2017

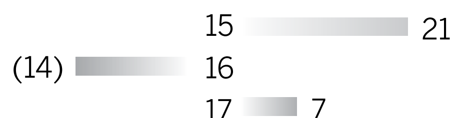
ANNUAL REPORT

FINANCIAL HIGHLIGHTS	**2017**	2016
OPERATING RESULTS ($000)		
Operating revenue	**$615,685**	$685,099
Segmented operating revenue (1)	**691,600**	761,697
Segmented Adjusted EBITDA (1)	**74,209**	60,478
Operating earnings (loss) (1)	**7,161**	(14,428)
Operating loss	**(18,484)**	(61,051)
Net loss	**(29,288)**	(74,836)
Cash provided by (used in) operating activities	**15,404**	(10,599)
Segmented Adjusted EBITDA - Percentage of segmented operating revenue (1)	**10.7%**	7.9%
PER CLASS A AND CLASS B SHARES		
Net loss	**($0.36)**	($0.93)
Dividends	**$0.10**	$0.18
Price range (high/low)	**$2.10/$1.20**	$2.90/$1.39
FINANCIAL POSITION ($000)		
Cash and cash equivalents and restricted cash	**$80,433**	$87,221
Equity	**$245,830**	$326,170

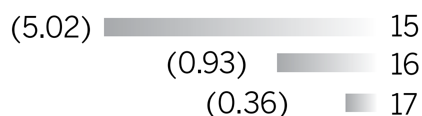
The Annual Meeting of shareholders will be held Wednesday, May 9, 2018 at The Toronto Star Building, 3rd Floor Auditorium, One Yonge Street, Toronto, beginning at 10 a.m. It will also be webcast live on the Internet.

OPERATING REVENUE ($MILLIONS)

OPERATING EARNINGS (LOSS) ($MILLIONS) (1)



NET INCOME (LOSS) PER SHARE



SEGMENTED ADJUSTED EBITDA ($MILLIONS) (1)

(1) These are non-IFRS measures. These along with other Non-IFRS measures appear in the President's message. Refer to page 37 for a reconciliation of IFRS measures.

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 9 under the heading "Forward-Looking Statements".

MESSAGE FROM THE CHAIR

John Honderich
Chair, Board of Directors

2017 was a year of transition and significant transformation at Torstar as the company welcomed John Boynton as its new President and Chief Executive Officer and Publisher of the Toronto Star.

With the media world still facing revenue challenges, Mr. Boynton developed and launched a new transformation strategy to lead the company to a more prosperous future. As part of that strategy, he created a new senior executive team with specialties in digital media, data, advertising and marketing. He also reorganized the company into three principal divisions: Daily News Brands, which includes newspapers and web properties associated with the Toronto Star, The Hamilton Spectator, Waterloo Region Record, St. Catharines Standard, Niagara Falls Review, Welland Tribune, Peterborough Examiner and our Metro publications in Toronto, Halifax, Calgary, Edmonton and Vancouver; Community Brands, which includes our community publications and web properties; and Digital Ventures, which is unchanged and includes our interest in VerticalScope, Workopolis and eyeReturn Marketing. Neil Oliver has been appointed Executive Vice-President Torstar and President of Daily Brands while Ian Oliver has been appointed Executive Vice-President Torstar and President of Community Brands and Operations.

In the final quarter of 2017 Torstar completed a transaction with Postmedia Network Inc. in which it purchased and sold a number of daily and community newspapers. As a result of that transaction, Torstar acquired eight weekly community newspapers, seven daily community newspapers and two free daily newspapers from Postmedia. We continue to operate four of the newspapers we acquired, namely the St. Catharines Standard, Welland Tribune, Niagara Falls Review and Peterborough Examiner, under our Daily Brands segment.

Throughout the year, our daily and weekly publications continued Torstar's tradition of journalistic excellence. Despite increasingly limited resources, our newspapers kept on producing award-winning investigative stories and impactful local features. And at the Toronto Star, the commitment to observe and promote the Atkinson Principles was constant.

