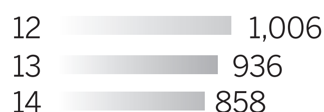
TORSTAR

2014
ANNUAL
REPORT

OPERATING RESULTS ($000)	2014 (1)	2013 (1)
Operating revenue	**$858,134**	$935,773
Adjusted EBITDA (2)	**92,070**	107,789
Operating earnings (2)	**61,396**	75,561
Operating loss	**(44,185)**	(34,703)
Net income (loss)	**173,064**	(27,413)
Cash from operating activities	**63,358**	80,732
Adjusted EBITDA – Percentage of revenue (2)	**10.7%**	11.5%
Cash from operating activities – percentage of average equity	**7.6%**	10.6%
PER CLASS A AND CLASS B SHARES		
Net income (loss)	**$2.16**	($0.35)
Dividends	**$0.5250**	$0.5250
Price range (high/low)	**$8.47/$4.96**	$8.36/$5.20
FINANCIAL POSITION ($000) Cash and cash equivalents and restricted cash, net of bank overdraft	**$290,239**	$17,410
Long-term debt	**–**	$175,898
Equity	**$869,720**	$796,784

The Annual Meeting of shareholders will be held Wednesday, May 6, 2015 at St. James Cathedral Centre, 65 Church Street, Toronto, beginning at 10 a.m. It will also be webcast live on the Internet.

OPERATING REVENUE ($MILLIONS) (1, 3)



OPERATING EARNINGS ($MILLIONS) (1, 2, 3)

NET INCOME (LOSS) PER SHARE (3)

ADJUSTED EBITDA ($MILLIONS) (1, 2, 3)

(1) These figures have been restated to reflect the classification of Harlequin into discontinued operations.

(2) These are non-IFRS measures. Refer to page 34 for a reconciliation to operating profit (loss). Net debt is calculated as the sum of Long-term debt, Current portion of long-term debt and Bank overdraft less Cash and cash equivalents.

(3) 2012 is restated for the impact of the adoption of IAS 19R, IFRS 11, IFRS 12 and IAS 28.

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

2014 was a major year of financial transformation for Torstar as we charted a new path for the future.

The most significant development in this process was the decision to sell Harlequin to a division of HarperCollins Publishers L.L.C., a subsidiary of News Corp., after four decades as a major division of this company. As one might expect, the decision was not an easy one. With its preeminence as a publisher of books for women around the globe, Harlequin had provided a steady stream of revenue and prestige to Torstar. Its excellent book publishing record combined with its dedicated and innovative staff had made it the envy of the industry.

Yet, as we observed first hand, the book publishing industry has been undergoing transformational change with digital books, mergers and the emergence of new competitors. In a very short period of time, the competitive dynamic changed dramatically. Thus, when HarperCollins presented its unsolicited offer, we felt we had to consider it seriously. Ultimately, we decided the time was appropriate to exit, a move that was unanimously approved by Torstar's Board of Directors.

Over the decades, we have had the opportunity to work with hundreds of loyal and dedicated Harlequin employees. They contributed immensely to the financial wellbeing of Torstar and we will be forever grateful for all their efforts. We wish Harlequin well with its new owner.

With the proceeds from this transaction in combination with ongoing cost control and new ventures, Torstar ended the year debt free, with total cash and cash equivalents and restricted cash of $290 million. At the end of the year, we were also able to report that our contribution obligations under all our pension plans, which had soared dramatically for the past three years, would be at traditional levels for the next three years. From this new financial position of strength, the Board and senior management are committed to finding new investments that from an economic and strategic point of view will bolster Torstar down the road. This process is already underway and should continue through 2015.

In this regard, Torstar benefits tremendously from the ongoing leadership and strategic thinking of both President and Chief Executive Officer David Holland and Chief Financial Officer and Executive Vice-President Lorenzo DeMarchi. They demonstrated exceptional leadership and commitment through the Harlequin sale process and continue to do so as we chart a new future. They are also ably assisted by Ian Oliver, President of Metroland Media Group and John Cruickshank, Publisher of the Toronto Star and President of Star Media Group.

Torstar also has the great advantage of an engaged and committed Board of Directors. Their diligence and support, as we have forged through very tough economic times, has been nothing short of exceptional. 2014 also marked the last full year of service for Joan Dea, now a resident of California. Joan's affiliation with Torstar goes back to the mid-1990s when she served as a strategic consultant for each of Torstar's three main divisions. As a director, Joan contributed greatly and always brought her trademark strategic perspective to our discussions.

TO OUR SHAREHOLDERS

David Holland
President and Chief Executive Officer

Torstar's evolution continued in 2014 with the very significant decision to sell Harlequin to a division of HarperCollins Publishers L.L.C., a subsidiary of News Corp. After owning Harlequin for 40 years, we determined that the value to a larger publisher exceeded our expectations of the value of Harlequin within Torstar. We acted on this belief. We wish the many talented and committed employees of Harlequin the very best in the future. We believe the strengthening of our financial position resulting from the sale will assist us in making the investments necessary to successfully adapt in our media operations and invest in new opportunities we believe are in the long-term interest of our shareholders. We are in the midst of significant transition in a dynamic environment and are very committed to our successful evolution.

OPERATING RESULTS

Affected by the continued pressures on print advertising, particularly at our daily newspaper operations, segmented adjusted EBITDA of $102 million was down $15 million from $117 million in 2013. Segmented revenue was $905 million, down 8% from $984 million in the prior year.

With the sale of Harlequin, Torstar retired its debt and is now in a significant cash position. At December 31, 2014, Torstar had cash and cash equivalents, including restricted cash, of $290 million compared to its net debt position of $159 million at December 31, 2013. We continue to carefully manage our pension plans and based on our most recent valuations will benefit from lower levels of funding requirements over the next three years compared to recent years. The solvency position of the plans deteriorated in 2014 with the decline in interest rates, but over the next three years even a modest increase in rates would improve the condition of the plans.

Our media operations, comprised of Star Media Group and Metroland Media Group, are focused on strengthening and enhancing our multi-platform approach to news, information, advertising and marketing solutions in the Greater Toronto Area, in communities throughout Ontario and nationally in major cities from east to west in English Canada.

Star Media Group, which includes the Toronto Star, Metro, our interest in Sing Tao and a number of digital properties, continued to be affected by declining print ad revenue. Multi-platform subscriber revenue was relatively stable in the year. Adjusted EBITDA of $50 million was down $10 million on a revenue decline of $54 million or 11%. Ongoing efforts to reduce costs mitigated the impact of the revenue decline.

The Toronto Star, our flagship brand and publication, continued its tradition of editorial excellence resulting in more than double the average weekday print readership of the closest paid daily competitor in the Greater Toronto Area. In addition, thestar.com had 3.3 million average monthly unique desktop visitors in 2014 and saw rapid growth in mobile visitors.

During 2014, we made a strategic shift announcing that we would discontinue use of a paywall at the Toronto Star's website in 2015. This decision was coupled with our plan to launch an innovative tablet product for the Toronto Star in the fall of 2015. A similar tablet product has been successfully launched in the Quebec market by La Presse. We are very enthusiastic about the prospect of engaging audiences with this product as part of our broader strategy to develop audiences across multiple platforms.

The Toronto Star, with its strength in the Greater Toronto Area, is complemented geographically by Metro. The Metro print publication is second only to the Toronto Star in average weekday readership in the Greater Toronto Area. Metro also publishes daily print editions in Vancouver, Calgary, Edmonton, Winnipeg, Ottawa and Halifax. We are very committed to building the Metro franchise across Canada and are taking the actions we believe are necessary to support our goal.

Metroland Media Group remains one of Canada's premier community media companies, publishing in print and digital in three daily and more than 100 community newspapers across Ontario. Built from the strength of the publishing foundation, the company also operates a highly successful flyer distribution network, publishes numerous magazines and operates a number of consumer shows. Metroland Media's mission to serve local communities was strengthened in 2014 through its increased commitment to reaching digital audiences and providing digital services to its many customers.

Metroland Media delivered a solid earnings performance in 2014 and at the same time continued to make investments in areas of the business that are important to its future. These investments included digital sales resources and training, geographic expansion and marketing. Adjusted EBITDA in the year was $68 million, down $3 million from prior year; revenue was down 5% to $484 million. A positive note was that quarterly print advertising revenue trending improved throughout the year with the fourth quarter revenue down just 2% from the fourth quarter of 2013.

In 2014, Metroland Media continued to further develop its digital presence in the many communities it serves. More editorial content, more videos, new features and articles highlighting the businesses in Metroland's many regions resulted in significant increases in visits to Metroland's community digital properties. This rise in visits led to an increase in digital advertising inventory and associated digital advertising revenue. Digital revenues were also strengthened through online advertiser paid

content, particularly through the "In Your Neighbourhood" program, by growth at Save.ca, its online flyer and coupon website, and at Homefinder.ca, its online real estate website.

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

The Toronto Star won the prestigious Michener Award in Public Service Journalism for its extensive coverage of the activities and behaviour of former Toronto Mayor Rob Ford that resulted in a police investigation after which the mayor was stripped of all key powers. The Toronto Star also won five National Newspaper Awards for projects, including "Clothes on Your Back" about the international garment industry and "Known to Police" about the practices of police carding. Metroland newspapers won a total of 92 editorial awards presented by the Local Media Association in 2014, which marked the second straight year that Metroland has led all newspaper companies in North America in the prestigious award contest. Among the winners was The Newmarket Era, which captured the Newspaper of the Year award. This was the second year in a row that a Metroland newspaper has captured this top award. In addition, John Roe of the Waterloo Region Record captured the National Newspaper Award for editorial writing.

Torstar also has a number of minority investments in associated businesses, including an approximate 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 2014 and remain confident in the company as it focuses on growth opportunities moving forward.

Torstar also 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 United States.

LOOKING FORWARD

As in 2014, Torstar is likely to face challenging times as spending by advertisers and reading habits of audiences continue to evolve. We are confronting these challenges, are committed to the execution of our strategy and are in the enviable position of having the resources necessary to adapt successfully. Our strategy includes plans to further develop and evolve Metroland Media's position as a growing, premier community-focused media and marketing solutions organization; to evolve our multi-platform approach to audiences at Star Media Group including, and in particular, the launch of the new tablet product for the Toronto Star in the fall of 2015; to support the long-term growth of our Metro franchises in major Canadian markets; and to continue to reduce our cost base.

The Toronto Star announced in November, 2014, that it had reached an agreement with La Presse to develop a new tablet product for the Toronto Star. The product will be based on the La Presse+ news platform technology and is expected to be launched in the fall of 2015. This project is proving to be a catalyst for change as we further our commitment to serving our audiences and advertisers in innovative ways in anticipation of an increasingly digital future.

The new tablet product is a key element of our multimedia evolution. Our vision is to create a compelling edition of the Toronto Star that reaches a significantly broader audience and engages them in new ways. With the tablet product, we seek to dramatically change our storytelling approach. Stories will be showcased in a more interactive way than ever before, providing a deeper level of engagement and immersion as compared to a desktop or mobile experience. While targeting a younger audience, it will also complement the Toronto Star's existing print, desktop and mobile products.

With these major pillars firmly in place, namely the strength of our financial position, Metroland's deep connection to the communities it serves, the Toronto Star's evolving multi-platform strategy that focuses on attracting younger audiences and Metro's significant presence from coast-to-coast, I am confident Torstar will successfully navigate these times of change.

OUR GREATEST STRENGTH – PEOPLE

At Torstar, we are privileged to have talented and dedicated employees across our operations. Given the rapid pace of change we are experiencing in our industry, the quality of our committed employees has never mattered more. Guiding these talented and committed employees is an exceptional executive team.

At Metroland Media Group, Ian Oliver continues to demonstrate why he is one of the most respected community newspaper executives in North America. Drawing on his belief in the power of "connection to community," he is embracing change and acting decisively as he builds the community media and marketing solutions organization of the future.

At Star Media Group, John Cruickshank continues to provide outstanding leadership through this period of significant transformation at the Toronto Star, the largest daily newspaper in Canada, as it adapts and seeks out opportunities to capitalize on its audience-focused and multi-platform future. John's leadership has been critical in building organizational momentum behind the new tablet initiative.

At the corporate office, Lorenzo DeMarchi, our Executive Vice-President and Chief Financial Officer, continues to provide outstanding financial leadership so critical to navigating through this challenging period

I am also very fortunate to have the support and wise counsel of John Honderich, our Chair, and all the members of the Board of Directors during the year.

Most importantly, I would also like to acknowledge the support, hard work and dedication of the more than 5,000 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.

TORSTAR

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For the year ended December 31, 2014

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, 2014 (the "2014 Consolidated Financial Statements").

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 2014 Consolidated Financial Statements has been prepared in accordance with IFRS, except for certain "Non-IFRS Measures" as described in Section 14 of this MD&A. Per share amounts are calculated using the weighted average number of shares outstanding for the applicable period. In addition, during 2014, Torstar reclassified the manner in which certain items are categorized. The results for 2014 and 2013 have been restated on a comparative basis to reflect these changes.

This MD&A is dated March 3, 2015 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.

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 strategic initiatives in Section 1 of this MD&A, expectations regarding forecasted revenues, future corporate expenses and expected taxes payable in Section 3 of this MD&A, expected savings including savings from restructuring initiatives in Sections 3, 4 and 5 of this MD&A, Torstar's outlook for 2015 and expected capital expenditures and pension funding in Section 5 of this MD&A, expectations regarding cash flows, forecasted financing requirements and expected timing of the launch of the Toronto Star's tablet product in Section 6 of this MD&A, expectations regarding the costs, obligations, contributions, return on plan assets, discount rates, required funding and other expectations related to employee future benefit obligations in Section 8 of this MD&A, expectations described in connection with critical accounting policies, estimates and judgements in Section 9 of this MD&A, expectations regarding recent accounting pronouncements in Section 10 of this MD&A and expectations regarding risks and uncertainties in Section 16 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. Torstar cautions 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 digital media, other newspapers and other forms of media;
- the Company's ability to respond to the shift to digital media and the shift by advertisers to other digital platforms;
- the Company's ability to attract, grow and retain its digital audience and profitably develop its digital 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 integrate the technology associated with new digital platforms, including the Toronto Star's new digital tablet product;
- general economic conditions and customer prospects in the principal markets in which the Company operates;
- the Company's ability to reduce costs;
- loss of reputation;

- dependence on third party suppliers and service providers;
- reliance on technology and information systems;
- the Company's ability to execute appropriate strategic growth initiatives;
- unexpected costs or liabilities related to acquisitions and dispositions;
- changes in employee future benefit obligations;
- labour disruptions;
- newsprint costs;
- reliance on its printing operations;
- litigation;
- privacy, anti-spam, communications, e-commerce and environmental laws, health and safety regulations and other laws and regulations applicable generally to the Company's businesses;
- availability of insurance;
- dependence on key personnel;
- intellectual property rights;
- credit risk;
- product revenue and product liability;
- changes in deposit interest rates;
- foreign exchange fluctuations and foreign operations;
- income tax and other taxes;
- results of impairment tests and uncertainties associated with critical accounting estimates; and
- control of the Company by the Voting Trust;

Torstar cautions that the foregoing list is not exhaustive of all possible factors, as other factors could adversely affect Torstar's 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 economies; tax laws; continued availability of printing operations; availability of financing on appropriate terms; exchange rates; market competition; rates of return and discount rates relating to pension expense and pension plan obligations; expected future revenues; expected future liabilities; expected future cash flows and discount rates relating to valuation of goodwill and intangible assets; and successful development and launch of new products including the Toronto Star digital tablet edition. 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 and Strategic Initiatives

A summary of Torstar's business and strategy

Overview of Torstar's Business

Torstar Corporation is a broadly based Canadian media company listed on the Toronto Stock Exchange (Symbol:TS.B). Torstar has two reportable operating segments: Metroland Media Group ("MMG") and Star Media Group ("SMG").

Metroland Media Group publishes The Hamilton Spectator, the Waterloo Region Record, and the Guelph Mercury and more than 100 weekly community newspapers and has a number of specialty publications, directories, consumer shows and distribution operations, digital properties (including goldbook.ca, save.ca, travelalerts.ca, and wagjag.com ("WagJag")) and product sales.

Star Media Group includes the daily Toronto Star newspaper and thestar.com. The Star Media Group also includes Free Daily News Group Inc. ("Metro English Canada"), which publishes the English-language Metro free daily newspapers in several of Canada's largest cities, and through a joint venture arrangement, Star Media Group owns an interest in the Chinese-language Sing Tao Daily and its related publications in Toronto, Vancouver and Calgary. Star Media Group also includes wheels.ca, toronto.com, several other specialty publications and magazines and distribution services, eyeReturn Marketing Inc. ("eyeReturn Marketing") and Torstar's interests in workopolis.com and Olive Media.

Previously, Torstar also owned Harlequin Enterprises Limited ("Harlequin"), a leading global publisher of books for women. On August 1, 2014, Torstar sold all of the shares of Harlequin to a division of HarperCollins Publishers L.L.C., a subsidiary of News Corp., for a purchase price of $455 million. Torstar's investment in Harlequin previously represented the Book Publishing Segment. During 2014, this was reclassified as Assets Held for Sale and Discontinued Operations and all comparative figures below have been restated to reflect this change, unless otherwise noted. Refer to Section 3 – Operating Results below and Note 24 of Torstar's 2014 Consolidated Financial Statements for further information.

Torstar also has several investments in Associated Businesses. At December 31, 2014, Torstar had a 19.4% equity investment in Black Press Ltd. ("Black Press"), a 23.1% equity investment in Blue Ant Media Inc. ("Blue Ant"), a 33.3% equity investment in Canadian Press Enterprises Inc. ("Canadian Press") and a 16.1% equity investment in Shop.ca Network Inc. ("Shop.ca"). Until it sold its interest on October 16, 2014, Torstar also had a 38.2% interest in Tuango Inc. ("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 currently owns and operates 11 media brands including Cottage Life, Travel+Escape, Smithsonian Channel Canada, Love Nature and AUX. Blue Ant creates and distributes content ranging from music to travel, style to nature, engaging fans across television, digital, magazines and live events. In 2014, Torstar invested an additional $3.5 million in Blue Ant as part of a larger round of financing.

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

Shop.ca is an online e-commerce marketplace aimed at Canadian shoppers. During 2014, Torstar invested an additional $1.0 million in Shop.ca as part of a broader financing.

Competitive Landscape and Strategic Initiatives

Over the last several years, the media landscape, and the newspaper industry in particular, has continued to experience significant changes. These changes include a structural shift in advertising spending from various traditional media including newspapers, to digital media, significantly increased availability of advertising impressions on digital platforms, an increasing percentage of consumer time spent with new digital and mobile platforms and fragmentation of audiences across an increasing array of digital media options. Within this evolving

landscape, Torstar is embracing the multi-platform environment in which it operates and is striving to adapt and strengthen its position through the following strategic initiatives:

- Continuing to optimize print revenues and reduce costs while continuing to invest in those areas of highest value to Torstar's print customers;
- Advancing the digital evolution of Torstar's businesses including a successful launch of the Toronto Star's new tablet product;
- Continuing to support the growth of the Metro publications across Canada;
- Successfully evolving Metroland Media Group into the community media and marketing solutions organization of the future; and
- Optimally employ capital resulting from the sale of Harlequin.

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2. Highlights

Highlights for 2014 compared to 2013

(in $000's, except per share amounts)	2014	2013	Favourable (Unfavourable)	Favourable (Unfavourable)
Segmented revenues[1,2]	$904,618	$984,047	($79,429)	(8.1%)
Adjusted EBITDA[1,2]	101,672	117,174	(15,502)	(13.2%)
Operating profit (loss)[1,2]	(52,370)	(37,713)	(14,657)	(38.9%)
Net income (loss) from continuing operations	(49,598)	(58,046)	8,448	14.6%
Per Share	*($0.62)*	*($0.73)*	*$0.11*	*15.1%*
Net income from discontinued operations	222,662	30,633	192,029	NM
Per Share-Basic & Diluted	*$2.78*	*$0.38*	*$2.40*	*NM*
Net income (loss) attributable to equity shareholders	172,685	(27,984)	200,669	NM
Per Share-Basic	*$2.16*	*($0.35)*	*$2.51*	*NM*
Per Share-Diluted	*$2.15*	*($0.35)*	*$2.50*	*NM*
Adjusted Earnings Per Share[2]	*$0.58*	*$0.62*	*($0.04)*	*(6.5%)*

[1] Includes proportionately consolidated share of joint venture operations,
[2] These are Non-IFRS or additional IFRS measures, refer to Section 14 of this MD&A
[NM] - Figure not meaningful

- Highlights:
  - The sale of Harlequin closed on August 1, 2014 for net accounting proceeds of $442.2 million, resulting in a pre-tax accounting gain of $224.6 million.
  - Generated $43.3 million of free cash flow (excludes dividends) including significant funding of pension and restructuring obligations.
  - Ended 2014 with total cash and cash equivalents and restricted cash of $290.2 million after retiring all outstanding debt.
  - Net income attributable to equity shareholders was $172.7 million ($2.16 per share) in 2014 up $200.7 million ($2.51 per share) from a loss of $28.0 million ($0.35 per share) in 2013.
  - Total segmented revenue was $904.6 million in 2014, down $79.4 million (8.1%) from $984.0 million in 2013.

- Segmented adjusted EBITDA was $101.7 million in 2014, down $15.5 million (13.2%) from $117.2 million in 2013.

- Segmented operating profit (loss) was a loss of $52.4 million in 2014, an increase of $14.7 million from a loss of $37.7 million in 2013. The segmented operating losses for 2014 and 2013 include non-cash charges primarily recorded in the third quarters of 2014 and 2013 for impairment of assets totalling $97.9 million and $86.1 million respectively.

- Net loss from continuing operations was $49.6 million ($0.62 per share) in 2014, an improvement of $8.4 million ($0.11 per share) from $58.0 million ($0.73 per share) in 2013.

- Adjusted earnings per share was $0.58 in 2014, down $0.04 from $0.62 in 2013.

