 2014 and 2015 forward foreign exchange contracts had a $0.9 million unfavourable fair value at December 31, 2013. 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.

In 2013, Torstar also entered into forward foreign exchange contracts to sell €8.0 million at an average rate of $1.47 during 2014. These Euro forward contracts, which have not been designated as cash flow hedges, have a negligible net fair value at December 31, 2013.

The counterparties to the foreign currency contracts are all major financial institutions with high credit ratings. Further details are contained in Note 15 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, 2013, approximately 48% of Torstar's long-term debt was at fixed interest rates as a result of the use of interest rate swap agreements (December 31, 2012 – 44%).

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 $4.1 million to Torstar at December 31, 2013.

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 14 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 asset (obligations) as at December 31:

($000's)	2013	2012
Registered pension plans	$30,965	($181,425)
Unregistered/unfunded pension plans	(26,283)	(26,456)
Post employment benefits plan	(42,791)	(47,553)
	($38,109)	($255,434)

At December 31, 2013, Torstar's net asset related to its defined benefit pension plans was $31.0 million, an increase of $55.7 million from a net obligation of $24.7 million at September 30, 2013 and an increase of $212.4 million from a net obligation of $181.4 million at December 31, 2012, reflecting a combination of asset returns, increased long-term interest rates and contributions.

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

($000's)	2013	2012
Registered pension plans	$29,619	$28,121
Unregistered/unfunded pension plans	1,965	2,154
Post employment benefits plan	1,795	2,898
	$33,379	$33,173

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 salary increases, employee turnover, retirement ages of employees, mortality rates and expected health care costs. 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 2013 and 2012 were:

	2013	2012
To determine the net benefit obligation at the end of the year:		
Discount rate	4.2% - 4.7%	3.4% - 3.9%
Rate of future compensation increase	2.5% - 3.0%	3.0% - 4.0%
To determine benefit expense:		
Discount rate	3.4% - 3.9%	4.3% - 4.4%
Rate of future compensation increase	2.5% - 3.0%	3.0% - 4.0%
	2014	
To determine the pension benefit expense for the following year:		
Discount rate	4.2% - 4.7%	
Rate of future compensation increase	2.5% - 3.0%	

The discount rates 4.2% - 4.7% were the yields at December 31, 2013 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 an increase in the value of the net pension plan asset/(obligation) at December 31, 2013 of $114.8 million. A discount rate that was one percent lower would have decreased the value of the net pension plan asset/(obligation) at December 31, 2013 by $132.3 million.

Management has estimated the rate of future compensation increases to be between 2.5% and 3.0%. 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 4.2% increase for the 2013 expense. For 2014, health care costs are estimated to increase by 4.4% with a 0.2% increase each year until 2017. If the estimated increase in health care costs were one percent higher, the obligation at December 31, 2013 would be approximately $1.2 million higher. If the estimated increase in health care costs were one percent lower, the obligation at December 31, 2013 would be approximately $1.0 million lower.

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 changes in the discount rate used to value the pension plan obligations as well as differences in the actual returns earned on pension plan assets. Torstar recognizes these actuarial gains and losses as realized, through OCI. Actuarial gains of $184.5 million were recognized through OCI in 2013 and actuarial losses of $35.0 million in 2012.

Ontario pension plan regulations require that the funded status of registered pension plans be determined no less frequently than tri-annually through an actuarial solvency report. Any incremental solvency deficits determined by such reports must be funded over a five-year period. As all of Torstar's Canadian pension plans are registered in Ontario, solvency valuations are a key determinant of ongoing defined benefit pension contribution requirements.

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 September 1, 2013. Based on these valuations, Torstar had an estimated solvency deficit of $118 million. Based on the September 1, 2013 solvency report, a 100 basis point change in the discount rate used to calculate solvency liabilities would result in a change in liabilities of approximately $133 million. Given the change in the discount rate, combined with asset returns from September

1, 2013 through to December 31, 2013, Torstar estimates that the solvency deficit for these plans at December 31, 2013 was approximately $56 million.
Torstar's funding for its registered defined benefit pension plans in 2013 was $63.4 million. Torstar currently anticipates that contributions for its registered defined benefit pension plans in 2014 will be approximately $40 million.

In 2014, Torstar currently anticipates funding approximately $39 million for its Canadian registered defined benefit pension plans. $13.0 million of this amount represents the cost, as determined under the Ontario solvency regulations, of pension benefits to be earned in 2014, while the balance of $26 million represents contributions to be made to reduce the solvency deficit.

All of the above solvency and forecasted contribution figures include the benefit of prepaid solvency contributions which at September 1, 2013 totalled $25 million. The estimated funding for defined benefit pension plans in 2014, includes the anticipated utilization of approximately $9 million of the September 1, 2013 prepaid amount.

Recently, Torstar has taken steps to reduce its exposure to movements in the net defined pension benefit obligation by increasing the proportionate share of fixed income assets and also adjusting the maturity profile of a portion of the fixed income investments as outlined in Note 19 of Torstar's Consolidated Financial Statements.

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

Accounting Policies

The accounting policies used in the preparation of the consolidated financial statements are outlined in Note 2 of the annual consolidated financial statements for the year ended December 31, 2013. Effective January 1, 2013, Torstar applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IAS 1 *Presentation of Financial Statements*, IAS 19 (Revised 2011) *Employee Benefits* ("IAS 19R"), IAS 28 *Investments in Associates and Joint Ventures*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities.* The nature and the effect of these changes are disclosed below.

In addition, the application of IFRS 13 *Fair Value Measurement* resulted in additional disclosures in the annual consolidated financial statements.

Most of the new standards have had a relatively minor impact on Torstar's financial reporting but there are several that have had a more significant impact, the nature and the impact of which are described below:

IAS 19R *Employee Benefits*

The amendments to IAS 19 introduced 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. The amended standard was effective for Torstar's 2013 fiscal year with retroactive restatement to January 1, 2012. The adoption of the standard did not impact future cash funding requirements. Upon the adoption of this standard, Torstar began classifying the interest component of employee future benefit expenses, previously included in salaries and benefits expense, in interest and financing costs.

Also, unvested past service costs are no longer deferred and recognized over future vesting periods. Instead, all past service costs are recognized at the earlier of when the amendment occurs and when the Torstar recognizes related restructuring or termination costs. Prior to the adoption of this standard, Torstar's unvested past service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to IAS 19R, past service costs are recognized immediately if the benefits have vested following the introduction of, or changes to, a pension plan. The effect of Torstar's application of this standard on the restated annual 2012 operating results is summarized as follows:

(in '000's)	Total
Increase in salaries and benefits	($5,808)
Decrease in EBITDA/operating earnings profit	(5,808)
Increase in interest and financing costs	(11,081)
Decrease in income before taxes	(16,889)
Decrease in income and other taxes	4,200
Decrease in net income	($12,689)

The increase in salaries and benefits expense on a restated basis substantially impacted the Media Segment with a negligible impact in the Book Publishing Segment and Corporate. Further details on the impact of the adoption of these standards are disclosed in Note 29 to the consolidated financial statements.

IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 28 *Investments in Associates and Joint Ventures*

These standards provide the accounting for joint ventures and joint operations which has eliminated the use of the proportionate consolidation method to account for joint ventures. These standards require that joint ventures be accounted for using the equity method of accounting. 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. The new standards were effective for Torstar for its 2013 fiscal year with retroactive restatement to January 1, 2012. Torstar historically proportionately consolidated its joint ventures including its interest in Sing Tao Daily, Workopolis and Harlequin's operations in France and Italy. With the new standards, the revenues, expenses, assets and liabilities from these operations in Torstar's consolidated financial statements have been 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 IFRS 11, IFRS 12 and IAS 28 Torstar's joint ventures were required to be accounted for using the equity method. The effect of applying IFRS 11, IFRS 12 and IAS 28 in the annual 2012 Consolidated Statement of Income is as follows:

(in '000's)	Total
Decrease in operating revenue	($78,976)
Decrease in salaries and benefits	27,158
Decrease in other operating costs	35,636
Decrease in EBITDA	(16,182)
Decrease in amortization and depreciation	2,909
Decrease in operating earnings	(13,273)
Decrease in restructuring and other charges	389
Decrease in impairment of assets	11,000
Decrease in operating profit	(1,884)
Increase in interest and financing costs	(66)
Increase in foreign exchange loss	(2)
Decrease in loss from associated businesses	493
Increase in income from joint ventures	2,183
Decrease in gain on sale of assets	(3,731)
Decrease in other income	(10,407)
Decrease in income before taxes	(13,414)
Decrease in income and other taxes	5,200
Impact on net income	($8,214)

Further details on the impact of the adoption of these standards are disclosed in Note 29 to the consolidated financial statements.

The decrease in other income in the above noted table is the result of the remeasurement gain recognized on the sale of a portion of Tuango in 2012. Had IFRS 11, IFRS 12 and IAS 28 been effective prior to January 1, 2013, this gain would not have been recorded in Torstar's 2012 consolidated financial statements.

Accounting Estimates

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, 2013, the book revenue provisions, deducted from accounts receivable on the consolidated statement of financial position was $69.2 million ($67.3 million in 2012). A one percent change in the average net sale rate used in calculating the global retail returns provision on sales from July to December 2013 would have resulted in a $2.5 million change in reported 2013 revenue.

Employee Future Benefits

The accrued net 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 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 salary increases, health care costs and demographic employee data. The most significant assumption is the discount rate.

The discount rate used to determine the present value of the net defined benefit obligation 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.

Management's current estimates, along with a sensitivity analysis are further discussed under "Employee Future Benefit Obligations" in this MD&A and are disclosed in Note 19 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, CGU or group of CGUs 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

Torstar is subject to income taxes in Canada and foreign jurisdictions. Significant judgement is required in determining the world-wide provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Management uses judgement in interpreting tax laws and determining the appropriate rates and amounts in recording current and 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 Torstar's ability to utilize tax losses carried forward is to a large extent judgement-based. If the future taxable results of Torstar differ significantly from those expected, Torstar would be required to increase or decrease the

carrying value of the deferred tax assets with a potentially material impact in the Torstar'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 13 of the consolidated financial statements. Significant judgements made by management are 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 2013 and 2012.

Determination of operating segments, reportable segments and CGUs
Torstar has two reportable segments: Media and Book Publishing. "Corporate" is the provision of corporate services and administrative support. Based on the information provided to Torstar's chief operating decision-maker, the Media Segment includes the Star Media Group and Metroland Media Group operating segments which have been aggregated to form the Media reportable segment. Each of the Star Media Group and Metroland Media Group include CGUs which have been grouped together for purposes of reviewing performance and impairment testing. These operating segments have been aggregated as they exhibit similar long-term financial performance, have similar economic characteristics and they are similar in each of the following aspects; the nature of their products and services; the nature of their production processes; the type of customer for their products and services; and the methods used to distribute their products and provide their services. Torstar's chief operating decision-maker monitors the operating results of the operating units separately for the purpose of assessing performance. Segment performance is evaluated based on operating profit which corresponds to operating profit as measured in the consolidated financial statements except that it includes the proportionately consolidated share of joint venture operations. Decisions regarding resource allocation are made at the reportable segment level.

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(t) in Torstar's December 31, 2013 consolidated financial statements. Most of the new standards are currently not expected to have a material impact on Torstar's financial reporting.

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, 2013, 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, 2013, Torstar'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 Original 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, 2013.

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, 2013, 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 2013, 2012 and 2011

(in $000's – except per share amounts)	2013	2012	2011[4]
Segmented Revenue	$1,381,766	$1,485,744	$1,548,757
Revenue	$1,308,791	$1,406,768	$1,548,757
Net income (loss)	($27,413)	$82,933	$218,141
Net income (loss) attributable to equity shareholders	($27,984)	$82,344	$217,721
Net income (loss) attributable to equity shareholders per Class A voting and Class B non-voting share			
Basic	($0.35)	$1.03	$2.74
Diluted	($0.35)	$1.03	$2.72
Average number of shares outstanding during the year (in 000's)			
Basic	79,840	79,671	79,400
Diluted	79,840	79,946	79,949
Cash dividends per Class A voting and Class B non-voting share	$0.525	$0.5188	$0.4675
Total assets	$1,348,712	$1,443,888	$1,484,767
Total long-term debt	$175,898	$178,027	$196,191

Revenue has declined in 2013 and 2012 in both the Media and Book Publishing Segments. 2011 Media Segment Revenue included higher product sales in Metroland Media Group's TMGTV. Digital revenues grew in 2011 and 2012 in both the Media and Book Publishing Segments. While this trend continued in the Book Publishing Segment, digital revenues in the Media Segment decreased slightly in 2013.

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.

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 $20.3 million.

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4 These figures have not been restated to reflect the adoption of IAS 19R, IFRS 11, IFRS 12 and IAS 28. Refer to Section 8 of this MD&A for further information.

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)	2013 Quarter Ended				2012 Quarter Ended			
	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30	March 31
Revenue	$348,375	$310,413	$336,585	$313,418	$377,892	$335,822	$363,725	$329,329
Net Income	$21,126	($70,861)	$18,140	$4,182	$21,324	$11,289	$32,823	$17,497
Net Income attributable to equity shareholders	$20,637	($70,800)	$18,006	$4,173	$21,079	$11,142	$32,585	$17,538
Per Class A voting and Class B non-voting share								
Basic	$0.26	($0.89)	$0.23	$0.05	$0.26	$0.14	$0.41	$0.22
Diluted	$0.26	($0.89)	$0.23	$0.05	$0.26	$0.14	$0.41	$0.22

The summary of quarterly results illustrates the cyclical nature of revenues and operating profit in the Media Segment. The second and fourth quarters are generally the strongest for the media businesses with the first and third quarters being the softest. Book Publishing Segment revenues will vary each quarter depending on the publishing schedule and the impact of foreign exchange rates.

Restructuring and other charges have also impacted the level of net income in several quarters. Restructuring and other charges (reported on a segmented basis) were $8.0 million, $7.1 million, $6.3 million and $16.6 million in the first, second, third and fourth quarters of 2013, respectively. In 2012, the first, second, third and fourth quarters had restructuring and other charges (reported on a segmented basis) of $2.6 million, $1.7 million, $6.9 million and $6.7 million respectively. Additionally, losses on impairment of assets (reported on a segmented basis) of $0.4 million, $85.5 million and $0.3 million were recorded in the second, third and fourth quarters of 2013 respectively. Losses on impairment of assets (reported on a segmented basis) of $0.3 million, $1.0 million and $11.7 million were also 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 and additional IFRS measures used by management

In addition to operating profit, an additional IFRS measure, as presented in the consolidated statement of income, management uses the following non-IFRS measures; EBITDA (and where applicable Segmented EBITDA),operating earnings (and where applicable Segmented operating earnings) and Adjusted Earnings Per Share; as measures to assess the consolidated performance and the performance of the reporting units and business segments. Torstar also reports net debt, which is a non-IFRS measure.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

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. Segmented EBITDA is calculated in the same manner described above, except that it is calculated using total segment results prior to the elimination of proportionately consolidated results for joint ventures.