With ongoing advertising declines, the company was compelled once again to implement cost-reduction measures. As a result, layoffs and buyouts were carried out across some of our divisions. Torstar has always reaped the benefits of a dedicated and determined workforce. We want to pay tribute to those who have left the company and reassure them their contribution will always be remembered.

Finally, Torstar benefits tremendously from an experienced and deeply committed Board of Directors. We welcomed Linda Hughes as our new Lead Director, replacing Phyllis Yaffe who left to be Canada's Consul General in New York City. On behalf of the company, I want to thank the Board for their collective wisdom and keen strategic insight.

TO OUR SHAREHOLDERS

John Boynton
President and Chief Executive Officer

2017 was a year of transition for Torstar as we launched a major multi-year transformation of our traditional news brands. We are undertaking this initiative in light of the current business climate confronting the media industry and our desire to become once again a company that is about growth. We have a long way to go, but in 2017 we began preparing for the journey.

Torstar is not immune to the challenges that are placing the media industry under pressure. Consumption of news and other content is changing as are the types of news and content consumed and the formats of consumption. At the same time, trust in the sources of news and information is becoming increasingly important. Also, advertisers are evolving, moving from products to solutions, from audiences to targeting individuals. Meanwhile, data and automation technologies are presenting new opportunities for clients and media companies alike.

At Torstar, we see the need for a new path forward given our increasingly digital, hyper-local, hyper-targeted, time-pressed, mobile, data-driven world. In such a world we need to rethink advertising, subscriptions, news and content. Still, we have a solid base on which to start our journey. Torstar's digital presence across our core brands continued to show impressive growth, with aggregate monthly average page views of 123 million pages, up 11% from 2016, with greater engagement on mobile platforms.

Our new path forward rests on four pillars: first, a deep customer-centric obsession; second, journalism excellence that fuels change while engaging consumers and clients that in turn generate profitable revenue; third, an advanced data-driven competency; and fourth, a culture that is selfless, focused, agile, extremely collaborative and results-driven.

Key to the transformation is a strong, clear set of cultural values required to embrace the new direction while building on the best of the existing values from different divisions. We must be selfless and set our sights squarely on the customer. We must be focused on where we can make a real difference and have a big impact. We must be agile, able to make fast decisions and take immediate action, learning from our successes and failures and moving on quickly. We must be collaborative, working as a team and sharing our knowledge. We must be results-driven, because to be successful we must embrace the realities that results count.

At the core of our transformation are our mission, vision and purpose:

- Our mission is to profitably grow by delivering and engaging each paying customer with trusted news, information and content that is most relevant to their personal passions, needs and desire for positive change in our communities and businesses.
- Our vision is a world where our customers, communities, country and businesses are connected, informed, thrive and continuously grow along with Torstar.
- Our purpose is to keep customers informed with what matters most to them, to help make their lives, community, country and world better.

In 2017, we began to make strides in this transformation. We announced a new senior leadership team to head our current businesses and our transformation efforts, building on core talent in what we already do well and adding new leadership in areas where we need to be great. Also, we realigned our management structure and operating segments to set us up for the transformation and align our operations by type and brands. This resulted in three reportable operating segments: Community Brands, which includes our community weekly publications and web properties; Daily Brands, which includes publications and web properties associated with the Toronto Star, The Hamilton Spectator, Waterloo Region Record, the St. Catharines Standard, the Niagara Falls Review, the Welland Tribune and the Peterborough Examiner, the Metro papers in Halifax, Toronto, Edmonton, Calgary and Vancouver, and Sing Tao; and lastly our Digital Ventures group, which is unchanged and includes our interest in VerticalScope, Workopolis and eyeReturn Marketing.

We believe these changes will serve as the foundation that enables us to move forward with our transformation plan.

Important to remember is that the transformation is not a "one-hit-wonder/all-eggs-in-one-basket" approach. Instead it is a portfolio of strategies that redefines the core of the company and is more focused on the long term and on a more sustainable future.