The following chart provides a continuity of earnings per share for the year ended December 31, 2013 to the year ended December 31, 2014:

	Earnings Per Share		Adjusted Earnings Per Share	
Earnings per share from continuing operations attributable to equity shareholders in 2013		($0.73)		$0.62
Changes				
• Operations	(0.13)		(0.13)	
• Interest and financing costs	0.11		0.11	
• Associated businesses	(0.02)		(0.02)	
• Restructuring and other charges*	0.10			
• Impairment of assets*	(0.15)			
• Non-cash foreign exchange*	(0.06)			
• Other income (expense) *	0.04			
• Change in deferred taxes*	0.22			
Earnings per share from continuing operations attributable to equity shareholders in 2014		($0.62)		$0.58
Earnings per share from discontinued operations attributable to equity shareholders in 2014		$2.78		
Earnings per share attributable to equity shareholders in 2014		$2.16		$0.58

* Items are excluded from definition of adjusted earnings per share. Refer to Section 14 for a reconciliation of earnings per share to adjusted earnings per share

3. Annual Operating Results

A discussion of Torstar's operating results for 2014 and 2013

Unless otherwise noted, the following is a discussion of Torstar's 2014 operating results relative to the comparable periods in 2013. Effective 2014, Torstar disaggregated the former Media Segment and has now disclosed Metroland Media Group and Star Media Group as separate reportable operating segments for segment reporting purposes. All comparative information has been restated to reflect this change.

Overall Performance

Torstar has two reportable operating segments to which Corporate costs have not been allocated. Management of the segments are accountable for the revenues, adjusted EBITDA, operating earnings and operating profit of the segments which include their 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 (loss) 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, 2014 and December 31, 2013 and provide a reconciliation to the consolidated statement of income.

2014						
(in $000's)	MMG	SMG	Corporate	Total Segmented*	Adjustments & Eliminations for Joint Ventures	Total Per Consolidated Statement of Income
Operating revenue	$484,225	$420,393		$904,618	($46,484)	$858,134
Salaries and benefits	(219,340)	(149,695)	($11,136)	(380,171)	18,627	(361,544)
Other operating costs	(196,866)	(221,149)	(4,760)	(422,775)	18,255	(404,520)
Adjusted EBITDA**	68,019	49,549	(15,896)	101,672	(9,602)	92,070
Amortization & depreciation	(14,644)	(18,700)	(57)	(33,401)	2,727	(30,674)
Operating earnings**	53,375	30,849	(15,953)	68,271	(6,875)	61,396
Restructuring and other charges	(6,937)	(15,769)		(22,706)	60	(22,646)
Impairment of assets	(329)	(97,606)		(97,935)	15,000	(82,935)
Operating profit (loss)**	$46,109	($82,526)	($15,953)	($52,370)	$8,185	($44,185)

2013						
(in $000's)	MMG	SMG	Corporate	Total Segmented*	Adjustments & Eliminations for Joint Ventures	Total Per Consolidated Statement of Income
Operating revenue	$509,862	$474,185		$984,047	($48,274)	$935,773
Salaries and benefits	(229,554)	(168,744)	($10,743)	(409,041)	20,056	(388,985)
Other operating costs	(209,435)	(245,537)	(2,860)	(457,832)	18,833	(438,999)
Adjusted EBITDA**	70,873	59,904	(13,603)	117,174	(9,385)	107,789
Amortization & depreciation	(15,221)	(19,703)	(40)	(34,964)	2,736	(32,228)
Operating earnings**	55,652	40,201	(13,643)	82,210	(6,649)	75,561
Restructuring and other charges	(14,034)	(19,795)		(33,829)	659	(33,170)
Impairment of assets	(12,802)	(73,292)		(86,094)	9,000	(77,094)
Operating profit (loss)**	$28,816	($52,886)	($13,643)	($37,713)	$3,010	($34,703)

* Includes proportionately consolidated share of joint venture operations
**These are Non-IFRS or additional IFRS measures, refer to Section 14 of this MD&A

Revenue

Segmented revenue was down $79.4 million or 8.1% inclusive of a $5.3 million decrease in product sales and TMGTV revenue at Metroland Media Group. Segmented revenues, excluding the impact of TMGTV revenue and product sales at Metroland Media Group, were down $74.1 million or 7.5% in 2014. This decline was primarily the result of lower print advertising revenues which continued to be under pressure in 2014. However, multi-platform subscriber revenues and flyer distribution revenues, were relatively stable in the year. At Metroland Media Group, while print advertising revenues declined, the rate of decline slowed relative to 2013. In addition, in the latter part of the year, the rate of decline slowed relative to earlier in 2014. At the Star Media Group, revenue declined as a result of pressures on national advertising as well as the closure of print operations in three of Metro's smaller regions. Star Media Group revenues for 2014 were also believed by management to be negatively affected by the transition of advertising sales for the Toronto Star to Metro which occurred in the first quarter of 2014.

2014 segmented revenues were generated as follows: $556.7 million (61.5%) from print and digital advertising, $147.2 million (16.3%) from flyer distribution, $135.8 million (15.0%) from circulation/subscribers and $64.9 million (7.2%) from other activities including printing. 2013 segmented revenues were generated as follows: $631.0 million (64.1%) from print and digital advertising, $149.0 million (15.2%) from flyer distribution, $136.9 million (13.9%) from circulation/subscribers and $67.1 million (6.8%) from other activities including printing.

Digital revenue in 2014 was flat relative to 2013 as a result of revenue growth at eyeReturn Marketing, the Metroland community websites and save.ca, partially offset by lower revenues at Olive Media, WagJag and Workopolis. Digital revenues were 12.8% of total segment revenues in 2014 compared to 11.8% in 2013.

Adjusted EBITDA

Segmented adjusted EBITDA was $101.7 million in 2014, down $15.5 million or 13.2% from $117.2 million in 2013 reflecting declines in print advertising revenues which were only partially offset by cost reductions and improved digital profitability. In 2014, Metroland Media Group and Star Media Group combined adjusted EBITDA decreased by $13.2 million and Corporate expenses increased by $2.3 million.

Overall costs at Metroland Media Group and Star Media Group decreased by $66.2 million in 2014, resulting from a $29.3 million or 7.3% decrease in salary and benefit costs and a $36.9 million or 8.1% decrease in other operating costs. The decrease in salary and benefit costs included the benefit of lower pension costs and savings of $29.1 million from restructuring initiatives which were partially offset by general wage increases. The decrease in other operating costs reflects the impact of cost reduction initiatives as well as lower newsprint price and consumption largely due to print advertising revenue declines. The increase in Corporate expenses in 2014 was the result of consulting costs which are currently not expected to be recurring.

Amortization and depreciation

Total segmented amortization and depreciation decreased $1.6 million or 4.5% in 2014, reflecting lower property, plant and equipment and intangible assets in the Metroland Media Group and Star Media Group, relative to 2013.

Operating earnings

Segmented operating earnings were $68.3 million in 2014, down $13.9 million or 17.0% from $82.2 million in 2013.

Restructuring and other charges

Total segmented restructuring and other charges were $22.7 million in 2014. The 2014 restructuring initiatives are expected to result in annualized net labour savings of approximately $23.0 million and a reduction of approximately 265 positions. Of the expected savings, $8.1 million was realized in 2014. Total segmented restructuring and other charges of $33.8 million were recorded in 2013.

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

	Year of Initiative			
(in $000's)	**2012**	**2013**	**2014**	**Total**
Realized net savings in:				
2012	$6,000			$6,000
2013	11,500	$13,800		25,300
2014		21,000	$8,100	29,100
Expected net savings in:				
2015		1,800	9,800	11,600
2016			2,600	2,600
2017			2,500	2,500
Annualized net savings	$17,500	$36,600	$23,000	$77,100

Impairment of assets

During 2014, Torstar incurred charges related to asset impairment of property, plant and equipment, goodwill and intangible assets and investments in joint ventures totalling $97.9 million. During 2013, Torstar incurred charges related to asset impairment totalling $86.1 million related to certain property, plant and equipment, goodwill and intangible assets and investments in joint ventures. These charges have no impact on cash flows.

During the third quarters of 2014 and 2013, Torstar conducted impairment tests 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 during the third quarter of 2014, it was determined that the carrying amount of goodwill in the Star Media Group of cash generating units ("CGUs") exceeded the value in use and Torstar recorded an impairment charge of $82.0 million for goodwill in the Star Media Group of CGUs. This impairment was the result of lower forecasted revenues reflecting continued shifts in spending by advertisers. Torstar also recorded a $15.0 million impairment

charge in respect of its joint venture investment in Workopolis during the third quarter of 2014, resulting from lower forecasted revenues attributable to an increase in competition in the online recruitment and job search markets and prevailing economic conditions.

In the third quarter of 2013, it was determined that the carrying amount of certain intangible assets within the Metroland Media Group CGU and goodwill in the Star Media Group of CGUs exceeded the value in use. Accordingly, Torstar recorded impairment of $12.5 million for intangible assets and leasehold improvements in the Metroland Media Group CGU and $64.0 million for goodwill in the Star Media Group of CGUs. These impairments were also 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 CGU were also the result of internal reorganization, realignment and integration of certain digital businesses which occurred during the third quarter of 2013. As a result of factors noted above, Torstar also recorded a $9.0 million impairment charge in respect of its Sing Tao Daily joint venture investment in the third quarter of 2013.

Operating profit (loss)

Segmented operating loss was $52.4 million in 2014, an increase of $14.7 million from a loss of $37.7 million in 2013 and includes non-cash impairment charges of $97.9 million and $86.1 million in 2014 and 2013 respectively.

Interest and financing costs

Interest and financing costs were $4.3 million in 2014 down $11.8 million from 2013. The lower interest and financing costs in 2014 reflect a combination of a $7.4 million decrease in financing costs related to employee benefit plans as well as a $2.9 million decrease in interest on debt, as all amounts outstanding under previous debt facilities were repaid during the third quarter of 2014 using proceeds from the sale of Harlequin. In addition, 2014 includes $1.4 million of interest earned on cash and cash equivalents during the third and fourth quarters of 2014.

Foreign exchange

Non-cash foreign exchange losses were $7.7 million in 2014 compared to a loss of $1.2 million in 2013.

In order to offset the foreign exchange rate risk from Harlequin's net U.S. dollar denominated assets, Torstar historically maintained a certain level of U.S. dollar denominated debt and had previously designated $80.0 million of U.S. debt as a hedge of its U.S. dollar denominated net investment in Harlequin. Upon the sale of Harlequin and subsequent repayment of debt, Torstar realized $5.8 million of accumulated foreign exchange losses related to extinguishing this hedge. A portion of the foreign exchange losses for 2014 also relate to the weakening of the Canadian dollar relative to the U.S. dollar prior to the closing of the sale of Harlequin and subsequent repayment of U.S. dollar denominated debt.

In 2013, Torstar reported a non-cash foreign exchange loss of $1.2 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.

Income (loss) from joint ventures

Loss from joint ventures was $9.2 million in 2014 compared to a loss of $3.7 million in 2013. Although income from joint ventures was slightly higher in 2014 relative to 2013, there were impairment charges of $15.0 million recorded in 2014 related to Torstar's joint venture investment in Workopolis compared to impairment charges of $9.0 recorded in 2013 related to Torstar's joint venture investment in Sing Tao Daily, as discussed above.

Income (loss) of associated businesses

Income of associated businesses was $0.2 million in 2014 compared to $2.3 million in 2013. 2014 included income of $4.0 million from Black Press and income of $0.4 million from Tuango, partially offset by a loss of $3.5 million from Shop.ca and a loss of $0.7 million from Blue Ant. Income of associated businesses in 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' net income was $4.0 million in 2014 ($5.5 million in 2013), representing Black Press' results through November 30, 2014. Black Press has a February fiscal year end and therefore does not have coterminous quarter-ends with Torstar.

Torstar's share of Tuango's net income was $0.4 million in 2014 compared to $0.7 million in 2013. On October 16, 2014, Torstar sold its interest in Tuango for proceeds of $7.6 million and recognized a gain of $4.5 million in other income (expense).

Torstar's share of the Shop.ca net loss was $3.5 million in 2014 compared to $3.1 million in 2013.

Torstar did not record any income or loss during 2014 in respect of its investment in Canadian Press as the carrying value had previously been reduced to $nil. In 2013, Torstar recorded a loss of $0.4 million in Canadian Press in respect of its additional investment commitment. Torstar will begin to report its share of Canadian Press' results once the unrecognized losses, including Other Comprehensive Income ("OCI") losses ($4.0 million as of December 31, 2014 and $nil as of December 31, 2013) have been offset by net income, OCI or as additional investments are made. In 2014, Torstar's share of Canadian Press' net loss would have been $0.3 million ($0.5 million loss in 2013).

Other income (expense)
Other income was $3.8 million in 2014 compared to $0.5 million in 2013. Other income for 2014 includes the above noted $4.5 million gain on sale of Tuango, a $1.1 million gain related to the early settlement of the existing put and call arrangements with Metro International S.A. ("MISA") and a $0.7 million gain on the sale of an available-for-sale investment.

In March 2014, Torstar and MISA agreed to an early settlement of the existing put and call arrangements between them with regards to the remaining 10% interest in Metro English Canada (previously owned by MISA). The agreed upon price for the early settlement was $10.1 million. The existing put and call arrangements were both exercisable at the same fixed price of $11.2 million beginning in October 2014. Accordingly, Torstar recorded a gain of $1.1 million on the transaction.

These gains were partially offset by a $2.8 million charge related to the de-recognition of interest rate swaps which were previously designated as cash flow hedges. These swaps were no longer designated as effective hedges on June 30, 2014 in connection with the sale of Harlequin and the net fair value of negative $2.7 million was reclassified into other expense in the second quarter. These swaps were extinguished in the third quarter at an incremental cost of approximately $0.1 million.

Other income (expense) for 2013 primarily reflected reductions in contingent consideration related to acquisitions prior to 2013 and investment write-downs.

Income and other taxes
Torstar recorded tax recoveries of $11.7 million in 2014, compared to a tax provision of $5.2 million in 2013. The tax recoveries in 2014 are primarily attributable to a deferred tax benefit associated with the recognition of certain previously unrecognized loss carryforwards and certain tax and accounting base differences in connection with the sale of Harlequin and the recognition of a deferred tax benefit associated with the donation of the Toronto Star's photo archive to the Toronto Public Library during 2014.

Net income (loss) from continuing operations
Net loss from continuing operations was $49.6 million ($0.62 per share) in 2014, an improvement of $8.4 million ($0.11 per share) from $58.0 million ($0.73 per share) in 2013.

Gain on sale and discontinued operations
On August 1, 2014 Torstar sold all of the shares of Harlequin to a division of HarperCollins Publishers L.L.C., a subsidiary of News Corp., for a purchase price of $455.0 million. Net accounting proceeds were approximately $442.2 million ($22.8 million of which is being held in escrow) and reflect the purchase price plus adjustments for working capital and other related items. The sale of Harlequin resulted in a pre-tax accounting gain of $224.6

million, net of transaction costs. Inclusive of the use of tax assets, cash taxes payable on the gain are currently expected to be approximately $4.5 million.

Effective the second quarter of 2014, Harlequin was reclassified as Assets Held for Sale and Discontinued Operations. Upon the closing of the sale in the third quarter of 2014, the net assets of Harlequin were no longer included in Assets Held for Sale.

Discontinued operations for 2014 include Harlequin's results through to July 31, 2014. Revenues from discontinued operations were $213.2 million in 2014. Revenues from discontinued operations were $373.0 million in 2013.

Net Income from discontinued operations and gain on sale was $222.7 million for 2014 and include a pre-tax gain of $224.6 million related to the sale of Harlequin. Net income from discontinued operations was $30.6 million in 2013. Refer to Note 24 of Torstar's 2014 Consolidated Financial Statements for further information.

<u>Net income (loss) attributable to equity shareholders</u>
Net income attributable to equity shareholders was $172.7 million ($2.16 per share) in 2014 up $200.7 million ($2.51 per share) from a loss of $28.0 million ($0.35 per share) in 2013.

Segment Operating Results – Metroland Media Group
Metroland Media Group revenues were down $25.6 million or 5.0% inclusive of a $5.3 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 $20.3 million or 4.0%. The revenue decrease primarily reflects print advertising revenue declines at the newspapers of 7.6% which represents an easing over the rate of decline in 2013 of 10.4%. In addition, this trend generally improved in the latter part of 2014 relative to early in the year. Flyer distribution revenues were down 1.2% in 2014.

Metroland Media Group's digital revenue increased slightly by 0.6% in 2014 and included revenue growth in the community websites, save.ca and other properties, partially offset by revenue declines at WagJag and at goldbook.com. The rate at which digital revenue increased also improved in the latter part of the year, relative to early in the year.

Metroland Media Group adjusted EBITDA was $68.0 million in 2014, down $2.9 million or 4.0% from $70.9 million in 2013 as the negative impact of revenue declines, investments in digital initiatives and general wage increases more than offset the positive impact of cost savings from restructuring, improved digital revenues, decreased costs at TMGTV, lower pension costs, and lower newsprint consumption and price. Metroland Media Group's costs decreased by $22.8 million or 5.2% in 2014 and included $15.8 million of savings from restructuring initiatives. Profitability in the Metroland Media Group digital properties continued to improve in 2014. Operating earnings were $53.4 million in 2014 down $2.3 million or 4.1% from 2013.

Segment Operating Results – Star Media Group
Star Media Group revenues were down $53.8 million or 11.3% from 2013. Print advertising revenues at the Toronto Star were down 21.9% in 2014 reflecting pressure on national advertising revenues while multi-platform subscriber revenues decreased by 1.2% in the year. At the Metro newspapers, revenues were down relative to the prior year reflecting lower advertising revenues, which on a geographic basis was largely concentrated in Metro's Ontario publications. Similar to the Toronto Star, Metro also experienced significant pressures on national advertising revenues during 2014. Metro's 2014 revenues were also affected by the closure of print operations in three of Metro's smaller regions early in the third quarter.

Star Media Group revenues for 2014 were also believed by management, to be negatively affected by the transition of advertising sales for the Toronto Star to Metro which occurred in the first quarter of 2014.

Digital revenue from properties in the Star Media Group decreased 1.1% in 2014 reflecting lower revenues at Olive Media and Workopolis, partially offset by revenue growth at eyeReturn Marketing.

Star Media Group adjusted EBITDA was $49.5 million in 2014, down $10.4 million from $59.9 million in 2013 as revenue declines more than offset cost reductions. Star Media Group's costs decreased by $43.4 million or 10.5% in 2014, which included $13.3 million of savings from restructuring initiatives as well as lower pension costs, and the impact of lower newsprint price and consumption partially offset by the impact of general wage increases. Star Media Group operating earnings were $30.8 million in 2014, down $9.4 million or 23.3% from 2013.

4. 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 2014 operating results relative to the fourth quarter of 2013. During 2014, Torstar disaggregated the former Media Segment and has now disclosed Metroland Media Group and Star Media Group as separate reportable operating segments for segment reporting purposes. All comparative information has been restated to reflect this change.

Overall Performance

The following table sets out the segmented results for the three months ended December 31, 2014 and 2013.

Fourth Quarter 2014						
(in $000's)	MMG	SMG	Corporate	Total Segmented*	Adjustments & Eliminations for Joint Ventures	Total Per Consolidated Statement of Income
Operating revenue	$130,788	$114,079		$244,867	($11,433)	$233,434
Salaries and benefits	(56,996)	(36,763)	($2,796)	(96,555)	4,756	(91,799)
Other operating costs	(51,828)	(56,398)	(1,451)	(109,677)	4,496	(105,181)
Adjusted EBITDA**	21,964	20,918	(4,247)	38,635	(2,181)	36,454
Amortization & depreciation	(3,516)	(4,222)	(12)	(7,750)	669	(7,081)
Operating earnings**	18,448	16,696	(4,259)	30,885	(1,512)	29,373
Restructuring and other charges	(551)	(10,327)		(10,878)	8	(10,870)
Impairment of assets	(63)			(63)		(63)
Operating profit (loss)**	$17,834	$6,369	($4,259)	$19,944	($1,504)	$18,440

Fourth Quarter 2013						
(in $000's)	MMG	SMG	Corporate	Total Segmented*	Adjustments & Eliminations for Joint Ventures	Total Per Consolidated Statement of Income
Operating revenue	$134,618	$136,831		$271,449	($12,034)	$259,415
Salaries and benefits	(57,873)	(40,197)	($2,643)	(100,713)	4,599	(96,114)
Other operating costs	(53,250)	(65,137)	(673)	(119,060)	4,604	(114,456)
Adjusted EBITDA**	23,495	31,497	(3,316)	51,676	(2,831)	48,845
Amortization & depreciation	(3,689)	(5,173)	(10)	(8,872)	693	(8,179)
Operating earnings**	19,806	26,324	(3,326)	42,804	(2,138)	40,666
Restructuring and other charges	(6,754)	(9,758)		(16,512)	389	(16,123)
Impairment of assets		(266)		(266)		(266)
Operating profit (loss)**	$13,052	$16,300	($3,326)	$26,026	($1,749)	$24,277

* Includes proportionately consolidated share of joint venture operations

**These are Non-IFRS or additional IFRS measures, refer to Section 14 of this MD&A

Revenue

Segmented revenue was down $26.6 million or 9.8% in the fourth quarter of 2014. As with previous quarters, the fourth quarter declines primarily reflected lower print advertising revenues which continued to be under pressure. At Metroland Media Group, similar to the second and third quarters of 2014, the rate of print advertising revenue

decline slowed relative to earlier in the year with the decline of 2.0% in the fourth quarter representing the lowest quarterly decline in more than eight quarters. At the Star Media Group, revenue declines in the fourth quarter reflected continued pressure on national advertising revenues and the closure of print operations in three of Metro's smaller regions. As compared with the fourth quarter of 2013, multi-platform subscriber revenues decreased by 5.5% in the fourth quarter of 2014, due in part, to a one-time favourable adjustment included in multi-platform subscriber revenues in the fourth quarter of 2013 at the Toronto Star.

Digital revenues were down by 2.9% in the fourth quarter of 2014. This decline was primarily the result of lower revenues at Olive Media and Workopolis largely offset by growth in other digital properties including eyeReturn Marketing, Metroland digital services and community websites, save.ca and WagJag. Digital revenues were 13.1% of total segmented revenues in the fourth quarter of 2014 up from 12.0% in the fourth quarter of 2013.