Operating earnings/Segmented 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. Segmented operating earnings is calculated in the same manner described above, except that it is calculated using total segment results prior to the elimination of proportionately consolidated results for joint ventures.

The following is a reconciliation of EBITDA and Operating earnings (and Segmented EBITDA/Segmented Operating earnings – as applicable) with Operating profit (Segmented Operating profit – as applicable). EBITDA, Segmented EBITDA, Operating earnings and Segmented Operating earnings are regularly reported to the chief operating decision maker and corresponds to the definition used in our historical discussions.

	Segmented				Total			
	Fourth Quarter 2013	Fourth Quarter 2012	2013	2012	Fourth Quarter 2013	Fourth Quarter 2012	2013	2012
Operating profit	$36,282	$34,725	$10,219	$132,961	$34,100	$44,276	$11,321	$131,077
Add: Restructuring and other charges	16,589	6,650	37,924	17,778	16,186	6,261	37,219	17,389
Add: Impairment of assets	266	11,734	86,094	13,003	266	734	77,094	2,003
Operating earnings	$53,137	$53,109	$134,237	$163,742	$50,552	$51,271	$125,634	$150,469
Add: Amortization and depreciation	10,083	10,006	39,252	38,182	9,316	9,289	36,266	35,273
EBITDA	$63,220	$63,115	$173,489	$201,924	$59,868	$60,560	$161,900	$185,742

Net debt

Net debt is used by management to represent the amount of borrowings outstanding and is calculated as the sum of Long-term debt, Current portion of long-term debt and Bank overdraft less Cash and cash equivalents. The following is a reconciliation of Net debt to Long-term debt.

	2013	2012
Net debt	$158,488	$162,967
Add: Cash and cash equivalents	19,151	24,827
Less: Bank overdraft	(1,741)	(9,767)
Less: Current portion long-term debt	-	-
Long-term debt	$175,898	$178,027

Adjusted earnings per share

Adjusted earnings per share is used by management to represent the per share earnings of results of ongoing operations on a per share basis and is not a recognized measure of financial performance under IFRS. Torstar calculates adjusted earnings per share as earnings per share less the per share effect of impairment of assets, restructuring and other charges, non-cash foreign exchange, adjustments to contingent consideration, gain (loss) on sale of assets and investment write-down and loss. Torstar's method of calculating adjusted earnings per share may differ from other companies and accordingly may not be comparable to measures used by other companies. The following is a reconciliation of Adjusted earnings per share to Earnings per share.

	Fourth Quarter		2013	
Adjusted earnings per share		$0.48		$1.01
• Restructuring and other charges	(0.21)		(0.35)	
• Impairment of assets	0.00		(0.99)	
• Non-cash foreign exchange	(0.01)		(0.02)	
• Adjustment to contingent consideration	0.00		0.01	
• Investment write-down and loss	0.00		(0.01)	
Earnings (loss) per share		$0.26		($0.35)

Operating profit
Operating profit is an additional IFRS measure used by management to represent the results of operations inclusive of impairments and restructuring and other charges and appears in Torstar's consolidated statement of income.

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 total segmented revenue in the year ended December 31, 2013. Revenue in the Media Segment is primarily dependent upon the sale of advertising and to a lesser extent, the generation of circulation/subscription revenue and the distribution of inserts and flyers. Advertising revenue includes in-paper advertising, digital advertising and specialty publications.

Competition
Competition for advertising and circulation/subscription revenue comes from a variety of sources such as free and paid local, regional and national newspapers, radio, broadcast and cable television, outdoor, direct marketing, directories, and increasingly advertising-supported digital products that provide news and information, including websites, news aggregators, social media, applications for mobile devices, and other communications and advertising media. There has been consolidation in Canadian media, and competitors increasingly have interests in multiple forms of media and may be more successful in attracting advertising revenue. In addition, online advertising networks, exchanges, real-time bidding and programmatic buying channels that allow advertisers to target audiences are also playing a more significant role in the advertising industry.

There has been a structural shift within the advertising industry from print to digital advertising, which can be less expensive and more easily measured than traditional print media. This shift has and will continue to negatively impact print advertising revenue and may be permanent. The extent and nature of 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, advertisers have increased access to data and greater ability to reach customers directly with new digital technologies, which may contribute to reduced spending on advertising. Digital advertising revenues have not offset a significant portion of lost print advertising revenue and Torstar may not be successful in replacing these revenues in the future.

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, through social networking tools and through other digital platforms is significantly expanding consumer choice resulting in shifting audience preferences. Torstar may not be able to

successfully respond to these rapid changes and increasing number of digital media options. In addition, some of Torstar's digital businesses are in an early stage of development and 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. Torstar may be unable 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.

Content and readership
Print readership levels, in addition to generating circulation/subscription revenues, have traditionally been an important factor in the ability of a newspaper to generate advertising revenues. General trends impacting the newspaper industry, including, changes in everyday lifestyle and technology have meant that people, and particularly younger audiences are devoting less time to reading print newspapers than they once did. Partially 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/subscription volumes and revenues and also on readership.

Torstar has implemented a pay model for online readership for thestar.com, thespec.com, guelphmercury.com and therecord.com. Torstar's ability to build and maintain a paid subscriber base for its digital news content will depend on many factors, including continued market acceptance of Torstar's pay model, consumer habits, the timely development and evolution of adequate and adaptable digital infrastructure, practices of delivery platforms, pricing, available alternatives, delivery of high-quality journalism and content and other factors. While the implementation of the pay model may increase subscriber revenue, Torstar also faces the risk of reduced online readership levels and page views which may 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/subscription 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. 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/subscription and advertising revenues.

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

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 economic weakness and uncertainty in the regions in which Torstar operates 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 environments may cause Torstar's customers to reduce the amounts they spend on advertising which could result in a decrease in demand for advertising and lower advertising rates.

Book Publishing Segment – Revenue Risks
Revenue from Torstar's Book Publishing Segment accounted for approximately 29% of Torstar's total segmented revenue in the year ended December 31, 2013. 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 and Price
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. In addition, Harlequin competes in a market that includes a number of very large competitors who may have greater resources than Harlequin. Online retailers have also entered into the book publishing business creating additional competition, including increased price competition among book retailers in both printed and digital formats.

In addition, a number of digital-only publishers and other digital distribution models are emerging and authors have greater opportunities to self-publish, often at lower prices than traditional publishers. The proliferation of less expensive, and free, self-published works could negatively impact Harlequin's revenues in the future.

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 approximately 20,000 digital titles available for sale in North America, there is no assurance that Harlequin will be able to successfully compete with the proliferation in the number of digital titles available. In addition, digitization could increase the risk associated with the illegal unauthorized replication and distribution of digital products.

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 and authors may demand higher royalties which could have a negative impact on Harlequin's costs.

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

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.

Within the global digital marketplace, there is the risk that online retailer control could become increasingly concentrated. In the U.S., over 80% of Harlequin's 2013 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.

Direct-to-consumer market
A key revenue risk for Harlequin's direct-to-consumer business, which consists of books sold via direct mail, is not being able to maintain its customer base. 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 digital and retail channels. This has led to a decline in existing customers and has made the acquisition of new customers through direct mail offers difficult and more costly. 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 retain and attract new customers. Despite this, the direct mail customer base has declined over time and is expected to continue to do so in the future.

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 historically 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 2013, 5% of Harlequin's revenues (as measured on a segmented basis) 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., Nordic, Australia and France).

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 Toronto Star has approximately 780 staff covered by four collective agreements. The largest agreement covers approximately 430 employees at One Yonge Street, Toronto. This collective agreement will expire at the end of December 2016. There are three agreements covering approximately 350 employees at the Toronto Star's Vaughan Press Centre. One agreement covering approximately 310 employees and another covering approximately 20 employees will expire in December 2014. One other agreement, covering approximately 20 employees expired in December 2013 and negotiations are expected to commence shortly.

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 2016.

Metroland Media Group has a total of 20 collective agreements covering approximately 715 employees. There are ten collective agreements covering approximately 275 employees within the community newspapers. Three agreements covering approximately 50 employees expired in November 2013 and two agreements covering approximately 140 employees expired in December 2013 and negotiations have commenced. Three agreements covering approximately 60 employees will expire in December 2014 and two agreements covering approximately 25 employees will expire in August 2015.

At the Metroland Media Group daily newspapers, there are ten agreements covering approximately 440 employees. One agreement covering approximately 10 employees at the Guelph Mercury will expire in May 2014. One agreement covering approximately 65 employees at the Hamilton Spectator and four agreements covering approximately 115 employees at the Waterloo Region Record will expire in December 2014. Two agreements covering approximately 170 employees at the Hamilton Spectator will expire at the end of December 2015. Two agreements covering approximately 80 employees at the Hamilton Spectator will expire in May 2016.

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

Cost Structure
Torstar's businesses are 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.

Over the last several years, Torstar has reduced costs in the Media Segment in a number of ways including by reducing staff and outsourcing certain services. 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. Current and future cost savings initiatives could be impacted by the level of unionization, existing third-party suppliers and service providers and Torstar's ability to successfully outsource additional components of its business operations in the future (see "Dependence on Third-Party Suppliers and

Service Providers" below). In addition, reductions in staff and cost control measures could impact our ability to attract and retain key employees (see "Dependence on Key Personnel" below).

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.

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 2013, the price that Torstar paid for newsprint was on average less than the price paid in 2012. Torstar's newspapers consume approximately 90,000 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 negotiated a pricing band for the majority of its newsprint requirements for 2014 and 2015 at prices less than those realized in 2013. 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.

Foreign Operations and Foreign Exchange
Harlequin's foreign operations expose Torstar to the risk of doing business abroad, including complying with unfamiliar laws and regulations, effectively managing and staffing foreign operations, successfully navigating local customs and practices, adapting to currency exchange rate fluctuations and complying with restrictions on repatriation of funds. Adverse developments in any of these areas could have an adverse impact on our business, financial condition and results of operations.

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 and Pound Sterling.

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, Pound Sterling). (See additional information on foreign exchange risks in the Financial Instruments section of this MD&A and in Note 15 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 $18.6 million (U.S. $17.5 million) as at December 31, 2013 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, the plans being closed to new members 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. Recently, Torstar has taken steps to minimize its exposure to movements in the net defined pension benefit obligation as discussed in Section 7 of this MD&A.

As at December 31, 2013 Torstar had a net asset of $34.3 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 September 1, 2013. Torstar's funding for these registered defined benefit pension plans was $63.4 million in 2013. Funding for 2014 is expected to be approximately $40.0 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 $26.3 million at December 31, 2013) and a post employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the newspaper operations (liability of $42.8 million at December 31, 2013). These plans are being funded as payments are made.

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 technology and information systems including those of third party service providers. Despite Torstar's security measures and those of its third-party service providers, Torstar's systems

may be vulnerable to interruption, damage or failure from loss of power, hacking or other unauthorized access, viruses, worms or other destructive or disruptive software, process breakdowns, human error, denial of service attacks, advanced persistent threats, malicious social engineering or other similar events. While Torstar has implemented controls and taken other preventative actions to protect Torstar's systems against attacks, Torstar can give no assurance that these controls and preventative actions will be effective. The occurrence of any of these events could have an adverse effect on Torstar's operations and revenues, including through a disruption of our services or disclosure of personal or confidential information, which could harm Torstar's reputation, require Torstar to expend resources to remedy such a breach or defend against further attacks or subject us to liability under privacy or other applicable laws.

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.

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 insurance, including media liability, property and casualty and directors' and officers' liability insurance, in place to address certain material insurable risks. Such insurance is subject to certain coverage limits, exclusions and deductibles that Torstar believes are reasonable given the cost of procuring insurance. 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 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 and other 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.

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. 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.

In connection with many of its businesses, Torstar routinely obtains personal and confidential information from its customers. The potential misuse or dissemination of such information could violate applicable laws, cause damage to Torstar's relationships with its customers and could result in legal actions. See also the risks and uncertainties described above related to "Reliance on Technology and Information Systems".

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.

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 page production, 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.

Intellectual Property Rights
Torstar places considerable importance on the protection of its intellectual property rights. Torstar's businesses generate a significant volume of content every day, including text, photographs, images, graphics and interactive content such as third-party posts and links. On occasion, third parties may infringe upon or contest Torstar's rights. While we have taken steps to ensure that procedures are in place to clear rights and vet content, there remains a risk that some of the content generated may be defamatory or infringing. 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 by third parties. If third parties were to contest the validity or scope of Torstar's intellectual property rights or to allege violation of their rights, such challenges could result in the limitation or loss of intellectual property rights and other damages 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. See also the risks and uncertainties described above related to "Litigation".

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.

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.

Product Revenue and Product Liability
Metroland Media Group's product business had been diminishing over the past few years and this trend may continue in the future. Additionally, 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.

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.

NOTES

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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 4, 2014

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 statement of financial position as at December 31, 2013 and 2012 and January 1, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, 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

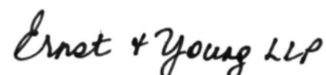
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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, 2013 and 2012 and January 1, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.



Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 4, 2014

Torstar Corporation
Consolidated Statement of Financial Position

(Thousands of Canadian Dollars)

	As at December 31 2013	As at December 31 2012 *Restated**	As at January 1 2012 *Restated**
Assets			
Current:			
Cash and cash equivalents	**$19,151**	$24,827	$36,450
Receivables (note 15)	**261,485**	263,606	265,655
Inventories (note 5)	**29,368**	31,637	34,600
Derivative financial instruments (note 15)		1,272	367
Prepaid expenses and other current assets	**47,872**	43,254	46,269
Prepaid and recoverable income taxes	**3,765**	10,775	1,929
Total current assets	**361,641**	375,371	385,270
Investments in joint ventures (note 6)	**80,901**	91,258	107,512
Investments in associated businesses (note 7)	**40,215**	32,921	16,935
Property, plant and equipment (note 8)	**150,665**	161,872	170,454
Intangible assets (note 9)	**73,942**	87,475	85,865
Goodwill (note 10)	**533,982**	596,703	598,603
Other assets (note 12)	**11,465**	8,323	1,798
Employee benefits assets (note 19)	**44,532**		
Deferred income tax assets (note 13)	**51,369**	89,965	100,246
Total assets	**$1,348,712**	$1,443,888	$1,466,683
Liabilities and Equity			
Current:			
Bank overdraft	**$1,741**	$9,767	$7,413
Current portion of long-term debt			196,191
Accounts payable and accrued liabilities	**202,888**	195,822	194,237
Derivative financial instruments (note 15)	**911**		
Provisions (note 17)	**20,807**	15,649	22,057
Income taxes payable	**9,810**	11,016	17,118
Total current liabilities	**236,157**	232,254	437,016
Long-term debt (note 14)	**175,898**	178,027	
Derivative financial instruments (note 15)	**4,125**	7,018	8,761
Provisions (note 17)	**16,251**	14,520	16,906
Other liabilities (note 18)	**12,425**	25,362	26,290
Employee benefits (note 19)	**82,641**	255,434	264,027
Deferred income tax liabilities (note 13)	**24,431**	7,593	7,419
Equity:			
Share capital (note 20)	**398,605**	397,425	395,334
Contributed surplus	**17,383**	16,057	14,828
Retained earnings	**385,589**	317,033	301,863
Accumulated other comprehensive loss (note 22)	**(7,603)**	(9,699)	(8,286)
Total equity attributable to equity shareholders	**793,974**	720,816	703,739
Minority interests	**2,810**	2,864	2,525
Total equity	**796,784**	723,680	706,264
Total liabilities and equity	**$1,348,712**	$1,443,888	$1,466,683

(see accompanying notes)

**Certain amounts shown here do not correspond to the annual consolidated financial statements as at December 31, 2012 and reflect adjustments made as detailed in Note 29.*

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	
	2013	2012 Restated*
Operating revenue	**$1,308,791**	$1,406,768
Salaries and benefits	**(480,297)**	(499,485)
Other operating costs	**(666,594)**	(721,541)
Amortization and depreciation (notes 8 and 9)	**(36,266)**	(35,273)
Restructuring and other charges (note 17)	**(37,219)**	(17,389)
Impairment of assets (note 11)	**(77,094)**	(2,003)
Operating profit	**11,321**	131,077
Interest and financing costs (note 14(c))	**(17,460)**	(19,906)
Foreign exchange	**(1,506)**	(248)
Adjustment to contingent consideration (note 17)	**979**	(258)
Income (loss) from joint ventures (note 6)	**(2,578)**	2,183
Income (loss) of associated businesses (note 7)	**2,345**	(2,802)
Gain (loss) on sale of assets (note 24)	**(152)**	6,080
Investment write-down and loss (note 25)	**(562)**	(93)
Income (loss) before taxes	**(7,613)**	116,033
Income and other taxes (note 13)	**(19,800)**	(33,100)
Net income (loss)	**($27,413)**	$82,933
Attributable to:		
Equity shareholders	**($27,984)**	$82,344
Minority interests	**$571**	$589
Net income (loss) attributable to equity shareholders per Class A (voting) and Class B (non-voting) share (note 20(c)):		
Basic and Diluted	**($0.35)**	$1.03

(see accompanying notes)

**Certain amounts shown here do not correspond to the annual consolidated financial statements as at December 31, 2012 and reflect adjustments made as detailed in Note 29.*

Torstar Corporation
Consolidated Statement of Comprehensive Income

(Thousands of Canadian Dollars)

	Year ended December 31	
	2013	2012 Restated*
Net income (loss)	**($27,413)**	$82,933
Other comprehensive income (loss) to be reclassified to net income (loss) in subsequent periods:		
Realized foreign currency translation adjustment for joint ventures (no income tax effect) (note 6)	**54**	
Unrealized foreign currency translation adjustment for joint ventures (no income tax effect) (note 6)	**240**	(183)
Unrealized foreign currency translation adjustment (no income tax effect)	**6,658**	(4,919)
Unrealized foreign currency translation adjustment for associated businesses (no income tax effect) (note 7)	**24**	
Net movement on available-for-sale financial assets (no income tax effect)	**6**	123
Net movement on cash flow hedges	**710**	2,648
Income tax effect	**(100)**	(600)
Unrealized gain (loss) on hedge of net investment	**(5,496)**	1,768
Income tax effect		(250)
	2,096	(1,413)
Other comprehensive income (loss) that will not be reclassified to net income (loss) in subsequent periods:		
Actuarial gain (loss) on employee benefits (note 19)	**184,546**	(35,038)
Income tax effect	**(47,600)**	9,200
Actuarial gain on employee benefits for associated businesses (no income tax effect) (note 7)	**1,512**	
	138,458	(25,838)
Other comprehensive income (loss), net of tax	**$140,554**	($27,251)
Comprehensive income, net of tax	**$113,141**	$55,682
Attributable to:		
Equity shareholders	**$112,570**	$55,093
Minority interests	**$571**	$589

(see accompanying notes)

**Certain amounts shown here do not correspond to the annual consolidated financial statements as at December 31, 2012 and reflect adjustments made as detailed in Note 29.*

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 January 1, 2012	$395,334	$14,828	$301,863	($8,286)	$703,739	$2,525	$706,264
Net income			82,344		82,344	589	82,933
Other comprehensive loss			(25,838)	(1,413)	(27,251)		(27,251)
Total comprehensive income (loss)			56,506	(1,413)	55,093	589	55,682
Dividends (note 20)	282		(41,336)		(41,054)		(41,054)
Issue of share capital – other (note 20)	1,331				1,331		1,331
Exercise of share options (note 20)	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**	**$317,033**	**($9,699)**	**$720,816**	**$2,864**	**$723,680**
Net income (loss)			**(27,984)**		**(27,984)**	**571**	**(27,413)**
Other comprehensive income			**138,458**	**2,096**	**140,554**		**140,554**
Total comprehensive income			**110,474**	**2,096**	**112,570**	**571**	**113,141**
Dividends (note 20)	**457**		**(41,918)**		**(41,461)**		**(41,461)**
Issue of share capital – other (note 20)	**723**				**723**		**723**
Exercise of share options (note 20)							
Share-based compensation expense		**1,326**			**1,326**		**1,326**
Distribution						**(625)**	**(625)**
At December 31, 2013	**$398,605**	**$17,383**	**$385,589**	**($7,603)**	**$793,974**	**$2,810**	**$796,784**

(see accompanying notes)

**Certain amounts shown here do not correspond to the annual consolidated financial statements as at December 31, 2012 and reflect adjustments made as detailed in Note 29.*

Torstar Corporation
Consolidated Statement of Cash Flows

(Thousands of Canadian Dollars)

	Year ended December 31	
	2013	2012 *Restated**
Cash was provided by (used in)		
Operating activities	**$80,732**	$89,835
Investing activities	**(28,720)**	(47,140)
Financing activities	**(50,230)**	(56,112)
Increase (decrease) in cash	**1,782**	(13,417)
Effect of exchange rate changes	**568**	(560)
Cash, beginning of year	**15,060**	29,037
Cash, end of year	**$17,410**	$15,060
Operating activities:		
Net income (loss)	**($27,413)**	$82,933
Amortization and depreciation (notes 8 and 9)	**36,266**	35,273
Deferred income taxes (note 13)	**9,400**	17,700
Loss (income) from joint ventures (note 6)	**2,578**	(2,183)
Distributions from joint ventures (note 6)	**7,934**	14,408
Loss (income) of associated businesses (note 7)	**(2,345)**	2,802
Dividend from associated businesses (note 7)	**954**	
Impairment of assets (note 11)	**77,094**	2,003
Non-cash employee benefit expense (note 19)	**33,379**	33,173
Employee benefits funding (note 19)	**(67,232)**	(76,540)
Other (note 26)	**(617)**	(10,747)
	69,998	98,822
Decrease (increase) in non-cash working capital	**10,734**	(8,987)
Cash provided by operating activities	**$80,732**	$89,835
Investing activities:		
Additions to property, plant and equipment and intangible assets (notes 8 and 9)	**($23,128)**	($30,174)
Investment in joint ventures		(30)
Investment in associated businesses	**(3,485)**	(11,265)
Acquisitions and portfolio investments (note 23)	**(2,485)**	(11,883)
Proceeds from sale of assets	**253**	6,207
Other	**125**	5
Cash used in investing activities	**($28,720)**	($47,140)
Financing activities:		
Issuance of bankers' acceptances	**$13,428**	$5,991
Repayment of bankers' acceptances	**(22,416)**	(22,211)
Dividends paid	**(41,461)**	(41,054)
Exercise of share options		413
Other	**219**	749
Cash used in financing activities	**($50,230)**	($56,112)
Cash represented by:		
Cash	**$16,211**	$20,253
Cash equivalents – short-term deposits	**2,940**	4,574
Cash and cash equivalents	**19,151**	24,827
Bank overdraft	**(1,741)**	(9,767)
	$17,410	$15,060

(see accompanying notes)

**Certain amounts shown here do not correspond to the annual consolidated financial statements as at December 31, 2012 and reflect adjustments made as detailed in Note 29.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012

(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 3.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS"). The policies applied in these consolidated financial statements are based on IFRS policies effective as of December 31, 2013. These consolidated financial statements have been authorized for issue in accordance with a resolution from the Board of Directors on March 4, 2014.

Comparative figures for previous periods have been restated to conform to the current year presentation.

(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 over which it has control. The Company controls an investee when the Company is exposed to, or has rights to, variable returns from its relationship with the investee and has the ability to affect those returns through its power over the investee. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power. These facts and circumstances include: the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; potential voting rights held by the Company, other vote holders or other parties; and rights arising from other contractual arrangements. 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.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Company and to the minority interests, even if this results in the minority interests having a deficit balance.

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

(d) Investments in joint ventures and associated businesses

A joint venture is a type of joint arrangement in which the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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.

The considerations made in determining joint control or significant influence are similar to those necessary to determine control over subsidiaries.

Investments in joint ventures and associates are accounted for using the equity method, whereby the investment 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 investment. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. When the Company's share of losses of a joint venture or associate exceeds the Company's carrying value of the investment, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

The consolidated statement of income reflects the Company's share of the results of operations of the joint venture or associate. Where there has been a change recognized directly in the OCI of the joint venture or associate, the Company recognizes its share of any changes and discloses this, when applicable, in OCI. When there has been a change recognized directly in the equity of the joint venture or associate, the Company recognizes, when applicable, its share of any changes in the statement of changes in equity.

The financial statements of the joint venture or associate are prepared for the same reporting period as the Company except when the joint venture or associate does not have coterminous year-end and quarter-ends with the Company, in which case the most recent period-end available in a quarter is used. When necessary, adjustments are made to bring the accounting policies of the joint venture or associate in line with those of the Company.

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 joint venture or associate is impaired and consequently whether it is necessary to recognize an impairment loss with respect to the Company's investment. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the impairment in the consolidated statement of income.

Upon loss of significant influence over an associate, the Company measures and recognizes any retained investment at its fair value. Upon loss of joint control over a joint venture, the Company considers whether it has significant influence, in which case the retained investment is accounted for as an associate using the equity method, otherwise the Company measures and recognizes any retained investment as a portfolio investment at its fair value. Any difference between the carrying amount of the investment and the fair value of the retained investment or proceeds from disposal of the investment is recognized in profit or loss.

(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 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 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 certain 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 or at fair value as deemed cost, net of accumulated depreciation and any accumulated impairment losses. 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: 25 – 60 years
  - Components: 5 – 30 years
- Machinery and Equipment
  - Machinery and Equipment: 3 – 40 years
  - Furniture and Fixtures: 5 – 10 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) 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.

(k) 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.

(l) 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.

(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. Additionally, 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. For internal management purposes, goodwill is monitored at the operating segment level which represents a group of CGUs. 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 group of 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:

- Earnings before interest, taxes, depreciation and amortization ("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 or group of CGUs operates. The projections are based on the most recent financial budgets, forecasts 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 a pre-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) 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.

(o) 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 net asset or net 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. The service 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 salary increases, retirement ages of employees and expected health care costs.
- 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.

- Net interest is determined by multiplying the net defined benefit liability or asset by the discount rate used to determine the defined benefit obligation (at the beginning of the year) and is included in Interest and financing costs in the consolidated statement of income.
- Past service costs are recognized immediately in the consolidated statement of income.
- Current service costs, past service costs, special termination benefits, curtailment gains or losses and administration costs are recognized in the consolidated statement of income and are included in Salaries and benefits or Restructuring and other charges, as applicable.
- 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. 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 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 limited to the extent to which the Company can reduce the future contributions to the plan.

Company contributions to capital accumulation plans are expensed as incurred.

Termination benefits are expensed at the earlier of the time at which the Company can no longer withdraw the offer of those benefits and the time at which the Company recognizes costs for a restructuring. Benefits which are not expected to be settled wholly within twelve months from the end of the reporting period are discounted.

(p) 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.

(q) 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 income tax

Deferred income 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 income 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 income 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 income 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 income 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.

(r) 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.

(s) 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 rate of compensation increase, trends in healthcare costs, employee turnover and expected mortality. However, the most significant assumption is the discount rate which is used to determine the present value of the future cash flows that are expected to be required to settle employee benefit obligations. The discount rate is based on the market yield on long-term high-quality corporate bonds with maturities matching the estimated cash flows from the benefit plan at the time of estimation. A lower discount rate would result in a higher employee benefit obligation.

Further details about the assumptions used are provided in Note 19.

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 11.

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 income 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 income 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 income 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 income 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 income tax assets. Unrecognized deferred income 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 13.

Significant judgements made by management are described below:

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

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 Ltd. and Shop.ca Network Inc. 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.

Determination of operating segments, reportable segments and CGUs

The Company has two reportable segments: Media and Book Publishing. "Corporate" is the provision of corporate services and administrative support. Based on the information provided to the Company's chief operating decision-maker ("CODM"), the Media Segment includes the Star Media Group and Metroland Media Group operating segments which have been aggregated to form the Media reportable segment. Each of the Star Media Group and Metroland Media Group include CGUs which have been grouped together for purposes of reviewing performance and impairment testing. These operating segments have been aggregated as they exhibit similar long-term financial performance, have similar economic characteristics and they are similar in each of the following aspects: the nature of their products and services; the nature of their production processes; the type of customers for their products and services; and the methods used to distribute their products and provide their services.

The Company's CODM monitors the operating results of the operating units separately for the purpose of assessing performance. Segment performance is evaluated based on operating profit which corresponds to operating profit as measured in the consolidated financial statements except that it includes the proportionately consolidated share of joint venture operations. Decisions regarding resource allocation are made at the reportable segment level.

(t) Changes in accounting policies

Policies adopted in 2013:

On January 1, 2013, the Company applied, for the first time, certain standards and amendments which include amendments to IAS 1 *Presentation of Financial Statements*, IAS 19 (Revised 2011) *Employee Benefits* ("IAS 19R"), IAS 28 *Investments in Associates and Joint Ventures*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*.

The 2012 comparative consolidated financial statements have been restated to reflect the newly adopted IFRS standards. The impact of the changes in accounting standards is disclosed in Note 29.

Several other new standards and amendments became effective in 2013. However, they do not impact the Company's annual consolidated financial statements.

The nature and the impact of each new standard/amendment which affect the Company are described below:

IAS 1 *Presentation of Financial Statements*

The International Accounting Standards Board ("IASB") amended IAS 1 by revising how certain items are presented in OCI. Items within OCI that may be reclassified to profit and loss have been separated from items that will not. While this amendment has impacted presentation in the consolidated statement of comprehensive income, it did not impact the Company's consolidated income, comprehensive income or consolidated financial position.