The most significant transaction we completed in 2017 was with Postmedia Network Inc., in which we purchased eight weekly community publications, seven daily community newspapers and two free daily newspapers and sold 22 weekly community newspapers in eastern and southern Ontario and the Metro Winnipeg and Metro Ottawa free daily publications. Readers and advertisers of certain publications we acquired are now being serviced by one or more of our other Community Brand properties while we welcome and operate our four new daily newspapers acquired from Postmedia, namely the St. Catharines Standard, Niagara Falls Review, Welland Tribune and Peterborough Examiner. This transaction allows us to operate more efficiently.

At the same time, we continue to strive to keep our costs in line with current revenues trends, which is necessary to help us fund the transformation.

While the landscape is evolving quickly, we remain committed to maintaining a strong financial foundation to support a longer-term transformation aimed at enabling sustainable growth. We ended 2017 with $71.4 million in unrestricted cash and no bank debt.

OPERATING RESULTS

Torstar's results were affected by the continued pressures on print advertising. As previously mentioned, Torstar now has three reportable operating segments: Community Brands, Daily Brands and Digital Ventures.

Our segmented adjusted EBITDA was $74.2 million in 2017, an improvement of $13.7 million from the prior year. Segmented revenue was $691.6 million in 2017, down $70.1 million, or 9.2%, from $761.7 million in 2016.

The Digital Ventures segment, which was created in 2015, was a significant contributor in 2017 with segmented adjusted EBITDA of $26.9 million, down $0.4 million compared to 2016. The results benefited from continued strong performance at VerticalScope, where revenues in U.S. dollars were up 14% and segmented adjusted EBITDA was up 6.5%. We expect another year of strong growth at VerticalScope in 2018. VerticalScope remains a true Canadian digital success story. It operates more than 600 digital verticals, including automotive, power sports, and outdoor.

Our Community Brands operating segment is a diversified community media business that is considered one of North America's top performers. Community Brands has more than 80 community newspapers delivered to almost 3 million homes across Ontario, numerous digital operations, a large and successful flyer distribution network, more than 90 magazines and more than 30 consumer shows. Segmented adjusted EBITDA in 2017 was $31.5 million, down $4.4 million from prior year; segmented revenue was $304.3 million compared to $332.4 million in 2016. Digital revenue showed solid growth in 2017 in local digital advertising within the Community Brands segment. Revenues in the very important flyer distribution category, which represents 36% of the Community Brands' revenue base, remained relatively resilient in 2017.

Our Daily Brands segment, which includes the Toronto Star, The Hamilton Spectator, Waterloo Region Record, the St. Catharines Standard, the Niagara Falls Review, the Welland Tribune, the Peterborough Examiner, our Metro papers across Canada, Sing Tao Daily, The Kit and some of our digital properties, reported adjusted EBITDA of $26.4 million, an improvement of $19.0 million relative to 2016. The improvement included the benefit of a $13.4 million digital tax credit. Revenues were down $40 million, or 11%, reflecting lower print advertising revenues, particularly in the national advertising category. Subscriber revenues were down a modest 3.6%. Excluding the impact of Toronto Star Touch, which was discontinued in 2017, digital revenues grew 1.9% in 2017. The Toronto Star, our flagship publication, remains Canada's largest individual weekday print title. In 2017 digital revenues grew in our core Daily Brands and in 2018 are expected to continue to grow, benefiting from growth at thestar.com and in local digital advertising at the daily newspaper sites.

We are also pleased that our newspapers and digital businesses continued to be recognized for outstanding editorial, advertising and marketing efforts. Two Toronto Star journalists won National Newspaper Awards, one of the highest honours in Canadian journalism. Murray Whyte, the Star's art critic, won for best Arts and Entertainment reporting and photographer Luca Oleniuk won the Sports photo award. As well, the Star was nominated for two Michener Awards for two series: its investigative work on the Panama Papers project and on the Ontario Special Investigation probe into the shooting death of Andrew Loku. Meanwhile, Community Brand newspapers won a total of 111 provincial, national and international awards in 2017. They won 88 Ontario Community Newspaper Association awards, including 34 first-place awards. They also won 11 awards from Ontario Newspaper Association and 11 Great Idea Awards from News Media Canada.