Adjusted EBITDA

Segmented adjusted EBITDA was $38.6 million in the fourth quarter of 2014, down $13.1 million from the fourth quarter of 2013 reflecting declines in print advertising revenues which were only partially offset by cost reductions. During the fourth quarter, Metroland Media Group and Star Media Group combined adjusted EBITDA decreased a combined $12.1 million and Corporate expenses increased by $1.0 million. Overall costs at Metroland Media Group and Star Media Group decreased by $14.5 million in the fourth quarter of 2014 including $5.7 million of savings from restructuring initiatives, as well as lower pension costs and the impact of lower newsprint price and consumption.

Profitability in the digital properties decreased in the fourth quarter of 2014 as a result of lower profitability at Olive Media, Workopolis and thestar.com. Fourth quarter profitability for the thestar.com was negatively affected by investment spending associated with digital initiatives. These declines were partially offset by continued improved profitability at digital properties including Metroland Media Group's digital services, WagJag and save.ca.

Amortization and depreciation

Segmented amortization and depreciation expense was $7.8 million in the fourth quarter of 2014, a $1.1 million decrease from the fourth quarter of 2013.

Operating earnings

Segmented operating earnings were $30.9 million in the fourth quarter of 2014, down $11.9 million relative to the fourth quarter of 2013.

Restructuring and other charges

Total segmented restructuring and other charges of $10.9 million and $16.5 million were recorded in the fourth quarters of 2014 and 2013 respectively. Fourth quarter 2014 restructuring provisions are expected to result in annualized net savings of $7.8 million and a reduction of approximately 70 positions. None of the savings associated with these initiatives were realized in the fourth quarter of 2014.

Operating profit

Segmented operating profit was $19.9 million in the fourth quarter of 2014, down $6.1 million from $26.0 million in the fourth quarter of 2013.

Interest and financing costs (income)

Interest and financing income was $0.7 million in the fourth quarter of 2014 compared to interest and financing expense of $4.0 million in the fourth quarter of 2013. Interest and financing income for the fourth quarter of 2014 primarily relates to $0.9 million of interest income earned on cash and cash equivalents, partially offset by financing costs related to employee benefit plans and other interest expense.

Interest expense for 2013 included $2.2 million of financing costs related to employee benefit plans as well as $1.9 million of interest on debt.

All amounts outstanding under previous debt facilities were repaid during the third quarter of 2014 using proceeds from the sale of Harlequin.

Foreign exchange

Non-cash foreign exchange was a gain of $0.2 million in the fourth quarter of 2014 compared to a loss of $0.6 million in the fourth quarter of 2013. The gain in the fourth quarter of 2014 was the result of the Canadian dollar being weaker at the end of the fourth quarter relative to the beginning of the quarter with Torstar's operations being in a net asset position in U.S. dollars for the quarter.

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 with Torstar's operations being in a net liability position in U.S. dollars for the quarter.

Income (loss) from joint ventures

Income from joint ventures was $1.4 million in the fourth quarter of 2014 consistent with the fourth quarter of 2013.

Income (loss) of associated businesses

Income from associated businesses was $1.1 million in the fourth quarter of 2014 compared to a loss of $0.6 million in the fourth quarter of 2013. The fourth quarter of 2014 included income of $2.1 million from Black Press and income of $0.2 million from Blue Ant, partially offset by a loss of $1.2 million from Shop.ca.

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.

Other income (expense)

Other income was $5.3 million in the fourth quarter of 2014 compared to $0.1 million in the fourth quarter of 2013. Other income for 2014 included the above noted $4.5 million gain on sale of Tuango and a $0.7 million gain on the sale of an available-for-sale investment.

Income and other taxes

Torstar's effective tax rate was 23.2% in the fourth quarter of 2014 compared to 23.6% in the fourth quarter of 2013.

Net income (loss) from continuing operations

Net income from continuing operations of $20.9 million ($0.26 per share) in the fourth quarter of 2014 was up $5.1 million ($0.06 per share) from $15.8 million ($0.20 per share) in the fourth quarter of 2013.

The average number of Class A voting shares and Class B non-voting shares outstanding was 80.2 million in the fourth quarter of 2014, up from 79.9 million in the fourth quarter of 2013.

The following chart provides a continuity of earnings per share from the fourth quarter of 2013 to the fourth quarter of 2014:

	Earnings Per Share		Adjusted Earnings Per Share	
Earnings per share from continuing operations attributable to equity shareholders in 2013		$0.20		$0.34
Changes				
• Operations	(0.10)		(0.10)	
• Interest and financing costs	0.04		0.04	
• Associated businesses	0.02		0.02	
• Restructuring and other charges*	0.02			
• Impairment of assets*	0.01			
• Non-cash foreign exchange*	0.01			
• Other income (expense) *	0.06			
Earnings per share attributable to equity shareholders in 2014		$0.26		$0.30

* Items are excluded from definition of adjusted earnings per share. Refer to Section 14 for a reconciliation of earnings per share to adjusted earnings per share

Discontinued operations

Revenue and net income from discontinued operations were $nil in the fourth quarter of 2014 as discontinued operations previously included the operations of Harlequin which was sold in the third quarter of 2014. In 2013, fourth quarter revenue and net income from discontinued operations were $89.0 million and $5.3 million respectively.

Net income (loss) attributable to equity shareholders

Net income attributable to equity shareholders was $20.6 million ($0.26 per share) in the fourth quarter of 2014 consistent with the fourth quarter of 2013.

Segment Results – Metroland Media Group

Metroland Media Group revenues were down $3.8 million or 2.8% in the fourth quarter of 2014 inclusive of a $0.5 million decrease in product sales. Revenues, excluding the impact of product sales at Metroland Media Group, were down $3.3 million or 2.4% in the fourth quarter. The revenue decrease reflects print advertising revenue declines at the newspapers of 2.0% for the fourth quarter. Similar to the second and third quarters of 2014, the rate of decline slowed relative to earlier in the year, with the fourth quarter of 2014 representing the lowest quarterly decline in more than eight quarters. Flyer distribution revenues were down 3.1% in the fourth quarter of 2014 largely as a result of lower spending believed to be caused by the financial challenges of certain customers.

Metroland Media Group digital revenue increased 8.9% in the fourth quarter reflecting revenue growth for the third consecutive quarter. This increase reflects revenue growth in digital services, the community websites, save.ca, WagJag and other properties partially offset by a decline in goldbook.ca.

Metroland Media Group adjusted EBITDA was down $1.5 million or 6.5% in the fourth quarter as the negative impact of revenue declines, investments in digital initiatives and general wage increases more than offset the positive impact of cost savings from restructuring, improved digital revenues, decreased costs at TMGTV, lower pension costs, and lower newsprint consumption and price. Metroland's costs decreased by $2.3 million in the fourth quarter, which included $3.1 million of savings from restructuring initiatives. Operating earnings were $18.4 million in the fourth quarter of 2014, down $1.4 million from the fourth quarter of 2013.

Segment Results – Star Media Group

Star Media Group revenues were $114.1 million in the fourth quarter of 2014, and were down $22.8 million or 16.6% from the fourth quarter of 2013. Print advertising revenues were down 26.9% at the Toronto Star and reflected continued pressure on national advertising revenues. As compared with the fourth quarter of 2013, multi-platform subscriber revenues at the Toronto Star decreased 6.3% in the fourth quarter of 2014, due in part, to a one-time favourable adjustment included in multi-platform subscriber revenue in the fourth quarter of 2013. At the Metro newspapers, revenues were down relative to the prior year's fourth quarter reflecting the closure of print operations in three of Metro's smaller regions earlier in the year combined with lower advertising revenues, which on a geographic basis were largely concentrated in Metro's Ontario publications and which also continued to reflect pressure on national advertising.

Digital revenue from properties in the Star Media Group decreased 7.9% in the fourth quarter of 2014 as a result of lower revenues at Olive Media and Workopolis, partially offset by revenue growth at eyeReturn Marketing.

Star Media Group adjusted EBITDA was $20.9 million in the fourth quarter of 2014, down $10.6 million from the fourth quarter of 2013 as lower revenues were only partially offset by cost reductions of $12.2 million. These cost reductions included $2.6 million of cost savings from restructuring initiatives, lower pension costs, and the impact of lower newsprint price and consumption. Operating earnings were $16.7 million in the fourth quarter of 2014, down $9.6 million from the fourth quarter of 2013.

5. Outlook

The outlook for Torstar's business in 2015

Metroland Media Group and Star Media Group are expected to continue to face challenges in 2015 as a result of continued shifts in spending by advertisers. Early indications are that the trends experienced in 2014 at the Star Media Group have continued early into 2015. While print advertising declines were more moderate at the Metroland newspapers in 2014, it is difficult to predict if this trend will continue in 2015 given the continued evolution of advertising markets, volatility in the economy and early indications. Flyer distribution revenues are expected to remain relatively stable in 2015 excluding a moderately negative impact from the loss of certain customers due to financial challenges. Multi-platform subscriber revenues have been relatively stable in 2014 but will likely experience some degree of decline in 2015 arising from the decision to launch the Toronto Star's new tablet product and the elimination of the paywall part way through the year. Digital revenue is expected to grow in 2015.

In the area of operating costs, costs associated with the Toronto Star's planned launch of the tablet product in 2015 are currently expected to be in the range of $8 to $9 million and are expected to increase throughout the year and peak in the fourth quarter when the tablet is currently expected to launch. In addition, pension expenses are expected to increase by approximately $3.5 million in 2015 ($2.1 million in Metroland Media Group and $1.4 million in the Star Media Group). While cost reduction has been and is expected to remain an important area of focus in 2015, savings related to restructuring initiatives undertaken through the end of 2014 are expected to be $11.6 million in 2015 ($3.3 million in Metroland Media Group and $8.3 million in the Star Media Group) down from $29.1 million in 2014. In addition, in the first quarter of 2015 the Star Media Group will include an approximate $5.0 to $7.0 million recovery of compensation expense related to the anticipated receipt of digital media tax credits at the Toronto Star. Excluding the impact of launching the Toronto Star's tablet product, full year net investment spending associated with growth initiatives in 2015 are currently expected to be somewhat lower than 2014 levels.

Capital expenditures in 2015 are currently anticipated to be in the order of $30 to 35 million and are expected to include approximately $13 to $15 million of capital spending related to the Toronto Star's tablet product.

Lastly, based on the most recent actuarial valuations, Torstar currently anticipates that the required annual funding for its registered defined benefit pension plans for 2015 through 2017 will be in the range of $18 million, down from approximately $37 million in 2014.

6. 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. Historically, long-term debt has been used to supplement funds from operations as required, generally for capital expenditures or acquisitions.

In connection with the sale of Harlequin, all amounts outstanding under previous debt facilities were repaid using proceeds from the sale. It is expected that future cash flows from operating activities, combined with existing cash and cash equivalents, will be adequate to cover forecasted financing requirements in the foreseeable future.

In 2014, $54.7 million of cash was generated by operating activities from continuing operations, $391.8 million was generated by investing activities for continuing operations and $220.1 million was used in financing activities from continuing operations. Total cash and cash equivalents and restricted cash was $290.2 million at the end of 2014.

In the fourth quarter of 2014, $29.7 million of cash was provided by operating activities from continuing operations, $0.8 million was used in investing activities for continuing operations and $10.1 million was used in financing activities from continuing operations.

Operating Activities
In 2014, operating activities from continuing operations provided cash of $54.7 million after (i) funding of $40.1 million in contributions to employee future benefit plans; and (ii) the use of $16.2 million allocated as restricted cash being held as security for outstanding letters of credit partially offset by (iii) a $22.2 million decrease in non-cash working capital. During 2013, cash of $39.9 million was provided by operating activities from continuing operations after funding $60.7 million of contributions to employee future benefit plans partially offset by a $6.5 million decrease in non-cash working capital.

Operating activities from continuing operations provided cash of $29.7 million in the fourth quarter of 2014 after funding of $11.6 million of contributions to employee future benefit plans and a $2.1 million increase in non-cash working capital, partially offset by a $5.8 million increase in cash and cash equivalents resulting from a decrease in cash held as collateral. The increase in non-cash working capital was primarily the result of increased accounts receivable partially offset by an increase in accounts payable resulting from seasonality in the newspaper businesses. During the fourth quarter of 2013, cash of $36.3 million was provided by operating activities from continuing operations after funding $16.5 million of contributions to employee future benefit plans, partially offset by a $13.0 million decrease in non-cash working capital.

Investing Activities
During 2014, $391.8 million was provided by investing activities from continuing operations. This included $442.2 million in net proceeds received on the sale of Harlequin partially offset by $22.8 million of restricted cash reflecting funds held in escrow and $20.9 million for additions to property, plant and equipment and intangible assets (excluding Torstar's proportionate share of additions of its joint ventures), $4.9 million for additional investments in associated businesses and $10.8 million for acquisitions and investments partially offset by $8.4 million of proceeds from the sale of assets. The 2014 investments in associated businesses included $3.5 million in Blue Ant, $1.0 million in Shop.ca and $0.4 million in Canadian Press. Of the $10.8 million of cash used for acquisitions and investments, $10.1 million was used for the March 31, 2014 purchase of the remaining 10% of Metro English Canada. Proceeds from the sale of assets included $7.6 million of proceeds received on the sale of Tuango. During 2013, $23.1 million was used in investing activities from continuing operations. This included $17.6 million for additions to property, plant and equipment and intangible assets, $3.4 million of additional investments in associated businesses and $2.4 million for acquisitions and investments.

During the fourth quarter of 2014, $0.8 million was used in investing activities from continuing operations. This included $5.9 million for additions to property, plant and equipment and intangible assets and $3.5 million of additional investment in associated businesses (Blue Ant), partially offset by proceeds on sale of assets of $8.4 million, $7.6 million of which were proceeds received on the sale of Tuango. During the fourth quarter of 2013, $5.7 million was used in investing activities from continuing operations including $5.2 million for additions to property, plant and equipment and $0.5 million of additional investment in associated businesses.

Financing Activities
In 2014, net cash of $220.1 million was used in financing activities from continuing operations with $179.7 million used for the net repayment of debt and $41.4 million used for the payment of dividends. In 2013, net cash of $50.2 million was used in financing activities from continuing operations with $41.5 million used for the payment of dividends and $9.0 million used for the net repayment of long-term debt.

Net cash of $10.1 million was used in financing activities from continuing operations in the fourth quarter of 2014 including $10.3 million for the payment of dividends. In the fourth quarter of 2013, $32.5 million of cash was used in financing activities from continuing operations including $10.3 million for the payment of dividends and $22.4 million for the repayment of debt.

Contractual Obligations

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

(in $000's[1]) Nature of the Obligation	Total	2015	2016–2017	2018–2019	2020 +
Office leases	$68,708	$13,474	$26,740	$21,431	$7,063
Services	11,029	3,146	4,263	3,020	600
Total	$79,737	$16,620	$31,003	$24,451	$7,663

Office leases include the offices at One Yonge Street in Toronto for Torstar and the Toronto Star, Metro's offices in Toronto and the Waterloo Region Record office in Kitchener. These leases extend until the year 2020. The services include software licences and distribution contracts for some of the Star Media Group properties and Star Media Group sponsorship commitments.

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.

Along with the other shareholders of Kanetix Ltd., Torstar has pledged its shares in Kanetix (a portfolio investment); in support of the Kanetix credit facility.

In March 2015, Torstar signed definitive documents with La Presse Ltee in respect of a new tablet product for the Toronto Star. This product is currently expected to launch in the fall of 2015.

Outstanding Share and Share Option Information

As at February 28, 2015 Torstar had 9,851,964 Class A voting shares and 70,422,663 Class B non-voting shares outstanding. More information on Torstar's share capital is provided in Note 20 of the 2014 Consolidated Financial Statements.

As at February 28, 2015, Torstar had 5,982,597 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 2014 Consolidated Financial Statements.

7. Financial Instruments

A summary of Torstar's financial instruments

Foreign Exchange

During 2014, Torstar realized a loss of $1.0 million in discontinued operations related to forward foreign exchange contracts to sell $20.0 million U.S. dollars at an average rate of $1.05. Historically, these forward foreign exchange contracts were designated as revenue hedges for accounting purposes with any resulting gains or losses being recognized in Book Publishing revenues as realized. With the anticipated closing of the sale of Harlequin, which previously represented the Book Publishing Segment, Harlequin's results were reclassified as discontinued operations effective the second quarter of 2014 and in July, 2014, Torstar terminated all outstanding forward foreign exchange contracts for a payment of $0.4 million.

During 2013, Torstar realized a loss of $0.4 million on forward foreign exchange contracts to sell $50.0 million U.S. dollars at an average rate of $1.02.

8. 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, 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. Torstar also has a post-employment benefit plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the newspaper operations.

Prior to the sale of Harlequin in the third quarter of 2014, Torstar also had a registered defined benefit pension plan which provided pension benefits to Harlequin's employees primarily in Canada and the U.S. In addition, Harlequin had capital accumulation (defined contribution) plans in Canada, the U.S. and certain of Harlequin's overseas operations.

Torstar had the following employee future benefit assets (obligations) as at December 31:

($000's)	2014	2013*
Registered pension plans	($11,687)	$30,965
Unregistered/unfunded pension plans	(16,783)	(26,283)
Post employment benefit plan	(47,602)	(42,791)
	($76,072)	($38,109)

*Includes amounts associated with Harlequin plans

At December 31, 2014, Torstar's net deficit related to its defined benefit pension plans was $11.7 million, an unfavourable movement of $13.6 million from a net surplus of $1.9 million at September 30, 2014 and an unfavourable movement of $50.4 million from a net surplus of $38.8 million at December 31, 2013 (excluding those plans related to Harlequin), reflecting decreased long-term interest rates partially offset by asset returns and contributions.

Torstar recognized the following expense in operating earnings related to the defined benefit obligations:

($000's)	2014	2013
Registered pension plans	$12,498	$19,269
Unregistered/unfunded pension plans	632	519
Post employment benefits plan	300	359
	$13,430	$20,147

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 2014 and 2013 were:

	2014	2013
To determine the net benefit obligation at the end of the year:		
Discount rate	3.5% - 3.9%	4.2% - 4.7%
Rate of future compensation increase	2.25% - 2.75%	2.5% - 3.0%
To determine benefit expense:		
Discount rate	4.2% - 4.7%	3.4% - 3.9%
Rate of future compensation increase	2.5% - 3.0%	2.5% - 3.0%
	2015	
To determine the pension benefit expense for the following year:		
Discount rate	3.5% - 3.9%	
Rate of future compensation increase	2.25% - 2.75%	

The discount rates 3.5% - 3.9% were the yields at December 31, 2014 on high quality Canadian corporate bonds with maturities that match the expected maturity of the pension obligations. The selection of a discount rate that was one percent higher (holding all other assumptions constant) would have resulted in a decrease in the value of the net pension plan obligation at December 31, 2014 of $117.6 million. A discount rate that was one percent lower would have increased the value of the net pension plan obligation at December 31, 2014 by $134.7 million.

Management has estimated the rate of future compensation increases to be between 2.25% and 2.75%. 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. If the estimated discount rate were one percent higher, the obligation at December 31, 2014 would be approximately $5.5 million higher. If the estimated discount rate were one percent lower, the obligation at December 31, 2014 would be approximately $8.5 million lower. For health care costs, the estimated trend was for a 4.4% increase for the 2014 expense. For 2015, health care costs are estimated to increase by 4.6% with an incremental 0.2% increase each year until 2017. If the estimated increase in health care costs were one percent higher, the obligation at December 31, 2014 would be approximately $1.4 million higher. If the estimated increase in health care costs were one percent lower, the obligation at December 31, 2014 would be approximately $1.2 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 returns and as other assumptions 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 and estimated returns earned on pension plan assets. Torstar recognizes these actuarial gains and losses as realized, through OCI. Actuarial losses from continuing operations of $83.6 million were recognized through OCI in 2014 and actuarial gains of $166.4 million were recognized through OCI in 2013.

Ontario pension plan regulations require that the funded status of registered pension plans be determined no less frequently than every three years 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 December 31, 2013 and form the basis on which required funding is set for 2015 through 2017. Based on these valuations, Torstar expects the required funding for its registered defined benefit plans for the next three years to be in the range of $18 million per year including the use of prepaid solvency contributions which at December 31, 2014 totalled approximately $34 million. Torstar's funding for its defined benefit pension plans was $37.4 million in 2014.

Based on these valuations, Torstar had an estimated solvency deficit of $51.7 million. Based on the December 31, 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 $119 million. Given the change in the discount rate, combined with asset returns from December 31, 2013 through to December 31, 2014, Torstar estimates that the solvency deficit for these plans at December 31, 2014 was approximately $136.4 million.

9. 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 2014 Consolidated Financial Statements are outlined in Note 2 of the 2014 Consolidated Financial Statements for the year ended December 31, 2014. Effective January 1, 2014, Torstar applied IAS 32 *Financial Instruments: Presentation,* IAS 36 *Impairment of Assets* and IFRIC 21 *Levies* for the first time.

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. Application of this amendment affected presentation and disclosures but did 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 the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The application of this amendment affected disclosures but did not impact the financial results in 2014.

IFRIC 21 *Levies* - IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, identifying the obligating event as the activity that triggers the payment of the levy in accordance with the relevant legislation. If an obligation is triggered by reaching a minimum threshold, the liability is recognized when the minimum threshold is reached but if the obligating event occurs over a period of time, the liability is recognized progressively. The adoption of this guidance did not have an impact on financial results.

Accounting Estimates

The preparation of Torstar's 2014 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:

<u>Employee Future Benefits</u>

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, employee turnover, retirement ages, mortality rates, 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 2014 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 in certain foreign jurisdictions. Significant judgement is required in determining the provision for income taxes. In the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Management uses judgement in interpreting tax laws and determining the appropriate rates and amounts in recording current and deferred taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such determination is made.

Deferred tax 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 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 14 of the 2014 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 2014 and 2013.

Classification of assets and liabilities as held for sale and discontinued operations

Classification of assets or a disposal group as held for sale and discontinued operations requires judgement on whether the carrying amount will be recovered principally through a sale transaction, rather than through continuing use, and if the sale is highly probable.

Torstar classified its investment in Harlequin as Assets held for sale and Discontinued operations effective April 1, 2014 based on an agreement signed on May 1, 2014 in respect of the sale of Harlequin. Upon the closing of the sale on August 1, 2014, the net assets of Harlequin were no longer included as Assets held for sale.