IAS 19R *Employee Benefits*

The amendments to IAS 19 introduced 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. Prior to adoption of IAS 19R, the 2012 expected long-term rate of return on plan assets was 6.5% compared with a discount rate of 4.3% used to determine the expense on the defined benefit obligation. Under the amended standard, the discount rate was applied to the net benefit liability.

Also, unvested past service costs are no longer deferred and recognized over future vesting periods. Instead, all past service costs are recognized at the earlier of when the amendment occurs and when the Company recognizes related restructuring or termination costs. Prior to the adoption of this standard, the Company's unvested past service costs were recognized as an expense on a straight-line basis over the average period

until the benefits become vested. Upon adoption of IAS 19R, past service costs are recognized immediately if the benefits have vested following the introduction of, or changes to, a pension plan.

The adoption of the standard does not impact future cash funding requirements. Upon the adoption of the standard, the Company has classified the interest component of employee future benefit expenses, previously included in salaries and benefits expenses, in Interest and financing costs. The effect of the Company's application of this standard is summarized in Note 29.

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 in the first quarter of 2012 was reversed, reducing the carrying amount of the investment included in Note 7. The reduction in the consolidated net income and comprehensive income for the year ended December 31, 2012 was $8.2 million net of tax of $1.7 million and reversal of amortization expense of $0.5 million.

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 did not have a significant impact on the consolidated financial statements.

IFRS 11 *Joint Arrangements*

IFRS 11 replaced 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 requires jointly controlled entities that meet the definition of a joint venture to be accounted for using the equity method of accounting. Historically, the Company proportionately consolidated its joint ventures including its interest in Sing Tao Daily, Workopolis and Harlequin's operations in France and Italy. With the adoption of this standard, the revenues, expenses, assets and liabilities from these operations are no longer proportionately consolidated in the Company's consolidated financial statements but have been replaced by "Investment in joint ventures" in the consolidated statement of financial position and "Income from joint ventures" in the consolidated statement of income. The effect of the Company's application of this standard is summarized in Note 29.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and 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 affected disclosures provided but did 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 affected disclosures but did not have an impact on the financial results.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Future changes in accounting standards:

The following changes in accounting standards will be adopted by the Company on the effective date of January 1, 2014:

IAS 32 *Financial Instruments: Presentation*

In December 2011, the IASB amended IAS 32 to clarify certain requirements for offsetting financial assets and liabilities. The amendment addresses the meaning and application of the concepts of legally enforceable right of set-off and simultaneous realization and settlement. The amendment will affect presentation and disclosures but will not have an impact on financial results.

IAS 36 *Impairment of Assets*

In May 2013, the IASB amended IAS 36 to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. This amendment may affect disclosures but is not anticipated to have a material impact on financial results.

The following amendments to accounting standards will be effective for the Company subsequent to 2014:

IAS 19 Employee Benefits

In November 2013, the IASB amended IAS 19 to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The Company does not anticipate early adoption and plans to adopt the standard on its 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.

IFRS 9 *Financial Instruments*

In November 2013, the IASB issued a revised version of IFRS 9 which:

- Introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Permits an entity to apply only the requirements introduced in IFRS 9 (2010) for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in OCI rather than within profit or loss.
- Removes the mandatory effective date of IFRS 9 (2013), IFRS 9 (2010) and IFRS 9 (2009), leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. Notwithstanding the removal of an effective date, each standard remains available for application.

The Company does not anticipate early adoption and plans to adopt the standard on its effective date, which the IASB has tentatively decided will be no earlier than January 1, 2017. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

3. SEGMENTED INFORMATION

The Company has two reportable segments: Media and Book Publishing. "Corporate" is the provision of corporate services and administrative support. Management of each segment is accountable for the revenues and segment operating profit which includes the proportionately consolidated share of joint venture operations.

Segment profit or loss has been defined as segmented operating profit which corresponds to operating profit as presented in the consolidated statement of income but includes the proportionately consolidated share of joint venture operations. All other income and expense items are managed on a Company basis and are not provided to the 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.

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 approximately 115 community newspapers in Ontario. In addition, the Company has a 90% interest in Free Daily News Group Inc. ("Metro English Canada"), 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 Workopolis, Olive Media, eyeReturn Marketing, toronto.com, Wheels.ca, save.ca, goldbook.ca and WagJag.com ("WagJag"). The Media Segment derives its revenues from advertising, subscription, distribution and other which includes third-party printing.

The Book Publishing Segment represents Harlequin, a leading global publisher of books for women. Harlequin publishes books around the world in a variety of 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 Ltd. ("Black Press"); Blue Ant Media Inc. ("Blue Ant"); Canadian Press Enterprises Inc. ("Canadian Press"); Shop.ca Network Inc. ("Shop.ca") and Tuango Inc. ("Tuango"), which the Company presents as associated businesses.

Year ended December 31, 2013	Media	Book Publishing	Corporate	Total Segments	Adjustments and Eliminations[1]	Per Consolidated Statement of Income
Operating Revenue	**$984,047**	**$397,719**		**$1,381,766**	**($72,975)**	**$1,308,791**
Salaries and benefits	**(398,298)**	**(96,570)**	**($10,743)**	**(505,611)**	**25,314**	**(480,297)**
Other operating costs	**(454,972)**	**(244,834)**	**(2,860)**	**(702,666)**	**36,072**	**(666,594)**
Amortization and depreciation	**(34,924)**	**(4,288)**	**(40)**	**(39,252)**	**2,986**	**(36,266)**
Restructuring and other charges	**(33,829)**	**(4,095)**		**(37,924)**	**705**	**(37,219)**
Impairment of assets	**(86,094)**			**(86,094)**	**9,000**	**(77,094)**
Reportable segment operating profit (loss)	**($24,070)**	**$47,932**	**($13,643)**	**$10,219**	**$1,102**	**$11,321**
Interest and financing costs						**(17,460)**
Foreign exchange						**(1,506)**
Adjustment to contingent consideration						**979**
Loss from joint ventures						**(2,578)**
Income of associated businesses						**2,345**
Loss on sale of assets						**(152)**
Investment write-down and loss						**(562)**
Loss before taxes						**($7,613)**

Year ended December 31, 2012	Media	Book Publishing	Corporate	Total Segments	Adjustments and Eliminations[1]	Per Consolidated Statement of Income
Operating Revenue	$1,059,261	$426,483		$1,485,744	($78,976)	$1,406,768
Salaries and benefits	(420,441)	(95,674)	($10,528)	(526,643)	27,158	(499,485)
Other operating costs	(500,417)	(253,550)	(3,210)	(757,177)	35,636	(721,541)
Amortization and depreciation	(34,027)	(4,107)	(48)	(38,182)	2,909	(35,273)
Restructuring and other charges	(16,498)	(1,280)		(17,778)	389	(17,389)
Impairment of assets	(13,003)			(13,003)	11,000	(2,003)
Reportable segment operating profit (loss)	$74,875	$71,872	($13,786)	$132,961	($1,884)	$131,077
Interest and financing costs						(19,906)
Foreign exchange						(248)
Adjustment to contingent consideration						(258)
Income from joint ventures						2,183
Loss of associated businesses						(2,802)
Gain on sale of assets						6,080
Investment write-down and loss						(93)
Income before taxes						$116,033

[1] Adjustments and eliminations represent the elimination of the proportionately consolidated results of, and transactions with joint ventures.

Geographical information

The Company operates in the following main geographical areas:

	Revenue[1]		Non-current assets[2]	
	Year ended December 31		As at December 31	
	2013	2012	**2013**	2012
Canada	**$955,301**	$1,002,908	**$640,826**	$732,288
United States	**190,787**	219,809	**78,189**	76,734
Other[3]	**162,703**	184,051	**39,574**	37,028
Total	**$1,308,791**	$1,406,768	**$758,589**	$846,050

[1] Revenue is allocated based on the country in which the order is received.
[2] Non-current assets include property, plant and equipment; intangible assets and goodwill.
[3] Principally – Japan, Germany, United Kingdom, Australia, Sweden and France.

4. INVESTMENTS IN SUBSIDIARIES

The Company's material subsidiaries are: Toronto Star Newspapers Limited, Metroland Media Group Ltd. and Harlequin Enterprises Limited. The Company has a 100% voting and equity securities interest in each of these Ontario corporations.

The Company has a 90% interest in Metro English Canada. The Company entered into put and call arrangements, with regards to the remaining 10% owned by Metro International S.A., which are both exerciseable at the same fixed price starting in October 2014. The Company recorded the discounted value of the call option liability as indicated in Note 15. As a result of the issuance of the put and call options, the Company effectively has a 100% interest and therefore has not reflected amounts related to Minority interests.

The Company also has a 75% interest in the Olive Media partnership. The 25% interest that the Company does not own is reflected in Minority interests.

The principal activities of these subsidiaries are described in Note 3.

5. INVENTORIES

	December 31, 2013	December 31, 2012
Finished goods	**$11,892**	$11,824
Work in progress	**8,676**	9,270
Raw materials	**8,800**	10,543
	$29,368	$31,637

During the year ended December 31, 2013, the Company expensed $157.0 million of inventory costs (2012 – $181.0 million) and recorded an inventory write-down of $2.4 million (2012 – $3.5 million).

6. INVESTMENTS IN JOINT VENTURES

The Company has investments in joint ventures in each of the Media and Book Publishing Segments. The significant joint ventures in the Media Segment include Workopolis (50%) and Sing Tao Daily (approximately 50%). In the Book Publishing Segment, 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 table below provides a continuity of Investments in joint ventures:

	Year ended December 31	
	2013	2012
Balance, beginning of period	**$91,258**	$107,512
Income (loss) from joint ventures	**(2,578)**	2,183
Distribution from joint ventures	**(7,934)**	(14,408)
Foreign currency translation adjustment	**294**	(183)
Loss on sale of joint venture (note 24)	**(226)**	
Reclassification of investment in Tuango (note 7)		(3,343)
Adjustment on sale of investment in Tuango (note 24)		(534)
Investment and other	**87**	31
Balance, end of period	**$80,901**	$91,258

(a) Transition to IFRS 11

Prior to January 1, 2013, the Company's investments in joint ventures were proportionately consolidated in the consolidated financial statements. Effective January 1, 2013, upon adoption of IFRS 11, the Company's joint ventures were required to be accounted for using the equity method on a retroactive basis. The effect of the Company's application of this standard is summarized in Note 29.

b) Summarized Supplemental Financial Information

The following is summarized supplemental financial information based on the Company's proportionate share of the joint ventures:

(i) Statement of Financial Position

	As at December 31, 2013			As at December 31, 2012		
	Media Segment	**Book Publishing Segment**	**Total Segments**	Media Segment	Book Publishing Segment	Total Segments
Cash and cash equivalents	**$6,825**	**$4,606**	**$11,431**	$8,295	$5,899	$14,194
Other current assets	**12,811**	**4,475**	**17,286**	9,441	5,102	14,543
Total current assets	**19,636**	**9,081**	**28,717**	17,736	11,001	28,737
Property, plant & equipment	**6,351**	**149**	**6,500**	5,073	159	5,232
Goodwill on joint ventures	**38,419**	**4,739**	**43,158**	47,419	4,739	52,158
Intangible assets	**19,478**	**277**	**19,755**	20,400	255	20,655
Other non-current assets		**74**	**74**	3,500	118	3,618
Total assets	**$83,884**	**$14,320**	**$98,204**	$94,128	$16,272	$110,400
Bank overdraft		**$4**	**$4**		$195	$195
Other current liabilities	**$10,432**	**5,851**	**16,283**	$11,036	6,704	17,740
Total current liabilities	**10,432**	**5,855**	**16,287**	11,036	6,899	17,935
Other non-current liabilities	**519**	**497**	**1,016**	722	485	1,207
Total equity	**72,933**	**7,968**	**80,901**	82,370	8,888	91,258
Total liabilities and equity	**$83,884**	**$14,320**	**$98,204**	$94,128	$16,272	$110,400

(ii) Statement of Income and Comprehensive Income

	Year ended December 31, 2013			Year ended December 31, 2012		
	Media Segment	**Book Publishing Segment**	**Total Segments**	Media Segment	Book Publishing Segment	Total Segments
Operating revenue	**$48,510**	**$27,589**	**$76,099**	$53,604	$28,463	$82,067
Salaries and benefits	**(20,056)**	**(5,258)**	**(25,314)**	(21,873)	(5,285)	(27,158)
Other operating costs	**(19,069)**	**(20,127)**	**(39,196)**	(18,751)	(19,976)	(38,727)
Amortization and depreciation	**(2,737)**	**(250)**	**(2,987)**	(2,733)	(176)	(2,909)
Restructuring and other charges	**(659)**	**(46)**	**(705)**	(389)		(389)
Impairment of investment	**(9,000)**		**(9,000)**	(11,000)		(11,000)
Operating profit (loss)	**(3,011)**	**1,908**	**(1,103)**	(1,142)	3,026	1,884
Interest and financing costs	**2**	**32**	**34**	6	60	66
Foreign exchange	**(6)**		**(6)**	2		2
Adjustment to contingent consideration	**(75)**		**(75)**			
Gain on sale of assets	**272**		**272**	3,731		3,731
	(2,818)	**1,940**	**(878)**	2,597	3,086	5,683
Income and other taxes	**(914)**	**(786)**	**(1,700)**	(2,453)	(1,047)	(3,500)
Net income	**(3,732)**	**1,154**	**(2,578)**	144	2,039	2,183
Realized foreign translation adjustment		**54**	**54**			
Unrealized foreign translation adjustment		**240**	**240**		(183)	(183)
Comprehensive income	**($3,732)**	**$1,448**	**($2,284)**	$144	$1,856	$2,000

7. INVESTMENTS IN ASSOCIATED BUSINESSES

As of December 31, 2013, the Company's Investments in associated businesses include a 19.4% equity interest in Black Press; a 23.3% equity investment in Blue Ant; a 33.3% equity interest in Canadian Press; a 19.1% equity investment in Shop.ca and a 38.2% equity investment in Tuango.

The table below provides a continuity of Investments in associated businesses:

	Year ended December 31	
	2013	2012
Balance, beginning of year	**$32,921**	$16,935
Investments made during the year	**3,402**	11,598
Investment in Shop.ca in exchange for Media inventory provided	**965**	3,847
Investment in Tuango (note 24)		3,343
Dividends received	**(954)**	
Income (loss) of associated businesses	**2,345**	(2,802)
OCI – Actuarial gain (loss) on employee benefits	**1,512**	
OCI – Foreign currency translation adjustment	**24**	
Balance, end of year	**$40,215**	$32,921

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.

For the year ended December 31, 2013, the Company's share of Black Press' net income was $5.5 million and OCI was $1.5 million. For the year ended December 31, 2012, the Company did not record its share of Black Press' results (income of $3.9 million and other comprehensive loss of $4.4 million) as the Company's carrying value in Black Press was previously reduced to nil. At the beginning of 2013, the unrecognized losses were $0.7 million which were fully offset by the Company's share of comprehensive income.