Classification of cash equivalents

Classification of cash equivalents requires judgement on whether short-term investments are easily convertible into cash. Short-term investments with maturities on acquisition of 90 days or less are presumed to be cash equivalents due to the short holding period of the investment. Torstar has classified its short-term investments with original maturities on acquisition of over 90 days but less than 365 days as cash equivalents based on management's judgement that the short-term investments are liquid as Torstar has a contractual right to convert them into cash with 30 days' notice.

Determination of operating segments, reportable segments and CGUs

Effective 2014, Torstar has disaggregated the former Media Segment and has now disclosed Metroland Media Group and Star Media Group as separate reportable operating segments for segment reporting purposes. "Corporate" is the provision of corporate services and administrative support. 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. 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.

10. Recent Accounting Pronouncements

A discussion of recent IFRS developments that will affect Torstar

The International Accounting Standards Board ("IASB") continues to issue new and revised IFRS. A listing of the changes in IFRS is included in Note 2(u) in Torstar's December 31, 2014 Consolidated Financial Statements. Effective January 1, 2015, Torstar will adopt the changes to IAS 19 *Employee Benefits*. The adoption of this amendment will not have any impact on Torstar's financial results.

In addition, the following new standards or amendments to accounting standards will be effective for Torstar subsequent to 2015:

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 which specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Torstar does not anticipate early adoption and plans to adopt the standard on its effective date of January 1, 2017. Torstar is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued a finalized version of IFRS 9 which contains accounting requirements for financial instruments replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas: Classification and Measurement; Impairment; Hedge Accounting; and Derecognition. Torstar does not anticipate early adoption and plans to adopt the standard on its effective date of January 1, 2018. Torstar is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

11. 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, 2014, 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, 2014, 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 2013 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, 2014.

Changes in Internal Control over Financial Reporting
There have been no changes in Torstar's internal controls over financial reporting that occurred during the three months ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, Torstar's internal controls over financial reporting.

12. Selected Annual Information

A summary of selected annual financial information for 2014, 2013 and 2012

(in $000's – except per share amounts)	2014	2013	2012
Segmented Revenue*	$904,618	$984,047	$1,059,261
Revenue*	$858,134	$935,773	$1,005,971
Net income (loss) from continuing operations	($49,598)	($58,046)	$33,685
Per Class A voting and Class B non-voting share - Basic	($0.62)	($0.73)	$0.42
Net income (loss)	$173,064	($27,413)	$82,933
Net income (loss) attributable to equity shareholders	$172,685	($27,984)	$82,344
Per Class A voting and Class B non-voting share			
Basic	$2.16	($0.35)	$1.03
Diluted	$2.15	($0.35)	$1.03
Average number of shares outstanding during the year (in 000's)			
Basic	80,078	79,840	79,671
Diluted	80,254	79,840	79,946
Cash dividends per Class A voting and Class B non-voting share	$0.525	$0.525	$0.5188
Total assets	$1,143,521	$1,348,712	$1,443,888
Total long-term debt	$Nil	$175,898	$178,027

*These figures have been restated for the classification of Harlequin (Book Publishing Segment) as Held for Sale/Discontinued Operations. Refer to Note 24 of Torstar's 2014 Consolidated Financial Statements for further information.

Revenue has declined in 2014 and 2013 reflecting a structural shift within the advertising industry from print media to digital media. Digital revenues were flat in 2014 and down slightly in 2013 reflecting further shifts within the digital industries in which Torstar operates.

Over the three year period, significant labour cost savings have been realized in the newspaper operations 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.

Total assets have declined slightly over the three year period reflecting total impairment charges of $97.9 million and $86.1 million recorded in 2014 and 2013 respectively. All amounts outstanding under previous debt facilities were repaid during 2014 using proceeds from the sale of Harlequin.

13. 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:

	Quarter Ended							
(in $000's - except per share amounts)	Dec 31, 2014	Sept 30, 2014	June 30, 2014	March 31, 2014	Dec 31, 2013	Sept 30, 2013	June 30, 2013	March 31, 2013
Revenue*	$233,434	$199,925	$225,591	$199,184	$259,415	$215,678	$243,558	$217,122
Net Income (loss) from continuing operations	$20,887	($86,998)	$18,104	($1,591)	$15,841	($80,220)	$12,552	($6,219)
Per Class A voting and Class B non-voting share - Basic and Diluted	$0.26	($1.08)	$0.23	($0.02)	$0.20	($1.01)	$0.16	($0.08)
Net Income attributable to equity shareholders	$20,556	$125,343	$19,682	$7,104	$20,637	($70,800)	$18,006	$4,173
Per Class A voting and Class B non-voting share								
Basic	$0.26	$1.57	$0.25	$0.09	$0.26	($0.89)	$0.23	$0.05
Diluted	$0.26	$1.56	$0.25	$0.09	$0.26	($0.89)	$0.23	$0.05

*These figures have been restated for the classification of Harlequin (Book Publishing Segment) as Held for Sale/Discontinued Operations. Refer to Note 24 of Torstar's 2014 Consolidated Financial Statements for further information.

The summary of quarterly results illustrates the cyclical nature of revenues and operating profit in Star Media Group and Metroland Media Group. The second and fourth quarters are generally the strongest with the first and third quarter being the softest.

Restructuring and other charges have also affected the level of net income for several quarters. Reported on a segmented basis, restructuring and other charges were $3.6 million, $4.4 million, $3.9 million and $10.9 million in the first, second, third and fourth quarters of 2014, respectively and $5.7 million, $6.1 million, $5.3 million and $16.1 million in the first, second, third and fourth quarters of 2013, respectively. Additionally, losses on impairment of assets (reported on a segmented basis) of $0.3 million, $0.3 million, $97.3 million and $0.1 million were recorded in the first, second, third and fourth quarters of 2014 and $0.4 million, $85.5 million and $0.3 million were recorded in the second, third and fourth quarters of 2013, respectively.

In addition, the third quarter of 2014 included a $224.6 million pre-tax gain on the sale of Harlequin.

14. 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: segmented revenue, adjusted EBITDA (and where applicable segmented adjusted EBITDA), operating earnings (and where applicable segmented operating earnings), adjusted earnings per share and free cash flow, as measures to assess the consolidated performance and the performance of the reporting units and business segments.

Segmented revenue

Segmented revenue is calculated in the same manner as Operating revenue in the Consolidated Financial Statements, except that it is calculated using total segment results prior to the elimination of proportionately consolidated results for joint ventures.

Adjusted EBITDA/Segmented Adjusted EBITDA

Management believes that adjusted EBITDA is an important proxy for the amount of cash generated by Torstar's ongoing operations (or by a reporting unit or business segment) to generate liquidity to fund future capital needs and management uses this metric for this purpose. Adjusted EBITDA is not the actual cash provided by operating activities and is not a recognized measure of financial performance under IFRS. Torstar calculates adjusted EBITDA as operating revenue, less salaries and benefits and other operating costs, as presented on the consolidated statement of income, and excludes restructuring and other charges and impairment of assets. Restructuring and other charges and impairment of assets are eliminated as these activities are not related to ongoing operations as of the end of the period. The exclusion of impairment of assets also eliminates the non-cash impact. Adjusted EBITDA is also used by investors and analysts for valuation purposes. The intent of adjusted EBITDA is to provide additional useful information to investors and analysts and financial statement readers and the measure does not have any standardized meaning under IFRS and accordingly may not be comparable to measures used by other companies (including calculating EBITDA on an adjusted basis to exclude restructuring and other charges and impairment of assets). Segmented adjusted 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 inclusive of amortization and depreciation. It 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. Restructuring and other charges and impairment of assets are eliminated as these activities are not related to ongoing operations as of the end of the period. Torstar's method of calculating operating earnings (including calculating operating earnings on an adjusted basis to exclude restructuring and other charges and impairment of assets) 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 adjusted EBITDA and operating earnings (and segmented adjusted EBITDA/segmented operating earnings – as applicable) with operating profit (segmented operating profit – as applicable). Adjusted EBITDA, segmented adjusted EBITDA, operating earnings and segmented operating earnings are regularly reported to the chief operating decision maker and corresponds to the definition used in Torstar's historical discussions.

	Segmented		Per Consolidated Statement of Income	
	Fourth Quarter 2014	Year Ended Dec. 31 2014	Fourth Quarter 2014	Year Ended Dec. 31 2014
Operating profit (loss)	$19,944	($52,370)	$18,440	($44,185)
Add: Restructuring and other charges	10,878	22,706	10,870	22,646
Add: Impairment of assets	63	97,935	63	82,935
Operating earnings	$30,885	$68,271	$29,373	$61,396
Add: Amortization and depreciation	7,750	33,401	7,081	30,674
Adjusted EBITDA	$38,635	$101,672	$36,454	$92,070

	Segmented		Per Consolidated Statement of Income	
	Fourth Quarter 2013	Year Ended Dec. 31 2013	Fourth Quarter 2013	Year Ended Dec. 31 2013
Operating profit (loss)	$26,026	($37,713)	$24,277	($34,703)
Add: Restructuring and other charges	16,512	33,829	16,123	33,170
Add: Impairment of assets	266	86,094	266	77,094
Operating earnings	$42,804	$82,210	$40,666	$75,561
Add: Amortization and depreciation	8,872	34,964	8,179	32,228
Adjusted EBITDA	$51,676	$117,174	$48,845	$107,789

Adjusted earnings per share

Adjusted earnings per share is used by management to represent the per share earnings of results of ongoing operations and is not a recognized measure of financial performance under IFRS. Torstar calculates adjusted earnings per share as earnings per share from continuing operations less the per share effect of restructuring and other charges, impairment of assets, non-cash foreign exchange, other income (expense) and change in deferred taxes. 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		Year Ended December 31	
	2014	2013	2014	2013
Adjusted earnings per share	$0.30	$0.34	$0.58	$0.62
• Restructuring and other charges	(0.10)	(0.14)	(0.20)	(0.30)
• Impairment of assets			(1.21)	(1.04)
• Non-cash foreign exchange			(0.07)	(0.01)
• Other income (expense)	0.06		0.04	
• Change in deferred taxes			0.24	
Earnings per share from continuing operations	$0.26	$0.20	($0.62)	($0.73)

Operating profit/Segmented 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. Segmented operating profit 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.

Free cash flow

Free cash flow is used by management to represent cash flow generated by the ongoing operations of the business including investing activities. It is not a recognized measure of financial performance under IFRS. Torstar calculates free cash flow as the sum of cash flow from operating activities from continuing operations and cash flow from investing activities from continuing operations excluding movements in current and non-current restricted cash and the net proceeds from the sale of Harlequin. Torstar's method of calculating free cash flow may differ from other companies and accordingly may not be comparable to measures used by other companies. The following is a reconciliation of free cash flow to the increase in cash.

	2014	2013
Free cash flow	$43,258	$16,745
Add: Proceeds on sale of Harlequin	442,207	-
Add: Cash provided by operating activities of discontinued operations	8,635	40,863
Less: Increase in restricted cash (current)	(16,150)	-
Less: Increase in restricted cash (non-current)	(22,750)	-
Less: Cash used in investing activities of discontinued operations	(1,609)	(5,596)
Less: Cash used in financing activities	(220,065)	(50,230)
Increase in cash	$233,526	$1,782

15. Enterprise Risk Management

Enterprise risks and uncertainties facing Torstar and how Torstar manages these risks

Definition of Business Risk

Torstar defines business risk as the degree of exposure associated with the achievement of key strategic, financial, organizational and process objectives in relation to the effectiveness and efficiency of operations, the reliability and integrity of financial reporting, compliance with laws, regulations, policies, procedures and contracts and safeguarding of assets within an ethical organizational culture.

Torstar's enterprise risks are largely derived from its business environment and are fundamentally linked to Torstar's strategies and business objectives. Torstar strives to proactively mitigate its risk exposures through performance planning, effective business operational management and risk response strategies which can include mitigating, transferring, retaining and/or avoiding risks. Torstar strives to avoid taking on undue risk exposures whenever possible and ensure alignment of exposures with business strategies, objectives, values and risk tolerances.

Section 16 summarizes the principal risks and uncertainties that could affect Torstar's future business results.

Torstar's Risk and Control Assessment Process

In 2014, Torstar used a multi-level enterprise risk and control assessment process that incorporated the insight of employees throughout the Corporation.

At a high level, Torstar performed an assessment of key business and strategic risks in order to capture changing business risks, monitor key risk mitigation activities and provide ongoing updates and assurance to the Audit Committee. This assessment consisted of interviews with senior managers. Additionally, Torstar's assessment process incorporated input from internal and external audit and from management's internal control over financial reporting compliance activities and its respective risk assessments, as well as input and from other relevant internal and external compliance and audit processes. Key enterprise risks were identified, defined and prioritized, and risks were classified into discrete risk categories.

Lastly, Torstar conducted detailed risk assessments through various compliance activities and risk management initiatives (e.g. health and safety, network and IT vulnerability, fraud and ethics assessments and environmental assessments). The results of these multiple risk assessments were evaluated, prioritized, updated and integrated into the key risk profile during the year.

Board risk governance and oversight

In carrying out the above noted process, Torstar also ensured that the key risks identified in the key risk matrix were assigned for oversight by the Board, or one or more Board committees, as outlined in the Board's terms of reference and Board Committee mandates.

16. 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.

Revenue Risks

Revenue is primarily dependent upon the sale of advertising and to a lesser extent, the distribution of inserts and flyers and the generation of circulation/subscription revenue. Advertising revenue includes in-paper advertising, digital advertising and specialty publications.

Competition and Digital Shift

There has been a continuing structural shift within the advertising industry from print to digital advertising and as a result, digital media generates significant competition for advertising. This shift has and will continue to negatively impact print advertising revenue and appears to be permanent. Competition also comes from a variety of other sources such as free and paid local, regional and national newspapers, radio, broadcast and cable television, magazines, outdoor, direct marketing, flyers, directories, and other communications and advertising media.

Digital competition is not limited to platforms that provide news and news aggregation. Competitors include providers of search engine marketing, display advertising, digital classifieds, digital directories, social media, mobile advertising and video advertising. 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. Torstar's existing and potential future digital competitors 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. The extent and nature of competition has intensified over the past few years as a result of the rapid and continued development of digital media alternatives which has resulted in the fragmentation of audiences, shifting audience preferences and consumer demand moving in unanticipated directions. 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 external advertising. Torstar may not be able to successfully adapt to these rapid changes and increasing number of digital media options or to distinguish its products and services from those of its competitors.

In response to this shift to digital media, Torstar has been investing significant time and resources in its digital platforms to evolve its existing products and develop new products, including mobile platforms, video and the development of a new tablet product for the Toronto Star which is expected to launch in the fall of 2015. The new tablet product will be based on technology and services provided by third parties and there is a risk that the Toronto Star and the third parties will be unable to successfully integrate the technology and services into its platform. There is also a risk that Torstar will be unable to successfully attract or retain users and advertisers with its existing or new digital platforms, including the new tablet product. Thus far, 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 addition, some of Torstar's digital platforms are in an early stage of development and may not achieve profitability.

There has been and continues to be consolidation in Canadian media, and competitors are increasingly larger and have interests in multiple forms of media and may be more successful in attracting advertising revenue.

Content and Readership

Advertisers often base their decisions about where to advertise on readership and circulation data. 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 affecting 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. If these or other trends continue to result in declining print circulation, circulation revenues and the ability to increase or maintain advertising rates may be adversely affected. While digital 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. The Toronto Star currently has a pay model for digital readership, however it has recently announced that it intends to remove the paywall in 2015 and Torstar does not anticipate generating significant revenues from paid digital subscriptions.

Torstar's reputation for quality journalism and content is an important factor in maintaining readership levels. Torstar strives to provide content across numerous platforms 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 and digital platforms, Torstar faces the risk that it may not be able to sufficiently attract and retain a base of frequent and engaged visitors to its digital platforms. If usage is insufficient, Torstar may not be able to create enough advertiser interest in its digital platforms. Torstar may incur additional costs to attract readers and increase its platform usage and may not be able to recover these costs through advertising revenues. In addition, certain new and evolving content delivery platforms may present more limited opportunities for advertising.

Economic Conditions and Customer Prospects
Advertising revenue in Torstar's newspapers and digital platforms is dependent on the prospects of its advertising customers, which can be 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. Certain of Torstar's local and national advertisers operate in industries that are sensitive to adverse economic conditions, including car manufacturers and dealers, home builders, financial services, telecommunications, travel, department and grocery stores and other retailers and a downturn that impacts any of these industries could also have an adverse impact on Torstar's revenue. In addition, a change in an advertiser's individual business, prospects or competitive position could alter their spending priorities and impact their advertising budgets, which could have an adverse effect on Torstar's revenue.

Cost Structure
Torstar's businesses are characterized by a relatively high fixed cost structure and accordingly, a change in revenue could have a disproportionate effect on Torstar's financial performance. Over the last several years, Torstar has reduced costs in a number of ways including by reducing staff and outsourcing certain services. It will be increasingly difficult to continue to reduce costs from current levels. Torstar's ability to achieve cost savings may be impacted by the level of unionization at its newspaper operations, existing third-party suppliers and service providers and Torstar's ability to 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 may impact Torstar's 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 the good reputation of Torstar, including its significant businesses and brands and Torstar's ability to maintain its existing customer relationships and generate new customers depends greatly on this reputation. The Toronto Star's reputation for high-quality journalism and content makes this brand a key asset and its continued success depends in part on Torstar's ongoing ability to preserve and leverage the value of this brand, Metroland Media Group's brands and other brands. In addition, as Torstar outsources services and develops brand extensions, it may work with third party service providers or vendors whose actions could impact its reputation and the value of Torstar's brands. The loss or tarnishing of the reputation of Torstar through negative publicity or otherwise, whether true or not, could have an adverse impact on its business, operations or financial condition.

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.

Reliance on Technology and Information Systems
Torstar places considerable reliance upon technology and information systems, including those of third party service providers, throughout its operations, including for digital platforms, content delivery, payment processing, email, back-office support and other functions. Torstar's businesses also collect, use and store sensitive data, including intellectual property, employee information and business information (including internal information and information from customers, suppliers and business partners). Despite Torstar's security measures and those of its third-party

service providers, Torstar's systems and those of its service providers 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. Businesses in general have recently seen a rise in cyberattacks (including by state-sponsored and criminal organizations and other individuals and groups) and as a result risks associated with these kinds of attacks continue to increase. 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 or that the systems of its service providers will be adequately protected. The occurrence of any of these events could have an adverse effect on Torstar's operations and revenues, including through a disruption of Torstar's 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 Torstar to liability under privacy or other applicable laws. In addition, protecting against these events is costly and requires ongoing monitoring and updating as technologies change.

Strategic Growth Initiatives, Acquisitions and Dispositions

Strategic Growth

Torstar's growth, and its ability to successfully deploy capital is dependent on its ability to identify, develop and execute appropriate strategic growth initiatives, which may involve organic growth and growth through acquisition or investment. There is no guarantee that any such opportunities will be available for Torstar or that they will be available at an appropriate price. The implementation of Torstar's strategic initiatives is subject to the risks affecting its business generally, the risks associated with identifying and implementing new strategies and the risks associated with acquisitions or investments. Strategic initiatives may not successfully generate revenues or improve operating profit and, if they do, it may take longer or cost more than anticipated. In addition, there is no assurance that the implementation or integration of any strategic initiative will be successful.

Unexpected Costs or Liabilities Related to Acquisitions and Dispositions

From time to time, Torstar may make acquisitions or sell certain investments or subsidiaries and these transactions may affect Torstar's costs, revenues, profitability and financial position. Transaction agreements may provide for certain post-closing adjustments and indemnities or the assumption of certain liabilities and Torstar may be subject to unexpected costs or liabilities in connection with such transactions. For example, Torstar may have, or may be required to provide representations, warranties and/or indemnities to third party purchasers which may expose Torstar to costs or liabilities for breaches of representations and warranties or indemnity claims as a result of unexpected or unknown matters.

Employee Future Benefits

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 many 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, mortality and plan experience and changes to the discount rate used to measure Torstar's contribution obligations and the rate of return on plan assets. 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.

The most significant group of Torstar's registered defined benefit pension plans (in terms of assets and obligations) completed the preparation of actuarial reports as of December 31, 2013. While the required funding resulting from these reports should not change until 2018 there is no guarantee that the funding requirements beyond 2017 will not increase.

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 and a post-employment benefits plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the newspaper operations. These plans are being funded as payments are made. The liabilities associated with these plans may be affected by several factors, including changes to benefits provided

to plan participants, changes to actuarial assumptions and methods, changes in participant demographics and plan experience, and the discount rate used to assess plan obligations.

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 700 staff covered by four collective agreements. The largest agreement covers approximately 425 employees at One Yonge Street, Toronto. This collective agreement will expire at the end of December 2016. There are three agreements covering approximately 275 employees at the Toronto Star's Vaughan Press Centre. One agreement covering approximately 15 employees will expire in December 2016 and another agreement covering approximately 235 employees will expire in December 2019. One other agreement, covering approximately 25 employees expired in December 2014 and contract negotiations are ongoing.

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 695 employees. There are ten collective agreements covering approximately 260 employees within the community newspapers. Two agreements covering approximately 25 employees will expire in August 2015. Three agreements covering approximately 45 employees will expire in November 2016 and two agreements covering approximately 140 employees will expire in December 2016. Three agreements covering approximately 50 employees expired in December 2014 and negotiations are expected to commence shortly.

At the Metroland Media Group daily newspapers, there are ten agreements covering approximately 435 employees. Two agreements covering approximately 150 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 and one agreement covering approximately 10 employees at the Guelph Mercury will expire in May 2017. One agreement covering approximately 85 employees at the Hamilton Spectator and four agreements covering approximately 110 employees at the Waterloo Region Record expired in December 2014 and negotiations are expected to commence shortly.

Newsprint Costs

Newsprint is the single largest raw material expense for Torstar's newspaper operations and represents approximately 5% of total operating costs for 2014. Newsprint is priced as a commodity with the price varying widely from time to time.

Torstar could face a risk in supply of newsprint and/or increased prices as a result of a reduction in the number of suppliers (due to financial instability, restructuring or consolidation) or as a result of mill closures and/or changes in grades and types of newsprint supplied. Volatility in the price of newsprint may also be caused by other factors influencing supplier profitability including increased raw material and energy costs. Torstar primarily sources newsprint from three main suppliers. Pursuant to arrangements with its suppliers, Torstar has negotiated a pricing band for the majority of its newsprint requirements for 2015 and 2016 at prices similar to those realized in 2014. 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.