Blue Ant

Blue Ant is an independent media company which owns and operates specialty channels Travel+Escape, Bite TV Cottage Life and AUX TV, and four premium high definition channels Oasis HD, HIFI, Smithsonian, radX and their companion websites as well as a digital publishing division. Blue Ant also owns the Cottage Life Media group (publisher of Cottage Life, Cottage, and Outdoor Canada, and producer of the Cottage Life consumer shows). During 2013, the Company invested an additional $2.5 million in Blue Ant. The Company's equity interest at December 31, 2013 was 23.3% (December 31, 2012 – 23.7%).

The Company's share of Blue Ant's net loss in 2013 was $0.2 million (2012 – $2.2 million, including 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 2013, the Company invested $0.5 million in Canadian Press and had committed to invest an additional $0.4 million in early 2014.

The Company's carrying value in Canadian Press was previously reduced to nil. In 2013, the Company recorded a loss of $0.4 million for its additional investment commitment (2012 – $0.8 million). The Company will begin to report its share of Canadian Press's results once the unrecognized losses (nil as of December 31, 2013 and $6.4 million as of December 31, 2012) have been offset by net income, other comprehensive income or additional investments are made. For the year ended December 31, 2013, the Company would have reported income of $0.5 million and other comprehensive income of $5.9 million from Canadian Press (2012 – 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).

Shop.ca

Shop.ca is an online e-commerce marketplace aimed at Canadian shoppers. On June 15, 2012, the Company made an initial investment of $5.0 million in exchange for a 14.4% equity interest, and an additional $4.8 million of media inventory which was provided through the end of the first quarter of 2013, bringing the Company's interest to 21.6%. As at December 31, 2013, the Company's equity interest in Shop.ca was 19.1%.

For the year ended December 31, 2013, the Company's share of Shop.ca's net loss was $3.1 million (2012 – $0.7 million).

Tuango

Tuango is a Quebec-based daily deal business. Prior to February 29, 2012, the Company held a 50% interest, at which time a portion was sold reducing the Company's remaining interest to 38.2% as detailed in Note 24. For the year ended December 31, 2013, the Company's share of Tuango's net income was $0.7 million ($0.9 million for the period from February 29, 2012 to December 31, 2012).

Other

During 2013, the Company made investments in other associated businesses totaling $0.5 million for which a loss of $0.2 million was recorded in the year.

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and leasehold improvements	Machinery and equipment	Total
Cost				
Balance at January 1, 2012	$5,401	$136,870	$198,510	$340,781
Acquisitions – business combinations			18	18
Additions		3,520	11,144	14,664
Disposals		(722)	(8,181)	(8,903)
Reclassifications		26	157	183
Foreign exchange	(57)	(287)	(479)	(823)
Balance at December 31, 2012	**5,344**	**139,407**	**201,169**	**345,920**
Additions		**3,123**	**6,768**	**9,891**
Disposals		**(998)**	**(8,201)**	**(9,199)**
Foreign exchange	**175**	**732**	**1,568**	**2,475**
Balance at December 31, 2013	**$5,519**	**$142,264**	**$201,304**	**$349,087**
Depreciation and impairment				
Balance at January 1, 2012		$51,074	$119,253	$170,327
Additions		7,442	14,839	22,281
Impairments			578	578
Disposals		(691)	(7,958)	(8,649)
Reclassifications		3	33	36
Foreign exchange		(206)	(319)	(525)
Balance at December 31, 2012		**57,622**	**126,426**	**184,048**
Additions		**7,094**	**14,381**	**21,475**
Impairments		**159**	**169**	**328**
Disposals		**(928)**	**(8,167)**	**(9,095)**
Foreign exchange		**581**	**1,085**	**1,666**
Balance at December 31, 2013		**$64,528**	**$133,894**	**$198,422**
Net book value				
At January 1, 2012	$5,401	$85,796	$79,257	$170,454
At December 31, 2012	$5,344	$81,785	$74,743	$161,872
At December 31, 2013	**$5,519**	**$77,736**	**$67,410**	**$150,665**

9. INTANGIBLE ASSETS

	Indefinite life	Finite life			Total
		Software	Other	Total	
Cost					
Balance at January 1, 2012	$27,236	$71,099	$40,032	$111,131	$138,367
Acquisitions – business combinations	151	50	1,628	1,678	1,829
Additions – internally developed		3,854		3,854	3,854
Additions – purchased		11,656		11,656	11,656
Disposals	(950)	(5,313)	(2,512)	(7,825)	(8,775)
Foreign exchange	(32)	(151)	(6)	(157)	(189)
Balance at December 31, 2012	**26,405**	**81,195**	**39,142**	**120,337**	**146,742**
Acquisitions – business combinations			**46**	**46**	**46**
Additions – internally developed		**4,374**		**4,374**	**4,374**
Additions – purchased		**8,863**		**8,863**	**8,863**
Disposals		**(5,719)**	**(310)**	**(6,029)**	**(6,029)**
Foreign exchange	**654**	**296**	**80**	**376**	**1,030**
Balance at December 31, 2013	**$27,059**	**$89,009**	**$38,958**	**$127,967**	**$155,026**
Amortization and impairment					
Balance at January 1, 2012	$1,633	$43,338	$7,531	$50,869	$52,502
Amortization		7,872	5,120	12,992	12,992
Impairments		1,425		1,425	1,425
Disposals		(5,017)	(2,523)	(7,540)	(7,540)
Foreign exchange		(109)	(3)	(112)	(112)
Balance at December 31, 2012	**1,633**	**47,509**	**10,125**	**57,634**	**59,267**
Amortization		**10,099**	**4,692**	**14,791**	**14,791**
Impairments	**9,276**	**156**	**3,334**	**3,490**	**12,766**
Disposals		**(5,651)**	**(310)**	**(5,961)**	**(5,961)**
Foreign exchange		**165**	**56**	**221**	**221**
Balance at December 31, 2013	**$10,909**	**$52,278**	**$17,897**	**$70,175**	**$81,084**
Net book value					
At January 1, 2012	$25,603	$27,761	$32,501	$60,262	$85,865
At December 31, 2012	$24,772	$33,686	$29,017	$62,703	$87,475
At December 31, 2013	**$16,150**	**$36,731**	**$21,061**	**$57,792**	**$73,942**

10. GOODWILL

	2013	2012
Balance, beginning of year	**$596,703**	$598,603
Impairments (note 11)	**(64,000)**	
Acquisitions (note 23)		1,074
Dispositions (note 24)		(2,847)
Foreign exchange and other	**1,279**	(127)
Balance, end of year	**$533,982**	$596,703

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. For internal management purposes, certain CGUs have been grouped together as goodwill is monitored at the operating segment level.

Goodwill has been allocated to the following groups of CGUs:

	December 31, 2013	December 31, 2012
Harlequin	**$107,565**	$106,286
Metroland Media Group	**258,175**	258,175
Star Media Group	**168,242**	232,242
Total	**$533,982**	$596,703

11. IMPAIRMENT OF ASSETS

The Company incurred impairment losses as indicated in the chart below:

	2013	2012
Property, plant and equipment (note 8)	**$328**	$578
Intangible assets (note 9)	**12,766**	1,425
Goodwill (note 10)	**64,000**	
	77,094	2,003
Investments in joint ventures (note 6)	**9,000**	11,000
	$86,094	$13,003

Impairment Testing

As a result of the internal reorganization, realignment and integration of certain digital businesses within the Media Segment during 2013, the Company recorded impairments of $2.8 million consisting of $0.2 million for leaseholds, $1.3 million for indefinite-life intangible assets and $1.3 million with respect to finite-life intangible assets in the Metroland Media Group of CGUs. Impairment charges of $0.6 million were also recorded during 2013 associated with restructuring activities in the Media Segment consisting of $0.2 million for machinery and equipment, and $0.4 million for finite-life intangible assets.

During the third quarter of 2013, the Company conducted an impairment test on the carrying 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 certain intangible assets within the Metroland Media Group of CGUs and the carrying value of the Star Media Group of CGUs exceeded the value in use. Accordingly, the Company recorded impairments of $9.7 million comprising $7.9 million for indefinite-life intangible assets and $1.8 million for finite-life intangible assets in the Metroland Media Group of CGUs, and $64.0 million for goodwill in the Star Media Group of CGUs. These impairments were the result of lower forecasted revenues reflecting shifts in spending by advertisers. In its assessment of the recoverable amounts of the Star Media Group of CGUs, the Company performed a sensitivity analysis of the discount rates. A 0.5% increase in the discount rate and a 0.5% decrease in the perpetual growth rate would have an impact of approximately $6.2 million and $2.3 million respectively.

As a result of the impairment test and factors noted above, the Company also recorded an impairment of $9.0 million in respect of its joint venture investment in Sing Tao Daily.

The Company performed its annual impairment test in the fourth quarter of 2013. No further impairments were identified as a result of this test.

2012

In 2012, 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 Star Media Group of CGUs.

During 2012, it was determined that the carrying amount of the joint venture investment in Workopolis exceeded the value in use as a result of increased competition in the online recruitment and job search markets, and prevailing economic conditions. Accordingly, the Company recorded an impairment of $11.0 million in the value of its investment in Workopolis.

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 groups of CGUs in the following periods were:

	Fiscal 2013		Fiscal 2012	
	Discount	**Growth**	Discount	Growth
Harlequin	**11.6% – 12.2%**	**1.0%**	9.7%	1.0%
Metroland Media Group	**12.1% – 12.7%**	**0.0%**	9.5%	0.0%
Star Media Group	**12.5% – 14.5%**	**0.0% – 1.5%**	8.8% – 15.6%	0.0% – 3.0%

These after-tax rates correspond to pre-tax rates in an estimated range of 16% – 18% for 2013; 11% – 21% for 2012. The increase in the rates was the result of changes in factors in the cost of equity calculation, as determined using the capital asset pricing model. This included a 1.4% increase in the risk-free rate, adjustments to the market equity risk premium, adjustments to the size premium and adjustments to the specific risk premiums for certain CGUs.

In its assessment of the recoverable amounts of the groups 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 other groups of CGUs for which no impairment loss was required.

12. OTHER ASSETS

	December 31, 2013	December 31, 2012
Portfolio investments	**$6,568**	$6,899
ESPP receivable	**350**	332
Long term receivables	**3,020**	
Other	**1,527**	1,092
	$11,465	$8,323

13. INCOME TAXES

Income tax expense is made up of the following:

	Year ended December 31	
	2013	2012
Current income tax expense (recovery):		
Current year	**$14,000**	$15,400
Adjustment for prior years	**(3,600)**	
	10,400	15,400
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	**7,500**	19,100
Recognition of previously unrecognized tax losses		(800)
Change in future tax rates		(200)
Adjustment for prior years	**1,900**	(400)
	9,400	17,700
Income tax expense in the consolidated statement of income	**$19,800**	$33,100
Current income tax expense in OCI		250
Deferred income tax expense (recovery) in OCI	**47,700**	(8,600)
Income tax expense (recovery) in OCI	**47,700**	(8,350)
Total income taxes	**$67,500**	$24,750

Income taxes of $13.7 million were paid and refunds of $8.5 million were received during the year (2012 – $34.7 million paid and refunds of $3.4 million received).

Reconciliation of effective tax rate

The combined Canadian federal and provincial statutory rate was 26.5% in 2013 (2012 – 26.5%). 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	
	2013	2012
Income (loss) before taxes	**($7,613)**	$116,033
Provision for income taxes based on Canadian statutory rate of 26.5% (2012 – 26.5%)	**($2,000)**	$30,800
Increase (decrease) in taxes resulting from:		
Loss of associated businesses not recognized	**800**	1,200
Impairment not deductible	**18,300**	
Prior years' losses not previously recognized		(800)
Effect of higher foreign tax rates	**2,300**	2,300
Losses not recognized	**600**	200
Non-taxable portion of capital gains	**100**	(600)
Non-deductible expenses		800
Change in future tax rates		(200)
Other	**(300)**	(600)
Income tax expense in the consolidated statement of income	**$19,800**	$33,100
Effective income tax rate	**(260.1%)**	28.5%

In 2013, the Company recognized losses on impairment of assets of $77.1 million (2012 – $2.0 million), a substantial portion of which is not deductible for tax purposes. Excluding these impairment losses, the Company's effective tax rate in 2013 would have been 31.4% (2012 – 29.9%).

Deferred income tax assets and liabilities

Net deferred income tax assets

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax assets and liabilities as at December 31, 2013 and December 31, 2012 are as follows:

	December 31, 2012	Recognized in net income	Recognized in OCI	Foreign exchange & other	December 31, 2013
Book revenue provisions	**$10,293**	**($507)**		**$380**	**$10,166**
Property, plant & equipment	**(8,280)**	**284**		**22**	**(7,974)**
Intangible assets	**(12,186)**	**1,529**		**(139)**	**(10,796)**
Financial instruments	**1,470**		**($100)**		**1,370**
Provision for employee benefit obligations	**67,068**	**(8,554)**	**(47,600)**	**245**	**11,159**
Share-based payment transactions	**1,583**	**(314)**			**1,269**
Tax loss carry forwards	**30,081**	**(1,316)**		**1,704**	**30,469**
Other	**(7,657)**	**(522)**		**(546)**	**(8,725)**
Net deferred income tax assets	**$82,372**	**($9,400)**	**($47,700)**	**$1,666**	**$26,938**
As reported in the consolidated statement of financial position					
Deferred income tax assets	**$89,965**				**$51,369**
Deferred income tax liabilities	**(7,593)**				**(24,431)**
Net deferred income tax assets	**$82,372**				**$26,938**

	January 1, 2012	Recognized in net income	Recognized in OCI	Foreign exchange & other	December 31, 2012
Book revenue provisions	$10,918	$7		($632)	$10,293
Property, plant & equipment	(8,654)	382		(8)	(8,280)
Intangible assets	(11,060)	(1,176)		50	(12,186)
Financial instruments	2,070		($600)		1,470
Provision for employee benefit obligations	68,277	(10,239)	9,200	(170)	67,068
Share-based payment transactions	1,607	(24)			1,583
Tax loss carry forwards	32,214	(1,535)		(598)	30,081
Other	(2,545)	(5,115)		3	(7,657)
Net deferred income tax assets	$92,827	($17,700)	$8,600	($1,355)	$82,372
As reported in the consolidated statement of financial position					
Deferred income tax assets	$100,246				$89,965
Deferred income tax liabilities	(7,419)				(7,593)
Net deferred income tax assets	$92,827				$82,372

Tax loss carryforwards

The Company has tax loss carryforward balances and has recognized a deferred income 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 $51.4 million (2012 – $44.2 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. $122.8 million (2012 – U.S. $129.0 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 income 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, the portion of the loss recognized in deferred income tax assets, and year of expiry are summarized as follows:

	Tax loss carryforward		Portion recognized in deferred income tax assets	Expiry
	Local currency	Canadian dollars		
As at December 31, 2013:				
Canada – net operating losses	**$25,100**	**$25,100**	**$25,100**	**2028 to 2033**
Canada – capital losses	**$51,400**	**$51,400**		**No expiry**
U.S. – net operating losses	**U.S. $122,800**	**$130,600**	**$70,600**	**2019 to 2032**
Other foreign losses		**$3,200**		**Various**
As at December 31, 2012:				
Canada – net operating losses	$20,900	$20,900	$20,900	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		$2,500		Various

Investments in subsidiaries, associates and joint ventures

As at December 31, 2013, the excess of the tax basis over the carrying value of investments in subsidiaries, associates and joint ventures for which a deferred income tax asset has not been recognized, is $87.7 million (December 31, 2012 – $171.9 million).

14. LONG-TERM DEBT

	December 31, 2013	December 31, 2012
Bankers' acceptances:		
Cdn. dollar denominated	**$68,683**	$87,009
U.S. dollar denominated	**107,215**	91,018
	$175,898	$178,027

(a) Bank debt

i. The Company's long-term credit facilities consist of a $150.0 million revolving facility maturing January 2017 ("Tranche A") and a $200.0 million revolving facility maturing in January 2015 ("Tranche B"). Either or both tranches can be extended with the consent of all parties for additional 364-day periods.

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, 2013. 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, 2013 was 1.5% (December 31, 2012 – 1.4%).

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 14(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, 2013 was $4.1 million unfavourable (December 31, 2012 – $7.0 million unfavourable).

iv. Bank debt outstanding at December 31, 2013 included U.S. dollar borrowings of U.S. $101.0 million (December 31, 2012 – U.S. $91.8 million) at an average rate of 1.7% (December 31, 2012 – 1.6%). Including the effect of the interest rate swap noted in 14(a)(iii), the effective rate was 4.9% at December 31, 2013 (December 31, 2012 – 5.2%).

v. The average rate on Canadian dollar bank borrowings outstanding at December 31, 2012 was 2.7% (December 31, 2012 – 2.6%).

(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, 2013.

(c) Interest and financing costs:

	Year ended December 31	
	2013	2012
Interest on long-term debt	**$7,810**	$7,827
Interest accretion costs	**494**	1,018
Interest – other	**(32)**	(20)
Net financing expense relating to employee benefit plans	**9,188**	11,081
	$17,460	$19,906

(d) Interest paid during the year ended December 31, 2013 was $7.8 million (2012 – $7.7 million).

15. 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, 2013	December 31, 2012
Financial assets:		
Loans and receivables, measured at amortized cost:		
Cash and cash equivalents	**$19,151**	$24,827
Trade accounts receivable	**254,223**	257,490
Other receivables	**7,262**	6,116
Receivables	**261,485**	263,606
Long term receivables	**3,020**[1]	
Available-for-sale, measured at fair value:		
Portfolio investments	**6,568**[1]	6,899[1]
Derivatives designated as effective hedges, measured at fair value:		
Foreign currency forward contracts	**(911)**	1,272
Interest rate swaps – cash flow hedges	**(4,125)**	(7,018)
Other financial liabilities, measured at amortized cost:		
Bank overdraft	**(1,741)**	(9,767)
Long term debt	**(175,898)**	(178,027)
Accounts payable and accrued liabilities	**(191,706)**[2]	(195,822)
Deferred payments on acquisitions	**(99)**[3]	(99)[1]
Call option liability	**(11,083)**[3]	(10,951)[1]
Provisions (current)	**(20,807)**	(15,649)
Provisions (non-current)	**(16,251)**	(14,520)

[1] These amounts are included in Other assets or Other liabilities in the consolidated statement of financial position.
[2] This amount excludes the ($11,083) call option liability and the ($99) deferred payment on acquisitions.
[3] This amount is included in Accounts payable and accrued liabilities in the consolidated statement of financial position.

The fair value of financial assets and liabilities by level of hierarchy was as follows:

	At December 31, 2013			At December 31, 2012		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Measured at fair value:						
Portfolio investments			**$6,568**			$6,899
Derivative financial instruments:						
Foreign currency forward contracts		**($911)**			$1,272	
Interest rate swaps – cash flow hedges		**(4,125)**			(7,018)	
Disclosed at fair value:						
Long term debt		**(175,898)**			(178,027)	
Deferred payments on acquisitions		**(99)**			(99)	
Call option liability		**(11,083)**			(10,951)	

Changes in the fair value of Level 3 financial instruments were as follows:

	Year ended December 31	
	2013	2012
Balance, beginning of year	**$6,899**	$774
Additions	**357**	6,095
Disposals	**(200)**	
Net gains (losses) included in net income	**(562)**	(93)
Exchange differences and OCI	**74**	123
Balance, end of year	**$6,568**	$6,899

Risk management

The Company is exposed to various risks related to its financial assets and liabilities, which include liquidity risk, credit risk and market risk. 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, 2013, the unused capacity net of letters of credit was approximately $145.0 million (December 31, 2012 – $138.1 million).

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

	2014	**2015**	**2016**	**2017**	**2018**	**2019+**	**Total**
Foreign currency hedges[1]							
Outflows	$42,544	$21,272					$63,816
Inflows	(41,945)	(21,452)					(63,397)
	599	(180)					419
Euro forward contracts[1]							
Outflows	11,724						11,724
Inflows	(11,767)						(11,767)
	(43)						(43)
U.S. $ Interest rate swaps[1]	3,536	1,248					4,784
Bank overdraft	1,741						1,741
Accounts payable and accrued liabilities[1,2]	191,805						191,805
Call option liability	11,184						11,184
Provisions[1]	20,858	9,033	$2,308	$890	$908	$4,173	38,170
Long term debt[1]		26,353		150,000			176,353
Total	$229,680	$36,454	$2,308	$150,890	$908	$4,173	$424,413

[1] All foreign currency denominated amounts have been translated at the December 31, 2013 spot rates.
[2] This amount excludes the $11,083 discounted value of the call option liability at December 31, 2013.

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 $18.6 million (U.S. $17.5 million) at December 31, 2013 (December 31, 2012 – $23.5 million (U.S. $23.6 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, 2013	December 31, 2012
Gross accounts receivable:		
Current	**$205,488**	$222,066
Up to three months past due date	**103,618**	94,857
Three to twelve months past due date	**21,495**	14,764
Impaired	**441**	487
	331,042	332,174
Book revenue provisions	**(69,234)**	(67,331)
Allowances for doubtful accounts	**(7,585)**	(7,353)
	$254,223	$257,490

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

	Year ended December 31	
	2013	2012
Balance, beginning of year	**($7,353)**	($6,500)
Utilized	**3,150**	4,072
Income statement movements	**(3,373)**	(4,971)
Exchange differences and other	**(9)**	46
Balance, end of year	**($7,585)**	($7,353)

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, 2013 would have increased (decreased) net income by approximately $0.2 million (2012 – $0.6 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 $1.05 for U.S. $40.0 million in 2014 and $1.07 for U.S. $20.0 million in 2015 (December 31, 2012 – $1.02 for U.S. $40.0 million in 2013 and $1.04 for U.S. $10.0 million in 2014). These forward foreign exchange contracts have been designated as cash flow hedges and the net fair value of these contracts was $0.9 million unfavourable at December 31, 2013 (December 31, 2012 – $1.3 million favourable).

Forward foreign exchange contracts settled in 2013 established a rate of exchange of Canadian dollar per U.S. dollar of $1.02 for U.S. $50.0 million (2012 – $1.03 for U.S. $52.4 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 14(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, 2013 and 2012.

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. During 2013, the Company entered into forward foreign exchange contracts, which establish a rate of exchange of Canadian dollar per Euro of $1.47, to allow it to convert €8.0 million of its expected future cash flows in 2014 into Canadian dollars. These Euro forward foreign exchange contracts were not designated as cash flow hedges and the net fair value of these contracts was negligible at December 31, 2013.

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 14.

An assumed increase of 1% in the Company's short term borrowing rates during the year ended December 31, 2013 would have decreased net income by $0.8 million (2012 – $0.9 million), with an equal but opposite effect for an assumed decrease of 1% in short term borrowing rates.

16. 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, 2013	December 31, 2012
Total equity	**$796,784**	$723,680
Long term debt	**175,898**	178,027
Bank overdraft	**1,741**	9,767
Cash and cash equivalents	**(19,151)**	(24,827)
	$955,272	$886,647

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, 2013.

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.

17. PROVISIONS

	Restructuring	Legal	Contingent consideration	Total
Balance at January 1, 2012	$31,097	$218	$7,648	$38,963
Provisions made during the year	17,327		693	18,020
Reversals of provisions during the year	(288)	(68)		(356)
Adjustment to contingent consideration			258	258
Foreign exchange	4		(4)	
Provisions paid during the year	(21,657)		(5,947)	(27,604)
Interest accretion	376		512	888
Balance at December 31, 2012	**26,859**	**150**	**3,160**	**30,169**
Provisions made during the year	**38,171**	**100**	**45**	**38,316**
Reversals of provisions during the year	**(1,911)**			**(1,911)**
Adjustment to contingent consideration			**(979)**	**(979)**
Foreign exchange	**17**			**17**
Provisions paid during the year	**(26,790)**		**(2,127)**	**(28,917)**
Interest accretion	**304**		**59**	**363**
Balance at December 31, 2013	**$36,650**	**$250**	**$158**	**$37,058**
Current	**$20,535**	**$250**	**$22**	**$20,807**
Non-current	**$16,115**		**$136**	**$16,251**
Balance at December 31, 2012:				
Current	$13,295	$150	$2,204	$15,649
Non-current	$13,564		$956	$14,520
Balance at January 1, 2012:				
Current	$15,305	$218	$6,534	$22,057
Non-current	$15,792		$1,114	$16,906

Restructuring

During the year ended December 31, 2013, the Company recorded restructuring and other charges of $37.2 million, which included restructuring provisions of $36.3 million and other charges of $0.9 million. Restructuring provisions of $33.2 million were recorded in the Media Segment and $3.1 million in the Book Publishing Segment for staff reductions. Other charges of $0.9 million were recorded in respect of litigation expenses in the Book Publishing Segment.

In 2012, the Company recorded restructuring and other charges of $17.4 million, which included restructuring provisions of $17.0 million and other charges of $0.4 million.

Restructuring provisions of $16.1 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 in respect of litigation expenses in the Book Publishing Segment.

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

Legal

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

In 2012, Harlequin was named as defendant in a class action complaint pertaining to author ebook royalties. Harlequin believes that the authors have been recompensed fairly and properly for their work. A motion to dismiss the complaint was filed and on April 2, 2013, the court ruled in favour of Harlequin, dismissing the class action complaint against it. On April 30, 2013, the plaintiffs filed an appeal. The appeal has now been fully briefed and oral arguments were heard in November 2013.

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.

18. OTHER LIABILITIES

	December 31, 2013	December 31, 2012
Employees' shares subscribed (note 21(b))	**$2,248**	$2,928
RSU Plan (note 21(c))	**1,196**	1,096
DSU Plan (note 21(e))	**2,867**	3,123
Other employment benefits	**2,749**	3,297
Call option liability (notes 4 and 15)		10,951
Lease inducements	**1,322**	1,729
Other	**2,043**	2,238
	$12,425	$25,362

19. EMPLOYEE FUTURE BENEFITS

The Company maintains a number of defined benefit plans which provide pension benefits to its employees primarily in the Province of Ontario and the United States. The Ontario registered pension plans are regulated by the Financial Services Commission of Ontario and the United States plan conforms to the tax qualification rules of the Internal Revenue Code and the legal requirements of the Employees Retirement Income Security Act (ERISA) and related pension law. Pension benefits are calculated based on a combination of years of service and compensation levels. The contributions for the most significant plans are based on career average earnings with a base year upgrade. Pensionable earnings for years of service prior to the base year are calculated using the base year earnings. The current base year for Canadian plans is 2005. None of the plans include mandatory indexing provisions. The assets of the funded plans are held by third party trustees. Funding for the plans is comprised of employer and employee contributions. The determination of the minimum level of Company contributions is calculated using actuarial valuations that are prepared by independent actuaries based on the provisions in each plan and legislative regulations. The obligations for unfunded plans are paid when the obligation falls due. All defined benefit pension plans are closed to new members.

The Company also maintains capital accumulation plans in Canada, the United States and in certain overseas countries in which Harlequin operates. Employee contributions are matched by the Company according to plan formulae and the contributions are held and managed by third party providers. The Company has no further payment obligations once the matching contributions have been paid.

Post employment benefits other than pensions provide for various health and life insurance benefits to employees in the newspaper operations hired prior to August 23, 2000. The annual costs are calculated by independent actuaries and are based on historical and projected usage patterns and costs.

Governance of the above plans is the Company's responsibility. The Pension Committee of the Company's Board of Directors provides oversight of the registered pension plans and capital accumulation plans in North America.

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

Net defined benefit plan obligations

Changes to the net defined benefit obligation (asset) were as follows:

	Pension plans			Post employment benefit plans	Total[1]
	Funded				
	Canada	United States	Unfunded[1]		
At January 1, 2012	$172,738	$11,833	$23,417	$56,039	$264,027
Expense recognized in statement of income					
Salaries and benefits	19,212	1,240	1,160	480	22,092
Interest and financing costs	7,237	432	994	2,418	11,081
	26,449	1,672	2,154	2,898	33,173
Amounts recognized in OCI	39,896	1,577	2,529	(8,964)	35,038
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**
Expense recognized in statement of income					
Salaries and benefits	**21,270**	**1,181**	**1,019**	**359**	**23,829**
Restructuring and other charges	**744**			**(382)**	**362**
Interest and financing costs	**5,960**	**464**	**946**	**1,818**	**9,188**
	27,974	**1,645**	**1,965**	**1,795**	**33,379**
Amounts recognized in OCI	**(172,747)**	**(6,816)**	**(857)**	**(4,126)**	**(184,546)**
Contributions to plan	**(61,639)**	**(1,711)**	**(1,451)**	**(2,431)**	**(67,232)**
Foreign exchange		**904**	**170**		**1,074**
At December 31, 2013	**($37,308)**	**$6,343**	**$26,283**	**$42,791**	**$38,109**

[1] As at December 31, 2013, the unfunded pension plan includes an executive retirement plan liability of $24.7 million (December 31, 2012 – $25.0 million) which is supported by an outstanding letter of credit of $26.8 million (December 31, 2012 – $31.1 million).