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.

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 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 communications and computer programs, cyber-crime and access could adversely impact 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 and Health and Safety

Torstar is subject to a variety of environmental, health and safety 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 and employee health and safety. Environmental, health and safety laws and regulations have become increasingly stringent, and such laws and regulations are expected to continue to change. While Torstar has an environmental policy, an environmental committee and health and safety policies and committees in place to assist in monitoring compliance with applicable legislation, there can be no assurance that all applicable liabilities have been identified or that expenditures will not be required to meet future legislation. Compliance with existing and new environmental, health and safety laws and regulations may subject Torstar to unexpected costs and a failure to comply with present or future laws or regulations could result in fines, civil or criminal sanctions, third-party claims or other costs, including costs or expenses required to modify existing business processes.

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.

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, digital, sales and technical 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.

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 Torstar's rights and changes and advancements in technology and the wide dissemination of content have made the enforcement of intellectual property rights more challenging. In addition, third parties may contest Torstar's intellectual property rights and while Torstar has 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".

Credit Risk

Credit risk is the risk of financial loss to Torstar if a customer or counterparty to a financial asset fails to meet its contractual obligations. In the normal course of business, Torstar is exposed to credit risk for accounts receivable from its customers and counterparties holding cash and cash equivalents and restricted cash.

While Torstar applies a prudent approach to the granting of credit to customers, the collectability of accounts receivable could deteriorate to a greater extent than provided for in Torstar's 2014 Consolidated Financial Statements. Accounts receivable are carried at net realizable value and the allowance for doubtful accounts has been determined based on several factors, including the aging of accounts receivable, evaluation of significant individual credit risk accounts and historical experience. If such collectability estimates prove inaccurate, adverse adjustments to future operating results could occur and could be material.

In addition, a large portion of Torstar's cash and cash equivalents and restricted cash are held with one major Canadian bank. While Torstar regularly reviews the financial condition of this counterparty, a failure of this counterparty could materially adversely affect Torstar's business and consolidated financial condition.

Product Revenue and Product Liability

Metroland Media Group's product business has been diminishing over the past few years and this trend may continue in the future. 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. See also the risks and uncertainties described above related to "Litigation".

Deposit Interest Rates

Some of Torstar's cash and cash equivalents and restricted cash are invested in interest bearing instruments in which Torstar is exposed to fluctuations in market interest rates. A decline in prevailing market interest rates could result in a decrease in the amount of interest Torstar earns on these instruments.

Foreign Exchange Fluctuations and Foreign Operations

Torstar's revenues, expenses and monetary assets and liabilities denominated in currencies other than the Canadian dollar will give rise to a foreign currency gain or loss reflected in earnings. Over the past year, the Canadian currency has become increasingly volatile and may retain the same or higher levels of volatility in the coming years, to the extent that this continues, such volatility may be reflected in Torstar's operating results in the form of additional costs and reduced revenues.

Income Tax and Other Taxes

Torstar collects, pays and accrues income and other taxes. Torstar has also recorded significant amounts of deferred income tax liabilities and current income tax expense, and calculated these amounts based on substantively enacted income tax rates in effect at the relevant time. A legislative change in these rates could have a material impact on the amounts recorded and payable in the future.

Torstar has also recorded the benefit of income and other tax positions based on estimates, using accounting principles that recognize the benefit of income tax positions when it is more likely than not that the ultimate determination of the tax treatment of a position will result in the related benefit being realized. The assessment of the likelihood and amount of income tax benefits, as well as the timing of realization of such amounts, can materially affect the determination of net income or cash flows.

While Torstar believes that it has paid and provided for adequate amounts of tax, significant judgement is required in interpreting tax legislation and regulations in relation to Torstar. Torstar's tax filings are subject to audit by the relevant government revenue authorities and the results of the government audit could materially change the amount of Torstar's actual income tax expense, income taxes payable or receivable, other taxes payable or receivable and deferred income tax assets or liabilities and could, in certain circumstances, result in an assessment of interest and penalties.

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 outlook 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.

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.

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 3, 2015

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, 2014 and 2013, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants
Licensed Public Accountants

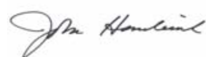
Toronto, Canada
March 3, 2015

Torstar Corporation
Consolidated Statement of Financial Position
(Thousands of Canadian Dollars)

	As at December 31 2014	*As at December 31 2013*
Assets		
Current:		
Cash and cash equivalents	**$251,339**	$19,151
Restricted cash (note 5)	**16,150**	
Receivables (note 15)	**162,843**	261,485
Inventories (note 6)	**9,309**	29,368
Prepaid expenses and other current assets	**6,645**	47,872
Prepaid and recoverable income taxes	**2,044**	3,765
Total current assets	**448,330**	361,641
Restricted cash (note 5)	**22,750**	
Investments in joint ventures (note 7)	**54,531**	80,901
Investments in associated businesses (note 8)	**39,960**	40,215
Property, plant and equipment (note 9)	**125,057**	150,665
Intangible assets (note 10)	**61,610**	73,942
Goodwill (note 11)	**344,417**	533,982
Other assets (note 13)	**9,497**	11,465
Employee benefits (note 19)	**9,243**	44,532
Deferred income tax assets (note 14)	**28,126**	51,369
Total assets	**$1,143,521**	$1,348,712
Liabilities and Equity		
Current:		
Bank overdraft		$1,741
Accounts payable and accrued liabilities	**$115,717**	202,888
Derivative financial instruments (note 15)		911
Provisions (note 17)	**22,583**	20,807
Income tax payable	**11,708**	9,810
Total current liabilities	**150,008**	236,157
Long-term debt (note 15)		175,898
Derivative financial instruments (note 15)		4,125
Provisions (note 17)	**16,774**	16,251
Other liabilities (note 18)	**9,996**	12,425
Employee benefits (note 19)	**85,315**	82,641
Deferred income tax liabilities (note 14)	**11,708**	24,431
Equity:		
Share capital (note 20)	**400,577**	398,605
Contributed surplus	**18,708**	17,383
Retained earnings	**447,725**	385,589
Accumulated other comprehensive income (loss) (note 22)	**21**	(7,603)
Total equity attributable to equity shareholders	**867,031**	793,974
Minority interests	**2,689**	2,810
Total equity	**869,720**	796,784
Total liabilities and equity	**$1,143,521**	$1,348,712

(see accompanying notes)

ON BEHALF OF THE BOARD



John Honderich
Director

Paul Weiss
Director

Torstar Corporation
Consolidated Statement of Income

(Thousands of Canadian Dollars except per share amounts)

	Year ended December 31	
	2014	2013 Restated*
Operating revenue	**$858,134**	$935,773
Salaries and benefits	**(361,544)**	(388,985)
Other operating costs	**(404,520)**	(438,999)
Amortization and depreciation (notes 9 and 10)	**(30,674)**	(32,228)
Restructuring and other charges (note 17)	**(22,646)**	(33,170)
Impairment of assets (note 12)	**(82,935)**	(77,094)
Operating loss	**(44,185)**	(34,703)
Interest and financing costs (note 15(c))	**(4,253)**	(16,060)
Foreign exchange	**(7,656)**	(1,186)
Loss from joint ventures (note 7)	**(9,152)**	(3,733)
Income of associated businesses (note 8)	**194**	2,345
Other income (expense) (note 23)	**3,754**	491
	(61,298)	(52,846)
Income and other taxes recovery (expense) (note 14)	**11,700**	(5,200)
Net loss from continuing operations	**(49,598)**	(58,046)
Gain on sale and income from discontinued operations (note 24)	**222,662**	30,633
Net income (loss)	**$173,064**	($27,413)
Attributable to:		
Equity shareholders	**$172,685**	($27,984)
Minority interests	**$379**	$571
Net income (loss) attributable to equity shareholders per Class A (voting) and Class B (non-voting) share (note 20(c)):		
Basic:		
From continuing operations	**($0.62)**	($0.73)
From discontinued operations	**$2.78**	$0.38
	$2.16	($0.35)
Diluted:		
From continuing operations	**($0.62)**	($0.73)
From discontinued operations	**$2.77**	$0.38
	$2.15	($0.35)

(see accompanying notes)

** The 2013 comparative amounts have been restated to reflect the classification of Harlequin into discontinued operations.*

Torstar Corporation
Consolidated Statement of Comprehensive Income

(Thousands of Canadian Dollars)

	Year ended December 31	
	2014	2013 Restated*
Net income (loss)	**$173,064**	($27,413)
Other comprehensive income (loss) that are or may be reclassified subsequently to net income (loss):		
Unrealized foreign currency translation adjustment (no income tax effect)	**(14)**	42
Unrealized foreign currency translation adjustment for associated businesses (no income tax effect) (note 8)	**125**	24
Net movement on available-for-sale financial assets (no income tax effect)		6
Net movement on cash flow hedges		2,893
Income tax effect		(700)
Realized loss on cash flow hedges transferred to net income	**4,125**	
Income tax effect	**(1,096)**	
Unrealized loss on hedge of net investment (no income tax effect)		(5,496)
Realized loss on hedge of net investment transferred to net income (no income tax effect)	**5,520**	
	8,660	(3,231)
Other comprehensive income (loss) that will not be reclassified to net income (loss) in subsequent periods:		
Actuarial gain (loss) on employee benefits (note 19)	**(83,596)**	166,410
Income tax effect	**21,400**	(42,200)
Actuarial gain (loss) on employee benefits for associated businesses (no income tax effect) (note 8)	**(365)**	1,512
	(62,561)	125,722
Other comprehensive income (loss) from continuing operations, net of tax	**($53,901)**	$122,491
Other comprehensive income (loss) from discontinued operations	**(9,133)**	22,863
Income tax effect	**2,158**	(4,800)
Other comprehensive income (loss) from discontinued operations, net of tax (note 24)	**($6,975)**	$18,063
Total other comprehensive income (loss), net of tax	**($60,876)**	$140,554
Comprehensive income, net of tax	**$112,188**	$113,141
Attributable to:		
Equity shareholders	**$111,809**	$112,570
Minority interests	**$379**	$571

(see accompanying notes)

** The 2013 comparative amounts have been restated to reflect the classification of Harlequin into discontinued operations.*

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

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total attributable to equity shareholders	Minority interests	Total equity
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
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**
Net income			**172,685**		**172,685**	**379**	**173,064**
Other comprehensive income (loss)			**(68,500)**	**7,624**	**(60,876)**		**(60,876)**
Total comprehensive income			**104,185**	**7,624**	**111,809**	**379**	**112,188**
Dividends (note 20)	**649**		**(42,049)**		**(41,400)**		**(41,400)**
Exercise of share options (note 20)	**721**	**(109)**			**612**		**612**
Issue of share capital – other (note 20)	**602**				**602**		**602**
Share-based compensation expense		**1,434**			**1,434**		**1,434**
Distribution						**(500)**	**(500)**
At December 31, 2014	**$400,577**	**$18,708**	**$447,725**	**$21**	**$867,031**	**$2,689**	**$869,720**

(see accompanying notes)

Torstar Corporation
Consolidated Statement of Cash Flows
(Thousands of Canadian Dollars)

	Year ended December 31	
	2014	2013 *Restated**
Cash was provided by (used in)		
Operating activities	**$63,358**	$80,732
Investing activities	**390,233**	(28,720)
Financing activities	**(220,065)**	(50,230)
Increase in cash	**233,526**	1,782
Effect of exchange rate changes from discontinued operations	**403**	568
Cash, beginning of year	**17,410**	15,060
Cash, end of year	**$251,339**	$17,410
Operating activities:		
Net loss from continuing operations	**($49,598)**	($58,046)
Amortization and depreciation (notes 9 and 10)	**30,674**	32,228
Deferred income taxes (note 14)	**(12,400)**	5,000
Loss from joint ventures (note 7)	**9,152**	3,733
Distributions from joint ventures (note 7)	**9,250**	5,735
Income of associated businesses (note 8)	**(194)**	(2,345)
Dividend from associated businesses (note 8)	**1,222**	954
Impairment of assets (note 12)	**82,935**	77,094
Non-cash employee benefit expense (note 19)	**13,840**	28,278
Employee benefits funding (note 19)	**(40,134)**	(60,714)
Other (note 26)	**3,883**	1,498
	48,630	33,415
Restricted cash (note 5)	**(16,150)**	
Decrease in non-cash working capital	**22,243**	6,454
Cash provided by operating activities of continuing operations	**54,723**	39,869
Cash provided by operating activities of discontinued operations (note 24)	**8,635**	40,863
Cash provided by operating activities	**$63,358**	$80,732
Investing activities:		
Additions to property, plant and equipment and intangible assets (notes 9 and 10)	**($20,947)**	($17,582)
Investment in associated businesses	**(4,906)**	(3,485)
Acquisitions and portfolio investments (note 25)	**(10,759)**	(2,435)
Net proceeds from the sale of Harlequin (note 24)	**442,207**	
Restricted cash (notes 5 and 24)	**(22,750)**	
Proceeds from sale of assets (note 23)	**8,375**	
Other	**622**	378
Cash provided by (used in) investing activities of continuing operations	**391,842**	(23,124)
Cash used in investing activities of discontinued operations (note 24)	**(1,609)**	(5,596)
Cash provided by (used in) investing activities	**$390,233**	($28,720)
Financing activities:		
Repayment of bankers' acceptances	**($190,923)**	($22,416)
Issuance of bankers' acceptances	**11,199**	13,428
Dividends paid	**(41,400)**	(41,461)
Exercise of share options	**612**	
Other	**447**	219
Cash used in financing activities	**($220,065)**	($50,230)
Cash represented by:		
Attributed to continuing operations:		
Cash	**$33,063**	$26,542
Cash equivalents – short-term deposits	**218,276**	
	$251,339	$26,542
Attributed to discontinued operations:		
Cash equivalents – short-term deposits		$2,940
Bank overdraft		(12,072)
		($9,132)
Net cash, end of year	**$251,339**	$17,410

(see accompanying notes)

* *The 2013 comparative amounts have been restated to reflect the classification of Harlequin into discontinued operations.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2014 and 2013

(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") as issued by the *International Accounting Standards Board* ("IASB"). The policies applied in these consolidated financial statements are based on IFRS policies effective as of December 31, 2014. These consolidated financial statements have been authorized for issue in accordance with a resolution from the Board of Directors on March 3, 2015.

On May 1, 2014, the Company entered into an agreement to sell all of the shares of Harlequin Enterprises Limited ("Harlequin") to a division of HarperCollins Publishers L.L.C., a subsidiary of News Corp. for a purchase price of $455 million. The sale closed on August 1, 2014. The Company's investment in Harlequin previously represented the Book Publishing Segment. Effective April 1, 2014, this investment was reclassified as Assets held for sale and Discontinued operations. Upon the closing of the sale, the net assets of Harlequin have been derecognized from Assets held for sale. The 2013 comparative interim and annual consolidated statements of income, comprehensive income and cash flows have been restated to reflect the classification of Harlequin into discontinued operations. All other notes to the consolidated financial statements primarily include amounts for continuing operations, unless otherwise indicated. Additional disclosures are provided in Note 24.

In addition, during 2014, the Company disaggregated the former Media Segment and has now disclosed Metroland Media Group ("MMG") and Star Media Group ("SMG") as separate reportable operating segments for segment reporting purposes as a result of emerging divergence in revenue trends. The comparative information contained herein has also been restated to reflect this change. Additional disclosures are provided in Note 3.

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) Non-current assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Additionally, the sale should be expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as a discontinued operation if it is:

- A component of the Company that is a cash generating unit ("CGU") or a group of CGUs;
- Classified as held for sale or already disposed in such a way; or
- A major line of business or major geographical area.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount, net of tax, as income from discontinued operations in the consolidated statement of income.

(e) 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.

(f) 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.

(g) 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 are classified as current assets in the consolidated statement of financial position and include current receivables, cash and cash equivalents. 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 estimated bad debt provisions which are determined by reference to past experience and expectations. Cash and cash equivalents consist of cash in bank and highly liquid short-term investments.

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 were designated as hedges against future intercompany Book Publishing revenues. Gains and losses on these instruments were accounted for as a component of the related hedged transaction. Gains and losses on foreign exchange contracts which do not qualify for hedge accounting were reported in the consolidated statement of income.

Interest rate swap contracts were designated as hedges against interest expense. Payments and receipts under interest rate swap contracts were recognized as adjustments to interest expense on an accrual basis. Any resulting carrying amounts were 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 and previously included 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, which previously represented Harlequin's 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 derivative instruments to manage its exposure associated with changes in the fair value of its DSU plans and the cost of its RSU plan, and previously included foreign exchange forward contracts and interest rate swaps. 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 foreign exchange forward contracts was classified within Level 2 as it was based on foreign currency rates quoted by banks and was the difference between the forward exchange rate and the contract rate.

The Company determined 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 was deemed to be hedge ineffectiveness and was recorded in the consolidated statement of income. The fair value for the interest rate swaps was based on forward yield curves which were observable inputs provided by banks and available in other public data sources, and were classified within Level 2.

The fair value of portfolio investments that have quoted market prices is classified within Level 1 except when the securities are not actively traded and thus classified within Level 2. 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.

(h) Inventories

Inventories are valued at the lower of cost and net realizable value. 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. Raw materials are valued at purchase cost on a first in, first out basis. The cost of finished goods and work in progress includes raw materials, translation and printing and production costs. 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.

(i) Prepaid expenses and other current assets

Prepaid expenses and other current assets included Harlequin's advance royalty payments to authors which were deferred until the related works were published and were reduced by estimated provisions for advances that may exceed royalties earned.

(j) 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 20 – 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.

(k) 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 2 – 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.

(l) 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.

(m) 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 business 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.

(n) 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 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 CGUs 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, restructuring and other charges, and impairment of assets ("Adjusted 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.
- Adjusted 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 forecasts 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.

(o) Revenue recognition

Advertising revenue is recognized when publications are delivered or advertisements are placed on the Company's digital platforms. Newspaper circulation revenue is recognized when the publication is delivered. Subscription revenue is recognized as the publications are delivered over the term of the subscription.

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.

Revenue from the sale of books was recognized for the retail print distribution channel based on the book's publication date (books were shipped prior to the publication date so that they were in stores by the publication date) and for all other distribution channels when title had transferred to the buyer. Book publishing revenue was recorded net of provisions for estimated returns and direct-to-consumer bad debts ("book revenue provisions"). Retail print books were sold with a right of return. The retail returns provision was 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 were shipped with no obligation to the customer who could return the books or cancel their subscription at any time. The direct-to-consumer book revenue provision recognized that not all books shipped would be purchased by the customer. Book revenue provisions were 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 were estimated based on historical payment rates for the type of book as well as how long the customer had been a subscriber. Book publishing revenue attributable to the customer loyalty points program was deferred at the date of the initial sale and was recognized as revenue when the Company fulfilled its obligations.

(p) Employee benefits

The Company maintains both defined benefit and capital accumulation (defined contribution) employee benefit plans.

Details with respect to accounting for defined benefit employee future benefit plans are as follows:

- The 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.

(q) Share-based compensation plans

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

Share option plan and ESPP

Eligible senior executives may be granted options to purchase Class B non-voting shares at an option price which shall not be less than the closing market price of the shares on the last trading day before the grant. Share options vest, and are expensed, over four years from the date of grant.

Under the Company’s ESPP, employees may subscribe for Class B non-voting shares of the Company to be paid for through payroll deductions over two-year periods at a purchase price which is the lower of the market price on the entry date or the market price at the end of the payment period. The value of the shares that an employee may subscribe for is restricted to a maximum of 20% of salary at the beginning of the two year period.

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

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

DSUs

Eligible executives may elect to receive certain cash incentive compensation in the form of DSUs. Each DSU is equal in value to one Class B non-voting share of the Company and are issued on the basis of the closing market price per share of Class B non-voting shares of the Company on the Toronto Stock Exchange on the date of issue. DSUs also accrue dividend equivalents payable in additional units in an amount equal to dividends paid on Class B non-voting shares of the Company.

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

Compensation expense is recorded in the year DSUs are granted and changes in the fair value of outstanding DSUs, including deemed dividend equivalents, are recorded as an expense in the period that they occur. DSUs can only be redeemed once the executive or director is no longer employed with the Company

whereupon the executive or director is entitled to receive the fair market value of the equivalent number of Class B non-voting shares, net of withholdings, in cash. Outstanding DSUs are recorded as long-term liabilities.

RSUs

Eligible executives may be granted RSU awards equivalent in value to Class B non-voting shares of the Company as part of their long-term incentive compensation. RSUs vest after three years and are settled in cash. RSUs are accrued over the three-year vesting period as compensation expense and a related liability. Forfeitures are estimated on the grant date and revised if the actual forfeitures differ from the estimates. The liability is recorded at fair value at each reporting date. Accrued RSUs are recorded as long-term liabilities, except for the portion that will vest within twelve months which is recorded as a current liability.

(r) Taxes

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

Current income tax

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

Deferred 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.

(s) Provisions

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

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

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

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

(t) Use of estimates and judgements

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

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

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

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

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, CGU or group of CGUs 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, CGUs and groups of CGUs are provided in Note 12.

Taxes

The Company is subject to income taxes in Canada, and the discontinued operations were also subject to income taxes in 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 14.

Book revenue provisions

Book revenue provisions were 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 had 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 was recorded in the period when the data became available.

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.

Classification of assets and liabilities as held for sale and discontinued operations

Classification of assets or a disposal group as held for sale and discontinued operations requires judgement on whether the carrying amount will be recovered principally through a sale transaction rather than through continuing use and if the sale is highly probable.

The Company classified its investment in Harlequin as Assets held for sale and Discontinued operations effective April 1, 2014 based on an agreement signed on May 1, 2014 in respect of the sale of Harlequin. Upon the closing of the sale on August 1, 2014, the net assets of Harlequin were derecognized from Assets held for sale.

Classification of cash equivalents

Classification of cash equivalents requires judgement on whether the short-term investments are easily convertible into cash. Short-term investments with maturities on acquisition of 90 days or less are presumed to be cash equivalents due to the short holding period of the investment. The Company has classified its short-term investments with original maturities on acquisition of over 90 days but less than 365 days as cash equivalents based on management's judgement that the short-term investments are liquid as the Company has a contractual right to convert them into cash upon 30 days notice.

Determination of operating segments, reportable segments and CGUs

The Company has two reportable operating segments: MMG and SMG. "Corporate" is the provision of corporate services and administrative support. These operating segments were disaggregated from the former Media Segment for segment reporting purposes as a result of emerging divergence in revenue trends.

The Company's chief operating decision-maker ("CODM") monitors the operating results of the operating segments 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 operating segment level.

(u) Changes in accounting policies

Policies adopted in 2014:

The Company adopted new standards and interpretations effective January 1, 2014. The nature and the impact of each new standard/amendment which affect the Company are described below:

IAS 32 *Financial Instruments: Presentation*

The amendments to IAS 32 clarified certain requirements for offsetting financial assets and liabilities. The amendments require disclosure of information about recognized financial instruments subject to enforceable master netting arrangements even if they are not set off, to allow financial statement users to evaluate the effect or potential effect of netting arrangements. The amendment affects presentation and disclosures but did not have an impact on financial results.

IAS 36 *Impairment of Assets*

The amendments to IAS 36 reduced the circumstances in which the recoverable amount of assets or cash generating units is required to be disclosed, clarified the disclosures required and introduced 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 affects disclosures but did not have an impact on financial results.

IFRIC 21 *Levies*

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, identifying the obligating event as the activity that triggers the payment of the levy in accordance with the relevant legislation. If an obligation is triggered by reaching a minimum threshold, the liability is recognized when the minimum threshold is reached but if the obligating event occurs over a period of time, the liability is recognized progressively. The adoption of this guidance did not have an impact on financial results.

Several other new standards and amendments apply for the first time in 2014. However, they do not impact the interim or annual consolidated financial statements of the Company. 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, 2015:

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 amendment will not have any impact on financial results.

The following new standards or amendments to accounting standards will be effective for the Company subsequent to 2015:

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 which specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The Company does not anticipate early adoption and plans to adopt the standard on its effective date of January 1, 2017. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued a finalized version of IFRS 9 which contains accounting requirements for financial instruments replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas: Classification and Measurement; Impairment; Hedge Accounting; and Derecognition. The Company does not anticipate early adoption and plans to adopt the standard on its effective date of January 1, 2018. 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 identified two reportable operating segments: MMG and SMG to which Corporate costs have not been allocated. Management of each segment is accountable for the revenues and segment operating profit or loss which includes the proportionately consolidated share of joint venture operations.

Segment profit or loss has been defined as segmented operating profit or loss which corresponds to operating profit or loss 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 chief operating decision-maker ("CODM") at the operating segment level. Also, assets and liabilities are not provided to the CODM at the operating segment level. These items are therefore not allocated to the operating segments.

MMG publishes The Hamilton Spectator, the Waterloo Region Record, the Guelph Mercury, more than 100 weekly community newspapers and has a number of specialty publications, directories, consumer shows and distribution operations, digital properties (including goldbook.ca, save.ca, travelalerts.ca, and wagjag.com ("WagJag")) and product sales.

SMG includes the daily Toronto Star newspaper and thestar.com as well as Free Daily News Group Inc. ("Metro English Canada"), which publishes the Metro free daily commuter papers in several of Canada's largest cities; and through a joint venture arrangement, SMG owns an interest in the Chinese-language Sing Tao Daily and its related publications in Toronto, Vancouver and Calgary. SMG also includes wheels.ca, toronto.com, several specialty publications and magazines and distribution services, eyeReturn Marketing Inc. and the Company's interests in workopolis.com ("Workopolis") and Olive Media.

The Company also has investments in Black Press Ltd. ("Black Press"); Blue Ant Media Inc. ("Blue Ant"); Canadian Press Enterprises Inc. ("Canadian Press") and Shop.ca Network Inc. ("Shop.ca"), which the Company presents as associated businesses. The Company also had a 38.2% equity investment in Tuango Inc. ("Tuango") until October 16, 2014.

Year ended December 31, 2014	MMG	SMG	Corporate	Total	Adjustments and Eliminations[1]	Per Consolidated Statement of Income
Operating Revenue	$484,225	$420,393		$904,618	($46,484)	$858,134
Salaries and benefits	(219,340)	(149,695)	($11,136)	(380,171)	18,627	(361,544)
Other operating costs	(196,866)	(221,149)	(4,760)	(422,775)	18,255	(404,520)
Amortization and depreciation	(14,644)	(18,700)	(57)	(33,401)	2,727	(30,674)
Restructuring and other charges	(6,937)	(15,769)		(22,706)	60	(22,646)
Impairment of assets	(329)	(97,606)		(97,935)	15,000	(82,935)
Reportable segment operating profit (loss)	$46,109	($82,526)	($15,953)	($52,370)	$8,185	($44,185)
Interest and financing costs						(4,253)
Foreign exchange						(7,656)
Loss from joint ventures						(9,152)
Income of associated businesses						194
Other income						3,754
Loss before taxes from continuing operations						($61,298)

Year ended December 31, 2013	MMG	SMG	Corporate	Total	Adjustments and Eliminations[1]	Per Consolidated Statement of Income
Operating Revenue	$509,862	$474,185		$984,047	($48,274)	$935,773
Salaries and benefits	(229,554)	(168,744)	($10,743)	(409,041)	20,056	(388,985)
Other operating costs	(209,435)	(245,537)	(2,860)	(457,832)	18,833	(438,999)
Amortization and depreciation	(15,221)	(19,703)	(40)	(34,964)	2,736	(32,228)
Restructuring and other charges	(14,034)	(19,795)		(33,829)	659	(33,170)
Impairment of assets	(12,802)	(73,292)		(86,094)	9,000	(77,094)
Reportable segment operating loss	$28,816	($52,886)	($13,643)	($37,713)	$3,010	($34,703)
Interest and financing costs						(16,060)
Foreign exchange						(1,186)
Loss from joint ventures						(3,733)
Income of associated businesses						2,345
Other income						491
Loss before taxes from continuing operations						($52,846)

[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	
	2014	2013	**2014**	2013
Canada	**$853,032**	$926,028	**$531,084**	$640,826
United States	**3,436**	5,919		78,189
Other[3]	**1,666**	3,826		39,574
Total	**$858,134**	$935,773	**$531,084**	$758,589

[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 and Metroland Media Group Ltd., which are Ontario corporations and Metro English Canada, which is a New Brunswick corporation. The Company has 100% voting and equity securities interest in each of these corporations.

On March 28, 2014, the Company increased its interest in Metro English Canada to 100%, by acquiring the remaining 10% interest previously owned by Metro International S.A. ("MISA"), as disclosed in Note 23.

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.

Prior to August 1, 2014, the Company also had a 100% voting and equity securities interest in Harlequin which was sold as detailed in Note 24.

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

5. RESTRICTED CASH

The Company has restricted cash totalling $38.9 million comprised of $16.1 million held as collateral for outstanding standby letters of credit and $22.8 million held in an escrow account related to the sale of Harlequin as described in Note 24.

The outstanding letters of credit include $15.6 million in respect of an unfunded executive retirement plan liability as indicated in Note 19.

6. INVENTORIES

	December 31, 2014	December 31, 2013
Finished goods	**$4,048**	$11,892
Work in progress	**105**	8,676
Raw materials	**5,156**	8,800
	$9,309	$29,368

During the year ended December 31, 2014, the Company expensed $56.7 million of inventory costs (2013 – $71.0 million) and recorded an inventory write-down of $nil (2013 – $0.4 million).

7. INVESTMENTS IN JOINT VENTURES

The Company's joint ventures are primarily in the SMG Segment and include investments in Workopolis (50%) and Sing Tao Daily (approximately 50%). Effective April 1, 2014, pursuant to the Company entering into an agreement for the sale of Harlequin, the amounts related to the Book Publishing Segment joint venture operations were reclassified to Assets held for sale. The sale transaction closed on August 1, 2014 as indicated in Note 24.

The table below provides a continuity of Investments in joint ventures:

	Year ended December 31	
	2014	2013
Balance, beginning of year	**$80,901**	$91,258
Reclassified to Assets held for sale	**(7,968)**	
	72,933	91,258
Loss from joint ventures	**(9,152)**	(3,733)
Distribution from joint ventures	**(9,250)**	(5,735)
Investment and other		87
Net change related to Investments in joint ventures of discontinued operations		(976)
Balance, end of year	**$54,531**	$80,901

(i) Statement of Financial Position

	As at December 31, 2014	As at December 31, 2013		
	SMG Segment	SMG Segment	Book Publishing Segment	Total Segments
Cash and cash equivalents	**$8,331**	$6,825	$4,606	$11,431
Other current assets	**8,153**	12,811	4,475	17,286
Total current assets	**16,484**	19,636	9,081	28,717
Property, plant & equipment	**6,244**	6,351	149	6,500
Goodwill on joint ventures	**23,419**	38,419	4,739	43,158
Intangible assets	**18,950**	19,478	277	19,755
Other non-current assets			74	74
Total assets	**$65,097**	$83,884	$14,320	$98,204
Bank overdraft			$4	$4
Other current liabilities	**$9,333**	$10,432	5,851	16,283
Total current liabilities	**9,333**	10,432	5,855	16,287
Other non-current liabilities	**1,233**	519	497	1,016
Total equity	**54,531**	72,933	7,968	80,901
Total liabilities and equity	**$65,097**	$83,884	$14,320	$98,204

(ii) Statement of Income and Comprehensive Income

	Year ended December 31	
	2014	2013
Operating revenue	**$46,740**	$48,510
Salaries and benefits	**(18,627)**	(20,056)
Other operating costs	**(18,511)**	(19,069)
Amortization and depreciation	**(2,727)**	(2,736)
Restructuring and other charges	**(60)**	(659)
Impairment of assets (note 12)	**(15,000)**	(9,000)
Operating loss	**(8,185)**	(3,010)
Interest and financing costs	**2**	2
Foreign exchange	**24**	(8)
Other income	**207**	197
	(7,952)	(2,819)
Income and other taxes	**(1,200)**	(914)
Net loss and Comprehensive loss from continuing operations	**($9,152)**	($3,733)

8. INVESTMENTS IN ASSOCIATED BUSINESSES

As of December 31, 2014, the Company’s Investments in associated businesses include a 19.4% equity interest in Black Press; a 23.1% equity investment in Blue Ant; a 33.3% equity interest in Canadian Press and a 16.1% equity investment in Shop.ca. The Company also had a 38.2% equity investment in Tuango until October 16, 2014.

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

	Year ended December 31	
	2014	2013
Balance, beginning of year	**$40,215**	$32,921
Investments made during the year	**4,489**	3,402
Investment in Shop.ca in exchange for Media inventory provided		965
Sale of investment in Tuango	**(3,476)**	
Dividends received	**(1,222)**	(954)
Income of associated businesses	**194**	2,345
OCI – Actuarial gain (loss) on employee benefits	**(365)**	1,512
OCI – Foreign currency translation adjustment	**125**	24
Balance, end of year	**$39,960**	$40,215

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, 2014, the Company's share of Black Press' net income was $4.0 million and other comprehensive loss of $0.2 million (2013 – net income of $5.5 million and OCI of $1.5 million).

Blue Ant

Blue Ant is an independent media company which currently owns and operates 11 media brands including Cottage Life, Travel+Escape, Smithsonian Channel Canada, Love Nature and AUX. Blue Ant creates and distributes content ranging from music to travel, style to nature, engaging fans across television, digital, magazines and live events. During 2014, the Company invested an additional $3.5 million in Blue Ant (2013 – $2.5 million). The Company's equity interest at December 31, 2014 was 23.1% (December 31, 2013 – 23.3%).

The Company's share of Blue Ant's net loss in 2014 was $0.7 million (2013 – $0.2 million).

Canadian Press

Canadian Press operates The Canadian Press news agency.

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, which was disbursed in 2014. The Company will begin to report its share of Canadian Press's results once the unrecognized losses ($4.0 million as of December 31, 2014 and nil as of December 31, 2013) have been offset by net income, other comprehensive income or additional investments are made. For the year ended December 31, 2014, the Company would have reported loss of $0.3 million and other comprehensive loss of $3.7 million from Canadian Press (2013 – income of $0.5 million and other comprehensive income of $5.9 million).

Shop.ca

Shop.ca is an online e-commerce marketplace aimed at Canadian shoppers. During 2014, the Company invested an additional $1.0 million in Shop.ca. As at December 31, 2014, the Company's equity interest in Shop.ca was 16.1% (December 31, 2013 – 19.1%).

For the year ended December 31, 2014, the Company's share of Shop.ca's net loss was $3.5 million (2013 – $3.1 million).

Tuango

Tuango is a Quebec-based daily deal business. On October 16, 2014, the Company sold its 38.2% interest for proceeds of $7.6 million and recorded a gain of $4.5 million as indicated in Note 23. For the year ended December 31, 2014, the Company's share of Tuango's net income was $0.4 million (2013 – $0.7 million).

Other

The Company has investments in other associated businesses for which a loss of less than $0.1 million was recorded for the year ended December 31, 2014 (2013 – loss of $0.2 million).

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and leasehold improvements	Machinery and equipment	Total
Cost				
Balance at December 31, 2012	$5,344	$139,407	$201,169	$345,920
Additions		1,249	5,540	6,789
Disposals		(288)	(6,508)	(6,796)
Net change related to Property, plant and equipment of discontinued operations	175	1,896	1,103	3,174
Balance at December 31, 2013	**5,519**	**142,264**	**201,304**	**349,087**
Reclassified to Assets held for sale	**(2,706)**	**(17,381)**	**(32,711)**	**(52,798)**
	2,813	**124,883**	**168,593**	**296,289**
Additions		**2,712**	**5,353**	**8,065**
Disposals	**(115)**	**(2,864)**	**(16,668)**	**(19,647)**
Balance at December 31, 2014	**$2,698**	**$124,731**	**$157,278**	**$284,707**
Depreciation and impairment				
Balance at December 31, 2012		$57,622	$126,426	$184,048
Additions		6,493	12,140	18,633
Impairments (note 12)		159	169	328
Disposals		(288)	(6,496)	(6,784)
Net change related to Property, plant and equipment of discontinued operations		542	1,655	2,197
Balance at December 31, 2013		**64,528**	**133,894**	**198,422**
Reclassified to Assets held for sale		**(13,284)**	**(24,959)**	**(38,243)**
		51,244	**108,935**	**160,179**
Additions		**6,348**	**11,541**	**17,889**
Impairments (note 12)		**237**	**523**	**760**
Disposals		**(2,750)**	**(16,428)**	**(19,178)**
Balance at December 31, 2014		**$55,079**	**$104,571**	**$159,650**
Net book value				
At December 31, 2012	$5,344	$81,785	$74,743	$161,872
At December 31, 2013	$5,519	$77,736	$67,410	$150,665
At December 31, 2014	**$2,698**	**$69,652**	**$52,707**	**$125,057**

10. INTANGIBLE ASSETS

		Finite life			
	Indefinite life	**Software**	**Other**	**Total**	**Total**
Cost					
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		6,419		6,419	6,419
Disposals		(5,400)	(310)	(5,710)	(5,710)
Net change related to Intangible assets of discontinued operations	654	2,421	80	2,501	3,155
Balance at December 31, 2013	**27,059**	**89,009**	**38,958**	**127,967**	**155,026**
Reclassified to Assets held for sale	**(6,333)**	**(22,562)**	**(1,325)**	**(23,887)**	**(30,220)**
	20,726	**66,447**	**37,633**	**104,080**	**124,806**
Additions – internally developed		**4,381**		**4,381**	**4,381**
Additions – purchased	**3,105[1]**	**5,370**	**26**	**5,396**	**8,501**
Reclassifications[1]	**14,583**		**(20,000)**	**(20,000)**	**(5,417)**
Disposals		**(2,420)**		**(2,420)**	**(2,420)**
Balance at December 31, 2014	**$38,414**	**$73,778**	**$17,659**	**$91,437**	**$129,851**
Amortization and impairment					
Balance at December 31, 2012	$1,633	$47,509	$10,125	$57,634	$59,267
Amortization		9,104	4,491	13,595	13,595
Impairments (note 12)	9,276	156	3,334	3,490	12,766
Disposals		(5,338)	(310)	(5,648)	(5,648)
Net change related to Intangible assets of discontinued operations		847	257	1,104	1,104
Balance at December 31, 2013	**10,909**	**52,278**	**17,897**	**70,175**	**81,084**
Reclassified to Assets held for sale		**(17,031)**	**(1,013)**	**(18,044)**	**(18,044)**
	10,909	**35,247**	**16,884**	**52,131**	**63,040**
Amortization		**10,556**	**2,229**	**12,785**	**12,785**
Impairments (note 12)		**175**		**175**	**175**
Reclassifications[1]			**(5,417)**	**(5,417)**	**(5,417)**
Disposals		**(2,342)**		**(2,342)**	**(2,342)**
Balance at December 31, 2014	**$10,909**	**$43,636**	**$13,696**	**$57,332**	**$68,241**
Net book value					
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
At December 31, 2014	**$27,505**	**$30,142**	**$3,963**	**$34,105**	**$61,610**

[1] Metro Trademark acquisition

In October 2011, the Company had entered into a franchise agreement with MISA for which it paid $20.0 million which was recorded as an intangible asset with a finite useful life to be amortized over the ten-year period of the agreement. In August 2014, the Company terminated the franchise agreement with MISA and on the same date, the Company acquired the Metro trademark for use in Canada for an additional payment of $3.1 million. The carrying value of the trademark is $17.7 million comprising the $3.1 million additional payment and the unamortized balance of $14.6 million. The previous amortizable franchise agreement has been derecognized and has been replaced by a trademark asset with an indefinite useful life.

Intangible assets with an indefinite useful life have been allocated to the following groups of CGUs:

	December 31, 2014	December 31, 2013
Metroland Media Group	**$8,317**	$8,317
Star Media Group	**19,188**	1,500
Harlequin		6,333
Total	**$27,505**	$16,150

11. GOODWILL

	2014	2013
Balance, beginning of year	**$533,982**	$596,703
Reclassified to Assets held for sale	**(107,565)**	
	426,417	596,703
Impairments (note 12)	**(82,000)**	(64,000)
Net change related to Goodwill of discontinued operations		1,279
Balance, end of year	**$344,417**	$533,982

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, 2014	December 31, 2013
Metroland Media Group	**$265,529**	$258,175
Star Media Group	**78,888**	168,242
Harlequin		107,565
Total	**$344,417**	$533,982

12. IMPAIRMENT OF ASSETS

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

	2014	2013
Property, plant and equipment (note 9)	**$760**	$328
Intangible assets (note 10)	**175**	12,766
Goodwill (note 11)	**82,000**	64,000
	82,935	77,094
Investments in joint ventures (note 7)	**15,000**	9,000
	$97,935	$86,094

Impairment Testing

During the third quarter of 2014, 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 goodwill in the Star Media Group of CGUs exceeded the value in use and the Company recorded an impairment charge of $82.0 million for goodwill in the Star Media Group of CGUs. This impairment was the result of lower forecasted revenues reflecting continued shifts in spending by advertisers. The Company also recorded a $15.0 million impairment charge in respect of its joint venture investment in Workopolis during the third quarter of 2014. This resulted from lower forecasted revenues attributable to an increase in competition in the online recruitment and job search markets.

The Company performed its annual impairment test in the fourth quarter of 2014. No further impairments were identified as a result of this test. 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 $5.9 million and $3.7 million respectively.

2013

In 2013, as a result of the internal reorganization, realignment and integration of certain digital businesses within the MMG and SMG Segments 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 consisting of $0.2 million for machinery and equipment in the MMG Segment, and $0.4 million for finite-life intangible assets in the SMG Segment.

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.

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:

	2014		2013	
	Discount	**Growth**	Discount	Growth
Metroland Media Group	**12.1%**	**0.0%**	12.1% – 12.7%	0.0%
Star Media Group	**12.5% – 13.9%**	**0.0% – 3.0%**	12.5% – 14.5%	0.0% – 1.5%
Harlequin	**n/a**	**n/a**	11.6% – 12.2%	1.0%

These after-tax rates correspond to pre-tax rates in an estimated range of 16% – 18% for 2014 and 2013.

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.

13. OTHER ASSETS

	December 31, 2014	December 31, 2013
Portfolio investments	**$7,372**	$6,568
ESPP receivable	**266**	350
Long-term receivables		3,020
Other	**1,859**	1,527
	$9,497	$11,465

14. INCOME TAXES

Income tax expense is made up of the following:

	Year ended December 31	
	2014	2013
Current income tax expense (recovery):		
Current year	**$800**	$3,700
Adjustment for prior years	**(100)**	(3,500)
	700	200
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	**1,900**	3,400
Recognition of previously unrecognized tax losses	**(14,700)**	
Adjustment for prior years	**400**	1,600
	(12,400)	5,000
Income tax expense (recovery) in the consolidated statement of income	**($11,700)**	$5,200
Deferred income tax expense (recovery) in OCI	**(20,304)**	42,900
Income tax expense (recovery) in OCI	**(20,304)**	42,900
Total income tax expense (recovery)	**($32,004)**	$48,100

Income taxes of $5.7 million were paid and refunds of $2.8 million were received during the year from continuing operations (2013 – $1.2 million paid and refunds of $8.5 million received).

Reconciliation of effective tax rate

The combined Canadian federal and provincial statutory rate was 26.5% in 2014 (2013 – 26.5%).

	Year ended December 31	
	2014	2013
Loss before taxes from continuing operations	**($61,298)**	($52,846)
Provision for income taxes based on Canadian statutory rate of 26.5% (2013 – 26.5%)	**($16,200)**	($14,000)
Increase (decrease) in taxes resulting from:		
Loss of joint ventures and associated businesses not recognized	**2,600**	1,300
Non-deductible impairment charges	**21,700**	18,300
Prior years' losses not previously recognized	**(6,800)**	
Excess tax basis over carrying value in investments	**(7,900)**	
Foreign losses not recognized	**700**	300
Non-taxable portion of capital gains	**900**	100
Non-deductible expenses and other permanent differences	**(200)**	(500)
Donation of Canadian cultural property	**(6,000)**	
Effect of lower provincial tax rates	**(500)**	(300)
Income tax expense (recovery) in the consolidated statement of income	**($11,700)**	$5,200
Effective income tax rate	**19.1%**	(9.8%)

There were a number of special factors that affected the income tax expense (recovery) from continuing operations that are not expected to recur. In 2014, the Company recognized losses on impairment of assets of $82.9 million (2013 – $77.1 million), a substantial portion of which was not deductible for tax purposes.