A summary of the components of the net defined benefit obligation as at December 31, 2013 and 2012 is as follows:

2013	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Defined benefit obligations	**$859,832**	**$27,509**	**$26,283**	**$42,791**	**$956,415**
Fair value of plan assets	**(900,436)**	**(21,166)**			**(921,602)**
Funded status deficit (asset)	**(40,604)**	**6,343**	**26,283**	**42,791**	**34,813**
Minimum funding liability	**3,296**				**3,296**
Net defined benefit obligation (asset)	**($37,308)**	**$6,343**	**$26,283**	**$42,791**	**$38,109**
Recorded in:					
Assets	**$44,532**				**$44,532**
Liabilities	**7,224**	**$6,343**	**$26,283**	**$42,791**	**82,641**

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

The following charts provide a summary of changes in the defined benefit obligation and the fair value of plan assets during 2013 and 2012:

2013	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Accrued benefit obligations:					
Balance, beginning of year	**$954,239**	**$28,794**	**$26,456**	**$47,553**	**$1,057,042**
Current service cost	**19,603**	**1,022**	**1,019**	**359**	**22,003**
Interest cost	**36,824**	**1,145**	**946**	**1,818**	**40,733**
Benefits paid	**(59,032)**	**(490)**	**(1,451)**	**(2,431)**	**(63,404)**
Remeasurement losses (gains)	**(97,375)**	**(5,022)**	**(857)**	**(4,126)**	**(107,380)**
Participant contributions	**4,732**				**4,732**
Past service cost	**97**				**97**
Special termination benefits	**1,026**				**1,026**
Curtailment gain	**(625)**			**(382)**	**(1,007)**
Settlement loss	**343**				**343**
Foreign exchange		**2,060**	**170**		**2,230**
Balance, end of year	**$859,832**	**$27,509**	**$26,283**	**$42,791**	**$956,415**
Plans' assets:					
Fair value, beginning of year	**$785,135**	**$16,473**			**$801,608**
Interest income included in net interest expense	**30,864**	**681**			**31,545**
Remeasurement gains	**78,668**	**1,794**			**80,462**
Benefits paid	**(59,032)**	**(490)**	**($1,451)**	**($2,431)**	**(63,404)**
Employer contributions	**61,639**	**1,711**	**1,451**	**2,431**	**67,232**
Participant contributions	**4,732**				**4,732**
Administration costs	**(1,570)**	**(159)**			**(1,729)**
Foreign exchange		**1,156**			**1,156**
Fair value, end of year	**$900,436**	**$21,166**			**$921,602**
Funded status – deficit (asset)	**($40,604)**	**$6,343**	**$26,283**	**$42,791**	**$34,813**

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	17,808	1,041	943	480	20,272
Interest cost	38,843	1,251	994	2,418	43,506
Benefits paid	(56,074)	(435)	(1,637)	(2,420)	(60,566)
Remeasurement losses (gains)	66,797	2,298	2,529	(8,964)	62,660
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
Interest income included in net interest expense	31,606	819			32,425
Remeasurement gains	26,901	721			27,622
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
Administration costs	(1,312)	(199)			(1,511)
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

Net benefit expense for defined benefit plans recognized in the 2013 and 2012 consolidated statement of income is as follows:

2013	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Current service cost	**$19,603**	**$1,022**	**$1,019**	**$359**	**$22,003**
Net interest expense	**5,960**	**464**	**946**	**1,818**	**9,188**
Past service cost	**97**				**97**
Special termination benefits	**1,026**				**1,026**
Curtailment gain	**(625)**			**(382)**	**(1,007)**
Settlement loss	**343**				**343**
Administration costs	**1,570**	**159**			**1,729**
Net benefit expense	**$27,974**	**$1,645**	**$1,965**	**$1,795**	**$33,379**

2012	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Current service cost	$17,808	$1,041	$943	$480	$20,272
Net interest expense	7,237	432	994	2,418	11,081
Past service cost			217		217
Special termination benefits	560				560
Curtailment gain	(770)				(770)
Settlement loss	302				302
Administration costs	1,312	199			1,511
Net benefit expense	$26,449	$1,672	$2,154	$2,898	$33,173

Amounts recognized in the 2013 and 2012 consolidated statement of comprehensive income (before tax):

2013	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Remeasurement gains (losses):					
Actuarial gain (loss) from:					
Financial assumptions	**$102,643**	**$4,575**	**$1,434**	**$4,283**	**$112,935**
Demographic assumptions	**(11,686)**	**511**	**(485)**	**(302)**	**(11,962)**
Experience adjustment	**6,418**	**(64)**	**(92)**	**145**	**6,407**
Total actuarial gains (losses)	**97,375**	**5,022**	**857**	**4,126**	**107,380**
Return on plan assets excluding amounts included in net interest expense	**78,668**	**1,794**			**80,462**
Total remeasurement gains (losses)	**176,043**	**6,816**	**857**	**4,126**	**187,842**
Change in minimum funding liability	**(3,296)**				**(3,296)**
Amounts recognized in OCI	**$172,747**	**$6,816**	**$857**	**$4,126**	**$184,546**

2012	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Remeasurement gains (losses):					
Actuarial gain (loss) from:					
Financial assumptions	($63,558)	($2,153)	($2,505)	($2,789)	($71,005)
Demographic assumptions		(92)		2,677	2,585
Experience adjustment	(3,239)	(53)	(24)	9,076	5,760
Total actuarial gains (losses)	(66,797)	(2,298)	(2,529)	8,964	(62,660)
Return on plan assets excluding amounts included in net interest expense	26,901	721			27,622
Total remeasurement gains (losses)	($39,896)	($1,577)	($2,529)	$8,964	($35,038)

The significant assumptions used by the Company in 2013 and 2012 are noted below. Assumptions regarding future mortality are based on actuarial advice in accordance with published mortality statistics and experience. For the Canadian plans in 2013, the Company used 95% of 1994 Uninsured Pensioner projected generationally using scale AA effective December 31, 2013. For 2012, mortality was based on 1994 Uninsured Pensioner projected generationally using scale AA at December 31, 2012.

	Pension plans		Post employment benefit plans	
	2013	2012	**2013**	2012
To determine benefit obligation at end of year:				
Discount rate	**4.2% to 4.7%**	3.4% to 3.9%	**4.7%**	3.9%
Rate of future compensation increase	**2.5% to 3.0%**	3.0% to 4.0%		
To determine benefit expense:				
Discount rate	**3.4% to 3.9%**	4.3% to 4.4%	**3.9%**	4.4%
Rate of future compensation increase	**2.5% to 3.0%**	3.0% to 4.0%		
Health care cost trend rates at end of year:				
Initial rate			**4.2%**	7.5%
Ultimate rate			**5.0%**	5.0%
Year ultimate rate reached			**2017**	2017
Longevity for pensioners currently at age 65:				
Male	**20.2 years**	19.8 years		
Female	**22.5 years**	22.1 years		

The effect of a one percent increase or decrease in significant financial assumptions used for the Company's pension and post employment benefit plans would result in an increase (decrease) in the accrued benefit obligation at December 31, 2013:

	Accrued benefit obligation	
	1% increase	1% decrease
Pension plans:		
Discount rate	($114,791)	$132,275
Rate of compensation increase	9,904	(9,647)
Post employment benefit plans:		
Discount rate	(4,774)	5,879
Per capita cost of health care	1,160	(1,005)

For the significant pension plans, the impact of a change in longevity rates if members were one year younger than their actual age would increase the net benefit obligation by 2.1%.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant, which in practice is unlikely to occur as changes in some of the assumptions may be correlated. The calculation of the sensitivities uses the same methods that were applied when calculating the net accrued benefit obligation in the statement of financial position.

Pension plan assets for the Canadian plans, measured as at December 31, 2013 and 2012 are as follows:

	2013	2012
Investments quoted in active markets:		
Cash and cash equivalents	**$30,810**	$64,226
Equity investments		
Canada	**103,899**	106,773
United States	**113,464**	107,856
Outside North America	**82,380**	41,359
Unquoted investments:		
Fixed income		
Government of Canada	**85,551**	89,637
Provinces of Canada	**249,908**	59,376
Canadian Corporations	**68,266**	78,578
Pooled funds		
Equity – Outside North America	**77,414**	124,282
Fixed Income – Canadian Corporations	**88,744**	113,048
	$900,436	$785,135

Pension plan assets for the United States plan were invested in pooled U.S. equity and pooled U.S. fixed income investments with each representing 50% of the portfolio.

Through its defined benefit plans, the Company is exposed to a number of risks the most significant of which include changes in long-term discount rates used to calculate plan liabilities, the rate of return on plan assets, and changes in demographics and plan experience. These factors impact the potential for inadequate plan funding, unfunded obligations and increases in contributions.

The Company periodically reviews its targeted investment portfolio mix. At December 31, 2013, the target allocation mix was 50% equity securities and 50% fixed income securities for the Canadian and U.S. funded plans.

The Company's 2013 actual funding for its Canadian registered pension plans was approximately $62 million. The Company has prepared actuarial reports as of September 1, 2013 for its significant plans. Estimated funding in 2014 will be approximately $40 million. The next required actuarial reports will be as of September 1, 2016.

The weighted average duration of the defined benefit obligation is 12.9 years. As at December 31, 2013, the expected maturity profile of the undiscounted pension plan and post-employment benefits is $52 million in the next year, $475 million in 2 to 10 years and $1,300 million in over 10 years.

Capital accumulation plans

The total amount expensed for capital accumulation plans in 2013 was $3.7 million (2012 – $3.5 million).

20. 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			
	2013		2012	
	Shares	**Amount**	Shares	Amount
Class A shares (voting)				
Balance, beginning of year	**9,861,554**	**$2,679**	9,868,706	$2,681
Converted to Class B	**(7,740)**	**(2)**	(7,152)	(2)
Balance, end of year	**9,853,814**	**$2,677**	9,861,554	$2,679
Class B shares (non-voting)				
Balance, beginning of year	**69,882,308**	**$394,746**	69,654,273	$392,653
Converted from Class A	**7,740**	**2**	7,152	2
Dividend reinvestment plan	**71,571**	**457**	32,919	282
Issued under ESPP	**101,030**	**710**	127,739	1,315
Share option plan			58,450	478
Other	**2,050**	**13**	1,775	16
Balance, end of year	**70,064,699**	**$395,928**	69,882,308	$394,746
Total Class A and Class B shares	**79,918,513**	**$398,605**	79,743,862	$397,425

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)	**2013**	2012
Weighted average number of shares outstanding, basic	**79,840**	79,671
Effect of dilutive securities		
– share options		275
Weighted average number of shares outstanding, diluted	**79,840**	79,946

Outstanding stock options totaling 4,267,450 (2012 – 1,989,134), which are anti-dilutive 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	
	2013	2012
First quarter ended March 31: 13.125 cents (2012 – 12.5 cents)	**$10,466**	$9,945
Second quarter ended June 30: 13.125 cents (2012 – 13.125 cents)	**10,482**	10,463
Third quarter ended September 30: 13.125 cents (2012 – 13.125 cents)	**10,484**	10,464
Fourth quarter ended December 31: 13.125 cents (2012 – 13.125 cents)	**10,486**	10,464
Total dividends	**$41,918**	$41,336

21. 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, 2013, options to purchase 10,114,677 shares have been granted, net of options cancelled (December 31, 2012 – 9,713,058).

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

	2013		2012	
	Share options	**Weighted average exercise price**	Share options	Weighted average exercise price
Units outstanding, beginning of year	**3,865,831**	**$14.12**	3,995,656	$16.11
Granted	**835,752**	**$7.81**	656,233	$8.28
Exercised			(58,450)	($7.07)
Forfeited or expired	**(434,133)**	**($21.11)**	(727,608)	($20.32)
Units outstanding, end of year	**4,267,450**	**$12.18**	3,865,831	$14.12

The weighted average share price when the options were exercised during 2012 was $9.98.

As at December 31, 2013, 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	2,635,730	7.2 years	$7.66	1,166,118	$7.32
$12.21 – 19.61	915,438	5.1 years	$15.77	692,297	$16.92
$21.85 – 29.01	716,282	0.9 years	$24.20	716,282	$24.20
$5.75 – 29.01	4,267,450	6.4 years	$12.18	2,574,697	$14.60

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

	2013	2012
Fair Value	**$1.42 – $1.71**	$1.51 – $1.80
Risk-free interest rate	**1.5% – 1.7%**	1.3% – 1.5%
Expected dividend yield	**6.7%**	6.0%
Expected share price volatility	**38.5% – 44.4%**	36.7% – 42.8%
Expected weighted average time until exercise (years)	**6**	6

In January 2014, 1,066,416 share options were granted at an exercise price of $5.85 per share.

(b) ESPP

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

	2013		2012	
Maturing in	**2014**	**2015**	2013	2014
Subscription price at entry date	**$10.10**	**$6.38**	$12.53	10.10
Number of shares	**110,068**	**178,092**	123,004	137,278

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

	2013	2012
Fair Value	**$0.55**	$1.35
Risk-free interest rate	**1.0%**	1.1%
Expected dividend yield	**8.2%**	5.2%
Expected share price volatility	**28.0%**	32.2%
Expected time until exercise (years)	**2**	2

(c) RSU plan

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

	2013	2012
Units outstanding, beginning of year	**575,204**	657,307
Vested and paid	**(234,165)**	(262,053)
Granted	**316,336**	217,478
Forfeited	**(22,392)**	(37,528)
Units outstanding, end of year	**634,983**	575,204

As at December 31, 2013, 336,833 units have been accrued at a value of $2.0 million of which 132,577 units have been accrued in Accounts payable and accrued liabilities at a value of $0.8 million and 204,256 units

have been accrued in Other liabilities at a value of $1.2 million (December 31, 2012 – 374,456 units 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).

The Company has entered into a derivative instrument in order to hedge the expense for 450,000 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.

In January 2014, 366,994 RSUs have been granted and 132,577 RSUs have vested and were paid.

(d) In 2013, the Company recognized share-based compensation expense totaling $3.0 million (2012 - $2.8 million).

(e) DSU plan

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

	2013	2012
Units outstanding, beginning of year	**399,890**	320,605
Granted	**53,404**	50,724
Directors' mandatory retainer	**6,273**	8,843
Directors' voluntary election	**11,371**	41,223
Dividends	**36,395**	24,541
Redemption	**(17,203)**	(46,046)
Units outstanding, end of year	**490,130**	399,890

As at December 31, 2013, the 490,130 units outstanding were valued at $2.9 million (December 31, 2012 – 399,890 units valued at $3.1 million).

The Company has entered into a derivative instrument in order to offset its exposure to 450,000 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.

22. ACCUMULATED OTHER COMPREHENSIVE LOSS (NET OF TAX)

	Foreign currency translation adjustment	**Cash flow hedges**	**Available-for-sale securities**	**Net investment hedge**	**Total**
As at January 1, 2012	($291)	($6,324)	($129)	($1,542)	($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)**
OCI	**6,976**	**610**	**6**	**(5,496)**	**2,096**
As at December 31, 2013	**$1,583[1]**	**($3,666)[2]**		**($5,520)[3]**	**($7,603)**

[1]Net of deferred income tax asset of $nil (2012 – $nil)
[2]Net of deferred income tax asset of $1,370 (2012 – $1,470)
[3]Net of current income tax recovery of $nil (2012 – $nil)

23. ACQUISITIONS AND INVESTMENTS

2013 Acquisitions

During the year ended December 31, 2013, the Company completed an acquisition in its Media Segment with a purchase price of approximately $0.1 million, which was the estimated fair value of contingent consideration. The Company also made portfolio investments for cash of approximately $0.4 million.