In 2014, the Company recognized a $6.8 million deferred income tax recovery for capital losses carried forward from prior years that can be used to reduce the gain realized on the sale of Harlequin, which has been reported in the Gain on sale and income from discontinued operations. The Company also recognized a $7.9 million deferred income tax asset for the difference between the tax basis and carrying value of investments that it expects to realize in the future and carry back to offset the capital gain on the sale of Harlequin.

In June 2014, the Company made a gift of the complete Toronto Star photo archive containing more than one million vintage photographs from approximately 1900 to 2000 to the Toronto Public Library. An application has been made to the Canadian Cultural Property Export Review Board to treat this gift as a donation of Canadian cultural property and to determine its value. The Company has reported an estimated income tax recovery of $6.0 million in respect of this donation. The estimated recovery will be adjusted based on the final determination of value.

Excluding the impact of the impairment losses and the recognition of tax recoveries from prior years' net capital loss carry forwards, the excess of the tax basis over the carrying value of investments, and the donation of Canadian cultural property, the Company's effective tax rate in 2014 would have been 43.0% (2013 – 30.1%).

The Company also recognized income tax expense of $22.6 million in reporting the net income from discontinued operations, including $17.0 million from the sale of Harlequin (2013 – income tax expense in discontinued operations of $14.6 million).

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, 2014 and December 31, 2013 are as follows:

	December 31, 2013	Recognized in net income from continuing operations	Recognized in OCI from continuing operations	Reclassified to Assets held for sale	December 31, 2014
Provisions for returns and doubtful accounts	**$10,166**	**($498)**		**($8,148)**	**$1,520**
Property, plant & equipment	**(7,974)**	**1,117**		**(306)**	**(7,163)**
Intangible assets	**(10,796)**	**404**		**2,983**	**(7,409)**
Financial instruments	**1,370**		**($1,096)**	**(274)**	
Provision for employee benefit obligations	**11,159**	**(6,352)**	**21,400**	**(6,257)**	**19,950**
Share-based payment transactions	**1,269**	**546**		**(46)**	**1,769**
Tax losses carried forward	**30,469**	**7,095**		**(30,794)**	**6,770**
Other	**(8,725)**	**10,088**		**(382)**	**981**
Net deferred income tax assets	**$26,938**	**$12,400**	**$20,304**	**($43,224)**	**$16,418**
As reported in the consolidated statement of financial position					
Deferred income tax assets	**$51,369**				**$28,126**
Deferred income tax liabilities	**(24,431)**				**(11,708)**
Net deferred income tax assets	**$26,938**				**$16,418**

	December 31, 2012	Recognized in net income from continuing operations	Recognized in OCI from continuing operations	Recognized in net income and OCI from discontinued operations	Foreign exchange & other	December 31, 2013
Provisions for returns and doubtful accounts	$10,293	$160		($667)	$380	$10,166
Property, plant & equipment	(8,280)	616		(332)	22	(7,974)
Intangible assets	(12,186)	1,893		(364)	(139)	(10,796)
Financial instruments	1,470		($700)	600		1,370
Provision for employee benefit obligations	67,068	(8,072)	(42,200)	(5,882)	245	11,159
Share-based payment transactions	1,583	(285)		(29)		1,269
Tax losses carried forward	30,081	1,073		(2,389)	1,704	30,469
Other	(7,657)	(385)		(137)	(546)	(8,725)
Net deferred income tax assets	$82,372	($5,000)	($42,900)	($9,200)	$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

Tax losses carried forward

The Company has tax losses available to be carried forward 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.

At December 31, 2014, the Company had Canadian non-capital losses available for carry forward in continuing operations of approximately $25.9 million that will expire between 2028 and 2034 for which it is has recognized a deferred income tax asset of $6.8 million. The Company also recognized a benefit of $6.8 million for capital losses carried forward of $51.4 million that were used to reduce the capital gain recognized on the sale of Harlequin. This capital loss arose from the sale of the Company’s 20% interest in CTV Inc. in 2011. Prior to 2014, no deferred tax asset had been recognized in respect of the capital losses carried forward.

At December 31, 2013, the Company had Canadian non-capital losses available for carry forward of approximately $25.1 million in continuing operations that will expire between 2028 and 2033 for which it had recognized a deferred income tax asset of $6.5 million. The Company had U.S. net operating losses in discontinued operations of approximately U.S. $122.8 million that were to expire between 2019 and 2031. A deferred income tax asset of $24.0 million had been recognized on a portion of these losses. The Company had other foreign operating losses in the discontinued operations of approximately $3.2 million for which no deferred tax assets had been recognized. These deferred tax assets for U.S. and other foreign tax losses carried forward were reclassified to Assets held for sale.

Investments in subsidiaries, associates and joint ventures

As at December 31, 2014, 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 was $44.7 million. At December 31, 2013, the excess of the tax basis over the carrying value of investments in subsidiaries, associates and joint ventures including discontinued operations for which a deferred income tax asset had not been recognized was $87.7 million.

15. FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments

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

	December 31, 2014	December 31, 2013
Financial assets:		
Loans and receivables, measured at amortized cost:		
Cash and cash equivalents	**$251,339**	$19,151
Restricted cash (current)	**16,150**	
Restricted cash (non-current)	**22,750**	
Trade accounts receivable	**153,048**	254,223
Other receivables	**9,795**	7,262
Receivables	**162,843**	261,485
Long-term receivables		3,020[1]
Available-for-sale, measured at fair value:		
Portfolio investments	**7,372**[1]	6,568[1]
Derivatives designated as effective hedges, measured at fair value:		
Foreign currency forward contracts		(911)
Interest rate swaps – cash flow hedges		(4,125)
Other financial liabilities, measured at amortized cost:		
Bank overdraft		(1,741)
Long-term debt		(175,898)
Accounts payable and accrued liabilities	**(115,717)**	(202,888)
Provisions (current)	**(22,583)**	(20,807)
Provisions (non-current)	**(16,774)**	(16,251)

[1] These amounts are included in Other assets 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, 2014			At December 31, 2013		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Measured at fair value:						
Portfolio investments			**$7,372**			$6,568
Derivative financial instruments:						
Foreign currency forward contracts					($911)	
Interest rate swaps – cash flow hedges					(4,125)	
Disclosed at fair value:						
Long-term debt					(175,898)	
Call option liability					(11,083)	

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

	Year ended December 31	
	2014	2013
Balance, beginning of year	**$6,568**	$6,899
Additions	**680**	357
Disposals	**(11)**	(200)
Net gains (losses) included in net income		(562)
Exchange differences and OCI	**135**	74
Balance, end of year	**$7,372**	$6,568

(b) Long-term debt

As at December 31, 2014, the Company had no long-term debt (December 31, 2013 – $175.9 million consisting of $68.7 million in Cdn. dollar denominated bankers' acceptances and $107.2 million in U.S. dollar denominated bankers' acceptances).

(i) In August 2014, the Company terminated its long-term credit facilities after applying a portion of the proceeds received from the sale of Harlequin to extinguish the debt. Prior to August 2014, the Company had long-term credit facilities with a limit of $350 million, which were subject to financial tests and other covenants with which the Company was in compliance at December 31, 2013.

(ii) The average interest rate on Canadian dollar bank borrowings outstanding at December 31, 2013 was 2.7%.

(iii) In May 2008, the Company entered into two interest rate swap agreements that fixed the interest rate on U.S. $80 million of borrowings at approximately 4.2% for seven years ending May 2015. These swaps were designated as cash flow hedges until June 30, 2014 when the Company derecognized the hedges in connection with the expected sale of Harlequin. In July 2014, the Company extinguished the swaps at a cost of $2.8 million which has been recorded in Other income (expense) in the consolidated statement of income (Note 23).

(iv) Bank debt outstanding at December 31, 2013 included U.S. dollar borrowings of U.S. $101.0 million at an average interest rate of 1.7%. Including the effect of the interest rate swap noted in 15(b)(iii) above, the effective interest rate at December 31, 2013 was 4.9%.

(c) Interest and financing costs:

	Year ended December 31	
	2014	2013
Interest on long-term debt	**$4,908**	$7,810
Interest received on short-term investments	**(1,394)**	
Interest accretion costs	**310**	494
Interest – other	**19**	(13)
Net financing expense relating to employee benefit plans	**410**	7,769
	$4,253	$16,060

(d) Interest paid during the year ended December 31, 2014 was $5.0 million (2013 – $7.8 million). Interest received during the year ended December 31, 2014 was $1.4 million (2013 – nil).

(e) 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.

(i) 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 by maintaining sufficient balances in cash and cash equivalents. At December 31, 2014, the Company had $251.3 million in cash and cash equivalents. Prior to the receipt of the proceeds from the sale of Harlequin, the Company managed 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.

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

	2015	2016	2017	2018	2019	2020+	Total
Accounts payable and accrued liabilities	$115,717						$115,717
Provisions	22,583	$6,154	$4,977	$2,608	$865	$3,292	40,479
Total	$138,300	$6,154	$4,977	$2,608	$865	$3,292	$156,196

(ii) 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 allowances for doubtful accounts and prior to the sale of Harlequin, applicable book revenue provisions. Allowances for doubtful accounts are estimated based on past experience, specific risks associated with the customer and other relevant information.

The Company is exposed to credit risk relating to concentration of cash and cash equivalents. As at December 31, 2014, 87% of the Company's cash and cash equivalents were held with one Canadian Schedule 1 chartered financial institution. The Company believes that the credit risk associated with this balance is mitigated by the financial stability and high credit rating of the financial institution.

The Company is also exposed to credit related losses in the event of non-performance by counterparties to derivative instruments. 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, 2014	December 31, 2013
Gross accounts receivable:		
Current	**$70,016**	$205,488
Up to three months past due date	**77,183**	103,618
Three to twelve months past due date	**11,757**	21,495
Impaired	**278**	441
	159,234	331,042
Book revenue provisions		(69,234)
Allowances for doubtful accounts	**(6,186)**	(7,585)
	$153,048	$254,223

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

	Year ended December 31	
	2014	2013
Balance, beginning of year	**($7,585)**	($7,353)
Reclassified to Assets held for sale	**167**	
	(7,418)	(7,353)
Utilized	**5,946**	3,004
Income statement movements	**(4,714)**	(3,166)
Net change related to Allowance for doubtful accounts of discontinued operations		(70)
Balance, end of year	**($6,186)**	($7,585)

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

The Company entered into forward foreign exchange contracts to allow it to convert a portion of its expected future U.S. dollar revenue into Canadian dollars, which were designated as cash flow hedges. At December 31, 2013, the forward foreign exchange contracts established 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. At June 30, 2014, the Company derecognized the outstanding contracts as hedges in connection with the expected sale of Harlequin. In July 2014, the Company paid $0.4 million to extinguish the outstanding contracts, which was recorded in discontinued operations (At December 31, 2013 – the net fair value of these contracts was $0.9 million unfavourable).

In the past, the Company also entered into forward foreign exchange contracts to hedge other currencies (Yen, Euro, Pound Sterling) realized in Harlequin's overseas operations. At December 31, 2013, the Company had forward foreign exchange contracts (which were not designated as cash flow hedges) to convert €8.0 million of its expected future cash flows in 2014 into Canadian dollars at a rate of exchange of Canadian dollar per Euro of $1.47. In July 2014, the Company closed the outstanding contracts realizing a gain of $0.1 million, which was recorded in discontinued operations (At December 31, 2013, the net fair value of these contracts was approximately nil).

Prior to the sale of Harlequin in August 2014, the Company maintained a certain level of U.S. dollar denominated debt as indicated in 15(b)(iv) above in order to offset the exchange risk on its consolidated statement of financial position from net U.S. dollar denominated assets. The Company had 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 were 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.

With the closing of the sale of Harlequin on August 1, 2014, the Company derecognized the hedge and transferred the related accumulated loss balance in OCI of $5.8 million into net income.

b. Interest rate risk

The Company's interest rate risk arose from borrowings issued at variable rates which exposed the Company to cash flow interest rate risk. The Company managed this risk through the use of interest rate swap contracts to fix the interest rate on a portion of the debt as detailed in 15(b)(iii) above.

The Company is currently exposed to interest rate risk on its cash equivalents. An assumed decrease of 1% in the Company's short-term investment rates during the year ended December 31, 2014 would have decreased net income by $0.8 million (2013 – nil), with an equal but opposite effect for an assumed increase of 1% in short-term investment 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.

Prior to the sale of Harlequin on August 1, 2014, the Company defined capital as total equity, long-term debt and bank overdraft net of cash and cash equivalents. Capital under management at December 31, 2013 was $955.3 million. After the sale of Harlequin and with the repayment of all outstanding long-term debt, capital under management is equivalent to total equity, which was $869.7 million at December 31, 2014.

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 is not subject to any external capital requirements.

17. PROVISIONS

	Restructuring	Legal	Contingent consideration	Other	Total
Balance at January 1, 2013	$26,859	$150	$3,359		$30,368
Provisions made during the year	34,986	100	45		35,131
Reversals of provisions during the year	(1,816)				(1,816)
Adjustment to contingent consideration			(979)		(979)
Provisions paid during the year	(24,072)		(2,077)		(26,149)
Interest accretion	304		59		363
Net change related to Provisions of discontinued operations	389		(50)		339
Balance at December 31, 2013	**36,650**	**250**	**357**		**37,257**
Reclassified to Liabilities associated with assets held for sale	**(974)**	**(150)**			**(1,124)**
	35,676	**100**	**357**		**36,133**
Provisions made during the year	**24,087**	**40**		**$8,750**	**32,877**
Reversals of provisions during the year	**(1,487)**	**(40)**			**(1,527)**
Adjustment to contingent consideration			**(274)**		**(274)**
Provisions paid during the year	**(27,735)**	**(100)**	**(14)**	**(280)**	**(28,129)**
Interest accretion	**277**				**277**
Balance at December 31, 2014	**$30,818**		**$69**	**$8,470**	**$39,357**
Current	**$14,051**		**$62**	**$8,470**	**$22,583**
Non-current	**$16,767**		**$7**		**$16,774**
Balance at December 31, 2013:					
Current	$20,535	$250	$221		$21,006
Non-current	$16,115		$136		$16,251
Balance at January 1, 2013:					
Current	$13,295	$150	$2,304		$15,749
Non-current	$13,564		$1,055		$14,619

Restructuring

During the year ended December 31, 2014, the Company recorded restructuring and other charges of $22.6 million, which included restructuring provisions of $22.6 million and other charges of approximately $0.1 million. Restructuring provisions of $6.9 million were recorded in the MMG Segment and $15.7 million in the SMG Segment primarily for staff reductions. Other charges of approximately $0.1 million were recorded in respect of litigation expenses in the MMG Segment.

In 2013, the Company recorded restructuring provisions of $33.2 million, consisting of $11.9 million in the MMG Segment and $21.3 million in the SMG Segment for staff reductions.

The non-current restructuring provisions are expected to be paid out through 2029.

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.

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.

Other

In connection with the sale of Harlequin, the Company indemnified the Purchaser for costs and fees related to certain matters including certain tax and pre-existing litigation matters. The Company has assessed the fees that it may incur as well as the probability of occurrence of any losses in respect of these matters, and estimated the exposure under these indemnities. The total contingent liability recorded in respect of these matters was $8.8 million and this amount has been included in the determination of the gain on sale of Harlequin.

18. OTHER LIABILITIES

	December 31, 2014	December 31, 2013
Employees' shares subscribed (note 21(b))	**$1,860**	$2,248
RSU Plan (note 21(c))	**1,867**	1,196
DSU Plan (note 21(e))	**3,617**	2,867
Other employment benefits	**1,626**	2,749
Lease inducements		1,322
Other	**1,026**	2,043
	$9,996	$12,425

19. EMPLOYEE FUTURE BENEFITS

The Company maintains a number of defined benefit plans which provide pension benefits to its employees in the Province of Ontario. The Ontario registered pension plans are regulated by the Financial Services Commission of Ontario. 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. 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 Canada.

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 December 31, 2012	$169,104	$12,321	$26,456	$47,553	$255,434
Expense recognized in statement of income:					
Salaries and benefits	19,269		519	359	20,147
Restructuring and other charges	744			(382)	362
Interest and financing costs	5,425		526	1,818	7,769
	25,438		1,045	1,795	28,278
Amounts recognized in OCI	(161,640)		(644)	(4,126)	(166,410)
Contributions to plan	(56,973)		(1,310)	(2,431)	(60,714)
Net change related to Employee benefits of discontinued operations	(13,237)	(5,978)	736		(18,479)
At December 31, 2013	**(37,308)**	**6,343**	**26,283**	**42,791**	**38,109**
Reclassified to Liabilities associated with assets held for sale	**(1,449)**	**(6,343)**	**(12,439)**		**(20,231)**
	(38,757)		**13,844**	**42,791**	**17,878**
Liability transferred from discontinued operations			**611**		**611**
Expense recognized in statement of income:					
Salaries and benefits	**12,498**		**632**	**300**	**13,430**
Interest and financing costs	**(2,156)**		**601**	**1,965**	**410**
	10,342		**1,233**	**2,265**	**13,840**
Amounts recognized in OCI	**77,534**		**1,129**	**4,933**	**83,596**
Contributions to plan	**(37,432)**		**(34)**	**(2,387)**	**(39,853)**
At December 31, 2014	**$11,687**		**$16,783**	**$47,602**	**$76,072**

[1] As at December 31, 2014, the unfunded pension plan includes an executive retirement plan liability of $16.8 million (December 31, 2013 – $24.7 million) which is supported by an outstanding letter of credit of $15.6 million (December 31, 2013 – $26.8 million).

A summary of the components of the net defined benefit obligation as at December 31, 2014 and 2013 is as follows:

2014	Pension plans		Post employment benefit plans	Total
	Funded	Unfunded		
Defined benefit obligations	**$930,398**	**$16,783**	**$47,602**	**$994,783**
Fair value of plan assets	**(918,711)**			**(918,711)**
Net defined benefit obligation	**$11,687**	**$16,783**	**$47,602**	**$76,072**
Recorded in:				
Assets	**$9,243**			**$9,243**
Liabilities	**20,930**	**$16,783**	**$47,602**	**85,315**

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

The following charts provide a summary of changes in the defined benefit obligation and the fair value of plan assets during 2014 and 2013:

2014	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Accrued benefit obligations:					
Balance, beginning of year	**$859,832**	**$27,509**	**$26,283**	**$42,791**	**$956,415**
Reclassified to Liabilities associated with assets held for sale	**(48,902)**	**(27,509)**	**(12,439)**		**(88,850)**
	810,930		**13,844**	**42,791**	**867,565**
Liability transferred from discontinued operations			**611**		**611**
Current service cost	**11,773**		**475**	**300**	**12,548**
Interest cost	**37,625**		**601**	**1,965**	**40,191**
Benefits paid	**(56,385)**		**(34)**	**(2,387)**	**(58,806)**
Remeasurement losses	**122,483**		**1,129**	**4,933**	**128,545**
Participant contributions	**3,920**				**3,920**
Past service cost	**52**		**157**		**209**
Balance, end of year	**$930,398**		**$16,783**	**$47,602**	**$994,783**
Plans' assets:					
Fair value, beginning of year	**$900,436**	**$21,166**			**$921,602**
Reclassified to Liabilities associated with assets held for sale	**(47,453)**	**(21,166)**			**(68,619)**
	852,983				**852,983**
Interest income included in net interest expense	**39,781**				**39,781**
Remeasurement gains	**41,653**				**41,653**
Benefits paid	**(56,385)**		**($34)**	**($2,387)**	**(58,806)**
Employer contributions	**37,432**		**34**	**2,387**	**39,853**
Participant contributions	**3,920**				**3,920**
Administration costs	**(673)**				**(673)**
Fair value, end of year	**$918,711**				**$918,711**
Funded status – deficit	**$11,687**		**$16,783**	**$47,602**	**$76,072**

2013	Pension plans			Post employment benefit plans	Total
	Funded		Unfunded		
	Canada	United States			
Accrued benefit obligations:					
Balance, beginning of year	$954,239	$28,794	$26,456	$47,553	$1,057,042
Current service cost	17,677		519	359	18,555
Interest cost	34,724		526	1,818	37,068
Benefits paid	(57,893)		(1,310)	(2,431)	(61,634)
Remeasurement gains	(90,090)		(644)	(4,126)	(94,860)
Participant contributions	4,447				4,447
Past service cost	97				97
Special termination benefits	1,026				1,026
Curtailment gain	(625)			(382)	(1,007)
Settlement loss	343				343
Net change related to Employee benefits of discontinued operations	(4,113)	(1,285)	736		(4,662)
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	29,299				29,299
Remeasurement gains	74,846				74,846
Benefits paid	(57,893)		($1,310)	($2,431)	(61,634)
Employer contributions	56,973		1,310	2,431	60,714
Participant contributions	4,447				4,447
Administration costs	(1,495)				(1,495)
Net change related to Employee benefits of discontinued operations	9,124	4,693			13,817
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

Net benefit expense for defined benefit plans recognized in the 2014 and 2013 consolidated statement of income is as follows:

2014	Pension plans		Post employment benefit plans	Total
	Funded	Unfunded		
Current service cost	**$11,773**	**$475**	**$300**	**$12,548**
Net interest expense (income)	**(2,156)**	**601**	**1,965**	**410**
Past service cost	**52**	**157**		**209**
Administration costs	**673**			**673**
Net benefit expense	**$10,342**	**$1,233**	**$2,265**	**$13,840**

2013	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Current service cost	$17,677		$519	$359	$18,555
Net interest expense	5,425		526	1,818	7,769
Past service cost	97				97
Special termination benefits	1,026				1,026
Curtailment gain	(625)			(382)	(1,007)
Settlement loss	343				343
Administration costs	1,495				1,495
Net change related to Employee benefits of discontinued operations	2,536	$1,645	920		5,101
Net benefit expense	$27,974	$1,645	$1,965	$1,795	$33,379

Amounts recognized in the 2014 and 2013 consolidated statement of comprehensive income (before tax):

2014	Pension plans		Post employment benefit plans	Total
	Funded	Unfunded		
Remeasurement gains (losses):				
Actuarial gain (loss) from:				
Financial assumptions	**($90,241)**	**($1,385)**	**($4,715)**	**($96,341)**
Demographic assumptions	**(27,432)**		**(426)**	**(27,858)**
Experience adjustment	**(4,810)**	**256**	**208**	**(4,346)**
Total actuarial losses	**(122,483)**	**(1,129)**	**(4,933)**	**(128,545)**
Return on plan assets excluding amounts included in net interest expense	**41,653**			**41,653**
Total remeasurement losses	**(80,830)**	**(1,129)**	**(4,933)**	**(86,892)**
Change in minimum funding liability	**3,296**			**3,296**
Amounts recognized in OCI	**($77,534)**	**($1,129)**	**($4,933)**	**($83,596)**

2013	Pension plans			Post employment benefit plans	Total
	Funded				
	Canada	United States	Unfunded		
Remeasurement gains (losses):					
Actuarial gain (loss) from:					
Financial assumptions	$94,759		$829	$4,283	$99,871
Demographic assumptions	(11,037)		(303)	(302)	(11,642)
Experience adjustment	6,368		118	145	6,631
Total actuarial gains	90,090		644	4,126	94,860
Return on plan assets excluding amounts included in net interest expense	74,846				74,846
Total remeasurement gains	164,936		644	4,126	169,706
Change in minimum funding liability	(3,296)				(3,296)
Net change related to Employee benefits of discontinued operations	11,107	$6,816	213		18,136
Amounts recognized in OCI	$172,747	$6,816	$857	$4,126	$184,546

The significant assumptions used by the Company in 2014 and 2013 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 2014, the Company used the 2014 Private Sector Canadian Pensioners' Mortality Table projected generationally using scale B with a multiplier applied at December 31, 2014 (for the larger plans, the multiplier ranged from 94% to 103%). For 2013, mortality was based on 95% of 1994 Uninsured Pensioner projected generationally using scale AA at December 31, 2013.