In addition, the Company made payments of $2.1 million for contingent consideration in respect of prior year acquisitions, of which $2.0 million related to the Media Segment (WagJag and Foodscrooge) and $0.1 million related to the Book Publishing Segment (Heartsong Presents).

Total cash used for acquisition and portfolio investments in 2013 was $2.5 million.

The acquisition made was in respect of Inside Queen's Park (an electronic newsletter with a focus on Queen's Park) on December 31, 2013. This acquisition did not contribute any revenue or operating profit in the Media Segment in 2013. If the acquisition had occurred on January 1, 2013, the Company's consolidated revenues and operating profit would have been $1,309.1 million and $11.3 million respectively.

The portfolio investments of $0.4 million included an additional investment of approximately $0.3 million in Kanetix Inc., bringing the Company's interest to 11.7%.

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

	2013			2012		
	Media Segment	**Book Publishing Segment**	**Total**	Media Segment	Book Publishing Segment	Total
Assets:						
Property, plant and equipment (note 8)				$18		$18
Indefinite-life intangible assets (note 9)				50	$101	151
Finite-life intangible assets (note 9)	**$46**		**$46**	1,172	506	1,678
Goodwill (note 10)				1,074		1,074
Non-cash working capital				(144)	(129)	(273)
Total purchase price	**46**		**46**	2,170	478	2,648
Deferred payments (Accounts payable)				(100)		(100)
Deferred payments (Other liabilities)				(99)		(99)
Contingent consideration	**(45)**		**(45)**	(546)	(147)	(693)
Cash consideration paid	**1**		**1**	1,425	331	1,756
Deferred payments on prior acquisitions				3,086		3,086
Contingent consideration on prior acquisitions	**2,077**	**$50**	**2,127**	5,946		5,946
	2,078	**50**	**2,128**	10,457	331	10,788
Investments	**357**		**357**	1,095		1,095
Total cash used in acquisitions and investments	**$2,435**	**$50**	**$2,485**	$11,552	$331	$11,883

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 $1,408.3 million and $131.4 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.

24. GAIN (LOSS) ON SALE OF ASSETS

2013

In July 2013, the Company received proceeds of $0.3 million and recorded a gain of $0.1 million from the sale of an available-for-sale equity investment.

In June 2013, the Company sold its 50% joint venture interest in the Greek book publishing business to its joint venture partner for nominal consideration and recorded a loss of $0.2 million.

2012

During the year ended December 31, 2012, the Company recognized a gain on sale of assets of $6.1 million which consists of $3.4 million from the sale of a portion of its interest in Tuango and $2.7 million from the sale of assets of Insurance Hotline.

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 but determined it still has significant influence and therefore changed from accounting for the investment as a joint venture to accounting for the investment as an associate.

Insurance Hotline

In November 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 was classified as an AFS financial asset. The Company recorded a gain of $2.7 million on the transaction.

25. INVESTMENT WRITE-DOWN AND LOSS

The Company recorded the following investment write-downs in 2013 and 2012:

	Year ended December 31	
	2013	2012
Write-down of investment in Multimedia Nova Corporation	**($62)**	($93)
Write-down of investment in Social Game Universe	**(500)**	
	($562)	($93)

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

	Year ended December 31	
	2013	2012
Share-based compensation plans	**$1,184**	$1,263
Foreign exchange	**1,506**	248
Restructuring provisions	**2,247**	(2,604)
Other long-term receivables	**(3,020)**	
Media inventory provided to Shop.ca (note 7)	**(965)**	(3,847)
Loss (gain) on sale of assets (note 24)	**152**	(6,080)
Interest accretion (note 14(c))	**494**	1,018
Adjustment to contingent consideration (note 17)	**(979)**	258
Investment write-down and loss (note 25)	**562**	93
Other	**(1,798)**	(1,096)
	($617)	($10,747)

27. COMMITMENTS AND CONTINGENCIES

In connection with a previous discontinued operation, the Company sub-leased certain premises to the acquirer (sub-lessee) and guaranteed sub-lease payments to be made by the sub-lessee to a third party of approximately U.S. $1 million per year, ending December 31, 2018. The sub-lease is collateralized by a U.S. $0.7 million irrevocable letter of credit provided on behalf of the sub-lessee. The sub-lessee for whom the Company had guaranteed the sub-lease payments filed for protection under Chapter 11 of the United States Bankruptcy Code in February 2013 and emerged from its Chapter 11 reorganization in June 2013. The sub-lessee assumed the sub-lease as part of its plan of reorganization and has provided the Company with a replacement letter of credit.

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	2014	2015 - 2016	2017 - 2018	2019+
Office leases	$103,613	$19,642	$36,724	$29,973	$17,274
Services	9,693	5,859	3,230	604	
Acquisitions	11,297	11,190	42	65	
Equipment leases	1,760	693	854	213	
Total	$126,363	$37,384	$40,850	$30,855	$17,274

28. RELATED PARTY TRANSACTIONS

The aggregate amounts of remuneration for the Company's key management (including directors), recognized in the consolidated statement of income and OCI, are set out below:

	Year ended December 31	
	2013	2012
Salaries and benefits	**$7,621**	$7,012
Post-employment benefits	**(245)**	2,996
Share based payments	**2,808**	2,611
Other long-term benefits	**(56)**	276
Total	**$10,128**	$12,895

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				
2013	**$6,248**	**$1,009**	**$515**	**$2,197**
2012	6,182	1,016	562	1,134
Associates				
2013	**1,239**	**9,123**		**1,044**
2012	3,847	9,198		1,313

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.

29. EFFECT OF CHANGES IN ACCOUNTING STANDARDS

The effect of the Company's adoption of the changes in accounting standards described in note 2(t), are summarized as follows: (i) reconciliation of changes in the consolidated statement of financial position; (ii) reconciliation of changes in the consolidated statement of income; (iii) reconciliation of changes in the consolidated statement of comprehensive income; and (iv) reconciliation of changes in the consolidated statement of cash flows.

(i) Reconciliation of changes in consolidated statement of financial position:

	Originally Reported Dec. 31 2012	IFRS 11/12 IAS 28	Restated Dec. 31 2012	Originally Reported Dec. 31 2011	IFRS 11/12 IAS 28	Restated Jan. 1 2012
Assets						
Current:						
Cash and cash equivalents	$39,021	($14,194)	$24,827	$50,588	($14,138)	$36,450
Receivables	274,383	(10,777)	263,606	278,010	(12,355)	265,655
Inventories	34,001	(2,364)	31,637	36,995	(2,395)	34,600
Derivative financial instruments	1,272		1,272	367		367
Prepaid expenses and other current assets	44,236	(982)	43,254	47,063	(794)	46,269
Prepaid and other recoverable income taxes	11,195	(420)	10,775	2,451	(522)	1,929
Total current assets	404,108	(28,737)	375,371	415,474	(30,204)	385,270
Investment in joint ventures		91,258	91,258		107,512	107,512
Investment in associated businesses	42,835	(9,914)	32,921	16,935		16,935
Property, plant and equipment	167,104	(5,232)	161,872	177,245	(6,791)	170,454
Intangible assets	108,130	(20,655)	87,475	107,845	(21,980)	85,865
Goodwill	648,861	(52,158)	596,703	665,029	(66,426)	598,603
Other assets	11,823	(3,500)	8,323	1,798		1,798
Deferred income tax assets	88,383	1,582	89,965	100,441	(195)	100,246
Total assets	$1,471,244	($27,356)	$1,443,888	$1,484,767	($18,084)	$1,466,683
Liabilities and Equity						
Current:						
Bank overdraft	$9,962	($195)	$9,767	$7,661	($248)	$7,413
Current portion of long-term debt				196,191		196,191
Accounts payable and accrued liabilities	212,741	(16,919)	195,822	210,567	(16,330)	194,237
Provisions	15,964	(315)	15,649	22,599	(542)	22,057
Income taxes payable	11,522	(506)	11,016	17,398	(280)	17,118
Total current liabilities	250,189	(17,935)	232,254	454,416	(17,400)	437,016
Long term debt	178,027		178,027			
Derivative financial instruments	7,018		7,018	8,761		8,761
Provisions	14,520		14,520	16,906		16,906
Other liabilities	25,847	(485)	25,362	26,749	(459)	26,290
Employee benefits	255,434		255,434	264,027		264,027
Deferred income tax liabilities	8,315	(722)	7,593	7,644	(225)	7,419
Equity:						
Share capital	397,425		397,425	395,334		395,334
Contributed surplus	16,057		16,057	14,828		14,828
Retained earnings	325,247	(8,214)	317,033	301,863		301,863
Accumulated other comprehensive loss	(9,699)		(9,699)	(8,286)		(8,286)
Total equity attributable to equity shareholders	729,030	(8,214)	720,816	703,739		703,739
Minority interests	2,864		2,864	2,525		2,525
Total equity	731,894	(8,214)	723,680	706,264		706,264
Total liabilities and equity	$1,471,244	($27,356)	$1,443,888	$1,484,767	($18,084)	$1,466,683

(ii) Reconciliation of changes in the consolidated statement of income for the year ended December 31, 2012:

	Originally Reported	IFRS 11/ IFRS 12 IAS 28	IAS 19R	Restated
Operating revenue	$1,485,744	($78,976)		$1,406,768
Salaries and benefits	(520,835)	27,158	($5,808)	(499,485)
Other operating costs	(757,177)	35,636		(721,541)
Amortization and depreciation	(38,182)	2,909		(35,273)
Restructuring and other charges	(17,778)	389		(17,389)
Impairment of assets	(13,003)	11,000		(2,003)
Operating profit	138,769	(1,884)	(5,808)	131,077
Interest and financing costs	(8,759)	(66)	(11,081)	(19,906)
Foreign exchange	(246)	(2)		(248)
Adjustment to contingent consideration	(258)			(258)
Income from joint ventures		2,183		2,183
Loss of associated businesses	(3,295)	493		(2,802)
Gain on sale of assets	9,811	(3,731)		6,080
Other income	10,407	(10,407)		
Investment write-down and loss	(93)			(93)
	146,336	(13,414)	(16,889)	116,033
Income and other taxes	(42,500)	5,200	4,200	(33,100)
Net income	$103,836	($8,214)	($12,689)	$82,933
Attributable to:				
Equity shareholders	$103,247	($8,214)	($12,689)	$82,344
Minority interests	$589			$589
Net income attributable to equity shareholders per Class A (voting) and Class B (non-voting) share				
Basic	$1.30	($0.11)	($0.16)	$1.03
Diluted	$1.29	($0.10)	($0.16)	$1.03

(iii) Reconciliation of changes in the consolidated statement of comprehensive income for the year ended December 31, 2012:

	Originally Reported	IFRS 11/ IFRS 12 IAS 28	IAS 19R	Restated
Net income	$103,836	($8,214)	($12,689)	$82,933
Other comprehensive income (loss):				
Other comprehensive income (loss) that will be reclassified to net income (loss) in subsequent periods:				
Unrealized foreign currency translation adjustment for joint ventures (no income tax effect)		(183)		(183)
Unrealized foreign currency translation adjustment (no income tax effect)	(5,102)	183		(4,919)
Net movement on available-for-sale financial assets (no income tax effect)	123			123
Net movement on cash flow hedges	2,648			2,648
Income tax effect	(600)			(600)
Unrealized gain on hedge of net investment	1,768			1,768
Income tax effect	(250)			(250)
	(1,413)			(1,413)
Other comprehensive income (loss) that will not be reclassified to net income (loss) in subsequent periods:				
Actuarial gain on employee benefits	(51,927)		16,889	(35,038)
Income tax effect	13,400		(4,200)	9,200
	(38,527)		12,689	(25,838)
Other comprehensive income (loss), net of tax	($39,940)		$12,689	($27,251)
Comprehensive income (loss), net of tax	$63,896	($8,214)		$55,682
Attributable to:				
Equity shareholders	$63,307	($8,214)		$55,093
Minority interests	$589			$589

(iv) Reconciliation of changes in the consolidated statement of cash flows for the year ended December 31, 2012:

	Originally Reported	IFRS 11/ IFRS 12 IAS 28	IAS 19R	Restated
Cash was provided by (used in)				
Operating activities	$90,605	($770)		$89,835
Investing activities	(47,733)	593		(47,140)
Financing activities	(56,112)			(56,112)
Decrease in cash	(13,240)	(177)		(13,417)
Effect of exchange rate changes	(628)	68		(560)
Cash, beginning of year	42,927	(13,890)		29,037
Cash, end of year	$29,059	($13,999)		$15,060
Operating activities:				
Net income	$103,836	($8,214)	($12,689)	$82,933
Amortization and depreciation	38,182	(2,909)		35,273
Deferred income taxes	24,200	(2,300)	(4,200)	17,700
Income from joint ventures		(2,183)		(2,183)
Distributions from joint ventures		14,408		14,408
Loss of associated businesses	3,295	(493)		2,802
Impairment of assets	13,003	(11,000)		2,003
Non-cash employee benefit expense	16,284		16,889	33,173
Employee benefits funding	(76,540)			(76,540)
Other	(24,854)	14,107		(10,747)
	97,406	1,416		98,822
Increase in non-cash working capital	(6,801)	(2,186)		(8,987)
Cash provided by operating activities	$90,605	($770)		$89,835
Investing activities:				
Additions to property, plant and equipment and intangible assets	($33,012)	$2,838		($30,174)
Investment in joint ventures		(30)		(30)
Investment in associated businesses	(11,265)			(11,265)
Acquisitions and investments	(11,883)			(11,883)
Proceeds from sale of assets	8,407	(2,200)		6,207
Other	20	(15)		5
Cash used in investing activities	($47,733)	$593		($47,140)
Financing activities:				
Issuance of bankers' acceptances	$5,991			$5,991
Repayment of bankers' acceptances	(22,211)			(22,211)
Dividends paid	(41,054)			(41,054)
Exercise of share options	413			413
Other	749			749
Cash used in financing activities	($56,112)			($56,112)
Cash represented by:				
Cash	$29,248	($8,995)		$20,253
Cash equivalents – short-term investments	9,773	(5,199)		4,574
Cash and cash equivalents	39,021	(14,194)		24,827
Bank overdraft	(9,962)	195		(9,767)
	$29,059	($13,999)		$15,060

BOARD OF DIRECTORS

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Duke University

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Director since 2002

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Director since 2009

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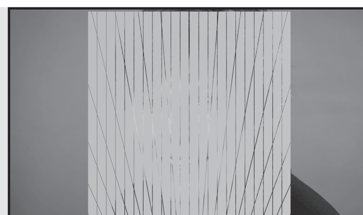
Chancellor Emeritus, University of Alberta
Former Publisher, Edmonton Journal

Director since 2010

Dorothy Strachan

Partner, Strachan-Tomlinson Inc.

Director since 2013



NOTES

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