	Pension plans		Post employment benefit plans	
	2014	2013	**2014**	2013
To determine benefit obligation at end of year:				
Discount rate	**3.5% to 3.9%**	4.2% to 4.7%	**3.9%**	4.7%
Rate of future compensation increase	**2.25% to 2.75%**	2.5% to 3.0%		
To determine benefit expense:				
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%**	2.5% to 3.0%		
Health care cost trend rates at end of year:				
Initial rate			**4.4%**	4.2%
Ultimate rate			**5.0%**	5.0%
Year ultimate rate reached			**2017**	2017
Longevity for pensioners currently at age 65:				
Male	**21.7 years**	20.2 years		
Female	**24.2 years**	22.5 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:

	December 31, 2014		December 31, 2013	
	1% increase	**1% decrease**	1% increase	1% decrease
Pension plans:				
Discount rate	**($117,577)**	**$134,666**	($114,791)	$132,275
Rate of compensation increase	**8,671**	**(8,520)**	9,904	(9,647)
Post employment benefit plans:				
Discount rate	**(5,530)**	**6,852**	(4,774)	5,879
Per capita cost of health care	**1,418**	**(1,225)**	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 2.2% (December 31, 2013 – 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, 2014 and 2013 are as follows:

	2014	2013
Investments quoted in active markets:		
Cash and cash equivalents	**$31,761**	$30,810
Equity investments		
Canada	**127,446**	103,899
United States	**131,684**	113,464
Outside North America	**79,080**	82,380
Unquoted investments:		
Fixed income		
Government of Canada	**84,442**	85,551
Provinces of Canada	**309,634**	249,908
Canadian Corporations	**64,278**	68,266
Pooled funds		
Equity – North America	**4,033**	77,414
Fixed Income – Canadian Corporations	**86,353**	88,744
	$918,711	$900,436

Pension plan assets for the United States plan (maintained by Harlequin and not included in the 2014 amounts) were invested in pooled U.S. equity and pooled U.S. fixed income investments with each representing 50% of the portfolio as at December 31, 2013.

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, mortality 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, 2014, the target allocation mix was 37% equity securities and 63% fixed income securities for the Canadian plans.

The Company's 2014 actual funding for its Canadian registered pension plans was approximately $37 million (2013 – $57 million). The Company has prepared actuarial reports as of December 31, 2013 for its significant

plans. Estimated funding in 2015 will be approximately $18 million. The next required actuarial reports will be as of December 31, 2016.

The weighted average duration of the defined benefit obligation is 13.5 years (2013 – 12.9 years). As at December 31, 2014, the expected maturity profile of the undiscounted pension plan and post-employment benefits is $48 million in the next year, $460 million in 2 to 10 years and $1,200 million in over 10 years (December 31, 2013 – $50 million in the next year, $450 million in 2 to 10 years and $1,200 million in over 10 years for continuing operations).

Capital accumulation plans

The total amount expensed for capital accumulation plans in 2014 was $2.2 million (2013 – $1.8 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			
	2014		2013	
	Shares	**Amount**	Shares	Amount
Class A shares (voting)				
Balance, beginning of year	**9,853,814**	**$2,677**	9,861,554	$2,679
Converted to Class B	**(1,850)**	**(1)**	(7,740)	(2)
Balance, end of year	**9,851,964**	**$2,676**	9,853,814	$2,677
Class B shares (non-voting)				
Balance, beginning of year	**70,064,699**	**$395,928**	69,882,308	$394,746
Converted from Class A	**1,850**	**1**	7,740	2
Dividend reinvestment plan	**97,859**	**649**	71,571	457
Issued under ESPP	**91,230**	**589**	101,030	710
Share option plan	**97,938**	**721**		
Other	**1,725**	**13**	2,050	13
Balance, end of year	**70,355,301**	**$397,901**	70,064,699	$395,928
Total Class A and Class B shares	**80,207,265**	**$400,577**	79,918,513	$398,605

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)	**2014**	2013
Weighted average number of shares outstanding, basic	**80,078**	79,840
Effect of dilutive securities		
– share options	**169**	
– ESPP	**7**	
Weighted average number of shares outstanding, diluted	**80,254**	79,840

Outstanding stock options totaling 3,044,705 (2013 – 4,267,450), 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	
	2014	2013
First quarter ended March 31: 13.125 cents (2013 – 13.125 cents)	**$10,489**	$10,466
Second quarter ended June 30: 13.125 cents (2013 – 13.125 cents)	**10,516**	10,482
Third quarter ended September 30: 13.125 cents (2013 – 13.125 cents)	**10,521**	10,484
Fourth quarter ended December 31: 13.125 cents (2013 – 13.125 cents)	**10,523**	10,486
Total dividends	**$42,049**	$41,918

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, 2014, options to purchase 10,697,283 shares have been granted, net of options cancelled (December 31, 2013 – 10,114,677).

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

	2014		2013	
	Share options	**Weighted average exercise price**	Share options	Weighted average exercise price
Units outstanding, beginning of year	**4,267,450**	**$12.18**	3,865,831	$14.12
Granted	**1,066,416**	**$5.85**	835,752	$7.81
Exercised	**(97,938)**	**($6.25)**		
Forfeited or expired	**(483,810)**	**($21.88)**	(434,133)	($21.11)
Units outstanding, end of year	**4,752,118**	**$9.89**	4,267,450	$12.18

The weighted average share price when the options were exercised during 2014 was $7.53.

As at December 31, 2014, 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	3,523,922	7.1 years	$7.17	1,752,333	$7.33
$12.21 – 19.61	817,780	4.4 years	$15.52	718,569	$15.97
$21.85 – 29.01	410,416	0.5 years	$22.07	410,416	$22.07
$5.75 – 29.01	4,752,118	6.6 years	$9.89	2,881,318	$11.58

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

	2014	2013
Fair Value	**$1.14 – $1.23**	$1.42 – $1.71
Risk-free interest rate	**1.9% – 2.2%**	1.5% – 1.7%
Expected dividend yield	**9.0%**	6.7%
Expected share price volatility	**38.8% – 41.2%**	38.5% – 44.4%
Expected weighted average time until exercise (years)	**6**	6

In January 2015, 1,406,876 share options were granted at an exercise price of $6.52 per share.

(b) ESPP

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

	2014		2013	
Maturing in	**2015**	**2016**	2014	2015
Subscription price at entry date	**$6.38**	**$7.65**	$10.10	$6.38
Number of shares	**155,063**	**113,805**	110,068	178,092

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

	2014	2013
Fair Value	**$0.71**	$0.55
Risk-free interest rate	**1.0%**	1.0%
Expected dividend yield	**8.2%**	8.2%
Expected share price volatility	**31.0%**	28.0%
Expected time until exercise (years)	**2**	2

(c) RSU plan

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

	2014	2013
Units outstanding, beginning of year	**634,983**	575,204
Vested and paid	**(146,805)**	(234,165)
Granted	**366,994**	316,336
Forfeited	**(27,236)**	(22,392)
Units outstanding, end of year	**827,936**	634,983

As at December 31, 2014, 477,470 units have been accrued at a value of $3.1 million of which 191,181 units have been accrued in Accounts payable and accrued liabilities at a value of $1.2 million and 286,289 units have been accrued in Other liabilities at a value of $1.9 million (December 31, 2013 – 336,833 units had been accrued at a value of $2.0 million of which 132,577 units were accrued in Accounts payable and accrued liabilities at a value of $0.8 million and 204,256 units were accrued in Other liabilities at a value of $1.2 million).

The Company has entered into a derivative instrument in order to hedge the expense for 670,000 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 2015, 256,858 RSUs have been granted and 191,181 RSUs have vested and were paid.

(d) In 2014, the Company recognized share-based compensation expense totaling $2.2 million (2013 - $2.7 million).

(e) DSU plan

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

	2014	2013
Units outstanding, beginning of year	**490,130**	399,890
Granted	**67,308**	53,404
Directors' mandatory retainer	**2,902**	6,273
Directors' voluntary election	**8,482**	11,371
Dividends	**38,035**	36,395
Redemption	**(51,981)**	(17,203)
Units outstanding, end of year	**554,876**	490,130

As at December 31, 2014, the 554,876 units outstanding were valued at $3.6 million (December 31, 2013 – 490,130 units valued at $2.9 million).

The Company has entered into a derivative instrument in order to offset its exposure to 490,000 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, 2013	($5,393)	($4,276)	($6)	($24)	($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)**
Associated with assets held for sale	**(1,673)**	**637**			**(1,036)**
	(90)	**(3,029)**		**(5,520)**	**(8,639)**
OCI	**111**	**3,029**		**5,520**	**8,660**
As at December 31, 2014	**$21**[1]				**$21**

[1]Net of deferred income tax asset of $nil (2013 – $nil)
[2]Net of deferred income tax asset (2013 – $1,370)
[3]Net of current income tax recovery (2013 – $nil)

23. OTHER INCOME (EXPENSE)

	Year ended December 31	
	2014	2013
Gain on sale of Tuango	**$4,463**	
Gain on sale of available-for-sale investment	**736**	$74
Gain on settlement of Metro call option liability	**1,051**	
Loss on cancellation of interest rate swaps (note 15(b)(iii))	**(2,781)**	
Adjustment to contingent consideration (note 17)	**274**	979
Investment write-down and loss		(562)
Other	**11**	
Total	**$3,754**	$491

Gain on sale of Tuango

On October 16, 2014, the Company sold its 38.2% interest in Tuango for proceeds of $7.6 million and recorded a gain of $4.5 million (including $0.3 million from the reversal of an expired option liability).

Gain on sale of available-for-sale investment

During 2014, the Company received proceeds of $0.7 million and recorded a gain of $0.7 million from the sale of an available-for-sale equity investment (2013 – received proceeds of $0.3 million and recorded a gain of $0.1 million).

Metro call option liability

In March 2014, the Company and MISA agreed to an early settlement of the put and call arrangements between them in connection with the remaining 10% interest in Metro English Canada, which was owned by MISA, at a price of $10.1 million. The put and call arrangements were both exerciseable at the same fixed price of $11.2 million starting in October 2014. The Company recorded a gain of $1.1 million on the transaction.

24. GAIN ON SALE AND DISCONTINUED OPERATIONS

On May 1, 2014, the Company entered into an agreement to sell all of the shares of Harlequin (which previously represented the Company's Book Publishing Segment) to a division of HarperCollins Publishers L.L.C., a subsidiary of News Corp. (the "Purchaser"). Effective April 1, 2014, Harlequin (including its respective interests in joint ventures) was classified as Assets held for sale in the consolidated statement of financial position. Harlequin's operating results (for the seven months to July 31, 2014) are presented as a discontinued operation in the consolidated statements of income, comprehensive income and cash flows and all comparative figures have been restated to reflect this change.

On August 1, 2014, the Company sold all of the shares of Harlequin for a purchase price of $455 million subject to certain adjustments for working capital and other related items. The Company received net proceeds of $442.2 million resulting in a pre-tax gain of $224.6 million for the year ended December 31, 2014. The proceeds included restricted cash of $22.8 million which will be held in an escrow account for a period of eighteen months from the date of sale to indemnify the Purchaser for any claims arising in accordance with the conditions specified in the share purchase agreement.

Upon the closing of the sale, the net assets of Harlequin were derecognized from Assets held for sale and the related gain on disposal was included in discontinued operations. Certain intercompany eliminations have been reversed in the amounts presented in order to accurately represent the continuing and discontinued operations. The detailed results of discontinued operations are presented below:

(i) Statement of Income

	Year ended December 31	
	2014	2013
Operating revenue	**$213,198**	$373,018
Salaries and benefits	**(58,403)**	(91,312)
Other operating costs	**(134,796)**	(227,595)
Amortization and depreciation	**(1,043)**	(4,038)
Restructuring and other charges	**(5)**	(4,049)
Operating profit	**18,951**	46,024
Interest and financing costs	**(457)**	(1,400)
Foreign exchange	**4,090**	(320)
Income from joint ventures	**639**	1,155
Other expense	**(2,629)**	(226)
	20,594	45,233
Gain on sale of Harlequin	**224,618**[1]	
Income before taxes from discontinued operations	**245,212**	45,233
Income and other taxes	**(22,550)**[2]	(14,600)
Net income from discontinued operations	**$222,662**	$30,633
Attributable to:		
Equity shareholders	**$222,662**	$30,633
Net income from discontinued operations attributable to equity shareholders per Class A (voting) and Class B (non-voting) share (note 20(c)):		
Basic and Diluted	**$2.78**	$0.38

[1] These amounts include transaction and other costs of $9.6 million related to the sale of Harlequin.

[2] Income taxes related to the sale of Harlequin of $17.0 million are included in these amounts. Deferred tax benefits totalling $14.7 million not related to Harlequin have been used to offset this expense.

(ii) Statement of Comprehensive Income

	Year ended December 31	
	2014	2013
Net income from discontinued operations	**$222,662**	$30,633
Other comprehensive income (loss) that are or may be reclassified subsequently to net income (loss):		
Realized foreign currency translation adjustment for joint ventures (no income tax effect)	**461**	54
Unrealized foreign currency translation adjustment for joint ventures (no income tax effect)		240
Realized foreign currency translation adjustment (no income tax effect)	**(2,134)**	
Unrealized foreign currency translation adjustment (no income tax effect)		6,616
Net movement on cash flow hedges		(2,183)
Income tax effect		600
Loss on cash flow hedges transferred to net income	**911**	
Income tax effect	**(274)**	
	(1,036)	5,327
Other comprehensive income (loss) that will not be reclassified to net income (loss) in subsequent periods:		
Actuarial gain (loss) on employee benefits	**(8,371)**	18,136
Income tax effect	**2,432**	(5,400)
	(5,939)	12,736
Other comprehensive income (loss) from discontinued operations, net of tax	**($6,975)**	$18,063
Comprehensive income from discontinued operations, net of tax	**$215,687**	$48,696
Attributable to:		
Equity shareholders	**$215,687**	$48,696

(iii) Statement of Cash Flows

	Year ended December 31	
	2014	2013
Cash was provided by (used in)		
Operating activities	**$8,635**	$40,863
Investing activities	**(1,609)**	(5,596)
Financing activities	**21,311**	(102,508)
Increase (decrease) in cash	**28,337**	(67,241)
Effect of exchange rate changes	**403**	568
Cash, beginning of period	**(9,132)**	57,541
	19,608	(9,132)
Cash paid on closing	**(19,608)**	
Cash, end of period		($9,132)
Operating activities:		
Net income	**$222,662**	$30,633
Gain on disposal of Harlequin	**(207,618)**	
Amortization and depreciation	**1,043**	4,038
Deferred income taxes	**3,765**	4,400
Loss (income) from joint ventures	**(639)**	(1,155)
Distributions from joint ventures	**1,710**	2,199
Non-cash employee benefit expense	**4,826**	5,101
Employee benefits funding	**(15,255)**	(6,518)
Other	**(5,301)**	(2,115)
	5,193	36,583
Decrease in non-cash working capital	**3,442**	4,280
Cash provided by (used in) operating activities of discontinued operations	**$8,635**	$40,863
Investing activities:		
Additions to property, plant and equipment and intangible assets	**($1,720)**	($5,546)
Acquisitions and investments		(50)
Other	**111**	
Cash used in investing activities of discontinued operations	**($1,609)**	($5,596)
Financing activities:		
Intercompany dividends paid	**($4,238)**	($44,480)
Intercompany	**25,549**	(58,028)
Cash provided by (used in) financing activities of discontinued operations	**$21,311**	($102,508)
Cash of discontinued operations represented by:		
Cash equivalents – short-term deposits		$2,940
Bank overdraft		(12,072)
Cash, end of period		($9,132)

25. ACQUISITIONS AND INVESTMENTS

2014 Acquisitions

During the year ended December 31, 2014, the Company made deferred purchase payments of $10.1 million related to the SMG Segment in respect of its prior acquisition of Metro English Canada. The Company also made portfolio investments for cash of $0.7 million including an additional investment of $0.6 million in TeamSnap, Inc. maintaining the Company's interest at 7.2%.

Total cash used for acquisition and portfolio investments in 2014 was $10.8 million.

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

	2014	2013		
	SMG Segment	SMG Segment	MMG Segment	Total
Assets:				
Finite-life intangible assets (note 10)		$46		$46
Total purchase price		46		46
Contingent consideration		(45)		(45)
Cash consideration paid		1		1
Deferred payments on prior acquisitions (note 23)	**$10,065**			
Contingent consideration on prior acquisitions (note 17)	**14**		$2,077	2,077
	10,079	1	2,077	2,078
Investments	**680**	357		357
Total cash used in acquisitions and investments	**$10,759**	$358	$2,077	$2,435

2013 Acquisitions

During the year ended December 31, 2013, the Company completed an acquisition in its SMG 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 which included an additional investment of approximately $0.3 million in Kanetix Inc., bringing the Company's interest to 11.7%.

In addition, the Company made payments of $2.1 million for contingent consideration in respect of prior year acquisitions in the MMG Segment (WagJag and Foodscrooge).

Total cash used for acquisition and portfolio investments in 2013 was $2.4 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 SMG Segment in 2013. If the acquisition had occurred on January 1, 2013, the Company's consolidated revenues and operating loss would have been $936.1 million and $34.7 million respectively, for continuing operations.

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

	Year ended December 31	
	2014	2013
Share-based compensation plans	**$2,674**	$998
Foreign exchange	**7,656**	1,186
Restructuring provisions	**641**	1,981
Gain on sale of assets (note 23)	**(5,199)**	(74)
Gain on Metro call option liability (note 23)	**(1,051)**	
Media inventory provided to Shop.ca (note 8)		(965)
Interest accretion (note 15(c))	**310**	494
Adjustment to contingent consideration (note 17)	**(274)**	(979)
Investment write-down and loss (note 23)		562
Other	**(874)**	(1,705)
	$3,883	$1,498

27. COMMITMENTS AND CONTINGENCIES

The Company has guaranteed sub-lease payments 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.

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	2015	2016 - 2017	2018 - 2019	2020+
Office leases	$68,708	$13,474	$26,740	$21,431	$7,063
Services	11,029	3,146	4,263	3,020	600
Total	$79,737	$16,620	$31,003	$24,451	$7,663
Receivable from office sub-leases	($5,113)	($1,466)	($3,015)	($632)	

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	
	2014	2013
Salaries and benefits	**$7,160**	$6,291
Post-employment benefits	**3,122**	(296)
Share based payments	**1,915**	2,513
Other long-term benefits	**(112)**	(56)
Total	**$12,085**	$8,452

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				
2014	**$510**	**$237**	**$102**	**$8**
2013	472	306		18
Associates				
2014	**219**	**8,731**	**224**	**1,105**
2013	1,239	9,123		1,044

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. SUBSEQUENT EVENTS

Subsequent to December 31, 2014, the Company received certification from the Ontario Media Development Corporation that digital media tax credits for the year ended December 31, 2010 were eligible to be claimed. The claim, which will be subject to audit by the Canada Revenue Agency, primarily relates to the recovery of previously recognized compensation expenses. As a result, the Company expects to record a recovery in compensation expense in the range of $5 million to $7 million in 2015 related to this claim.

In March 2015, the Company signed definitive documents with La Presse Ltée in respect of a new tablet product for the Toronto Star. This product is currently expected to launch in the fall of 2015.

BOARD OF DIRECTORS

John A. Honderich

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

Campbell R. Harvey

Professor of Finance,
Duke University

Director since 1992

Martin E. Thall

President and Chief Executive Officer
Thall Group of Companies

Director since 2002

Elaine B. Berger

Corporate Director

Director since 2006

Daniel A. Jauernig

Executive Vice-President
Element Financial Corporation

Director since 2009

Joan T. Dea

Corporate Director

Director since 2009

Alnasir Samji

Managing Principal, Alderidge Consulting

Director since 2009

David P. Holland

President and Chief Executive Officer
Torstar Corporation

Director since 2009

Paul R. Weiss

Corporate Director

Director since 2009

Phyllis Yaffe

Corporate Director

Director since 2009

Linda Hughes

Chancellor Emerita, University of Alberta
Former Publisher, Edmonton Journal

Director since 2010

Dorothy Strachan

Partner, Strachan-Tomlinson Inc.

Director since 2013

TORSTAR

NOTES

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

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General Counsel and
Corporate Secretary

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Senior Vice-President
Strategy and Digital Ventures

D. TODD SMITH
Treasurer

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