Torstar also has minority investments in associated businesses, including an approximate 16% interest in Blue Ant Media Inc., an independent media company led by media veteran Michael MacMillan. In addition, Torstar has a minority investment in Black Press, a company led by David Black that publishes more than 150 newspapers, including weeklies, dailies and shoppers in Canada and the U.S.

A FIRST YEAR

It is a great privilege and honour to serve as President and Chief Executive Officer of Torstar and as Publisher of the Toronto Star.

What has truly impressed me since I started at Torstar on March 31, 2017, has been the quality and dedication of employees at all levels and in all divisions of the company. From salespeople and journalists to printing plant staff and digital developers, the commitment and skills of our people is extraordinary. Indeed, it is our greatest strength.

Also, I am excited by a large number of things that I have seen across Torstar since I started, including the strong growth in VerticalScope, our largest asset; the powerful brands we have in the Toronto Star, our Metro and community newspapers and niche online and ecommerce brands; our strong relationship in the communities; the entrepreneurial and nimble spirit of our local teams; our deep history in meaningful reporting and investigative journalism; and the fact that Torstar has no debt.

At Torstar, we are also fortunate to have an excellent leadership team. Ian Oliver, Executive Vice-President of Torstar and President of Community Brands and Operations, along with Neil Oliver, Executive Vice-President and President of Daily News Brands, are outstanding business leaders, operators and innovative thinkers. We also benefit from the experience and expertise of Claude Galipeau, our Chief Revenue Officer; Angus Frame, our Senior Vice-President, Digital Product Management and Digital Product Development; John Souleles, our Chief Data Officer; Geoff Wright, our Vice-President, Content Strategy; Anna Marie Menezes, our Vice-President, Customer Revenue and Lifecycle Management; Lorenzo DeMarchi, our Executive Vice-President and Chief Financial Officer; Marie Beyette, Senior Vice-President, General Counsel and Corporate Secretary; and Pam Laycock; Senior Vice-President, Transformation and Strategy. We also benefit greatly from the leadership of Rob Laidlaw, the founder and CEO at VerticalScope.

In this initial year of serving as President and CEO, I would also acknowledge the support and encouragement of John Honderich, our Chair, and of the Board of Directors as we worked through these challenging times. I look forward to the Board's support and counsel as we move forward with the transformation.

Looking forward, we have a set of strategies that we will be implementing throughout 2018, 2019 and 2020. Our customer obsession will enable us to serve our clients more effectively, using award-winning journalism and advanced customer data to improve the products and solutions we provide to customers and advertisers. The transformation is about changing what we do and what we are great at and what we are capable of at our core.

Indeed, we can see a path to growth again. It will take time and a lot of hard work. But there can be a long future for Torstar and its brands, our incredibly dedicated staff, our shareholders, our communities and, most importantly, our customers.

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TORSTAR

NOTES

For the year ended December 31, 2017

The following management's discussion and analysis ("MD&A") of Torstar Corporation's ("Torstar", "we", "our" 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, 2017 (the "2017 Consolidated Financial Statements").

We report our 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 2017 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 2017, Torstar realigned its management structure and operating segments in order to better align its operations by type of publication. The Company now has three reportable operating segments: Community Brands ("Communities"), Daily Brands ("Dailies") and Digital Ventures. The results for 2016 have been restated on a comparative basis to reflect these and other classification changes.

This MD&A is dated February 27, 2018 and all amounts are in Canadian dollars unless otherwise noted.

Additional information relating to Torstar, including our Annual Information Form, is available on our 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", "estimate", "assume", "predict", "intend", "would", "could", "if", "may" and similar expressions. This MD&A includes, among others, forward-looking statements regarding expectations relating to Torstar's achievement of transformation initiatives in Section 1 of this MD&A, the expected effects of the recent Postmedia transaction on Torstar's earnings and revenue in Sections 1 and 5 of this MD&A, estimates and expectations relating to contingent liabilities and impairment of assets in Sections 3 and 4 of this MD&A, , expected savings including savings from restructuring initiatives and other cost reductions in Sections 3, 4 and 5 of this MD&A, Torstar's outlook for 2018 including anticipated revenue trends and adjusted EBITDA, anticipated growth at VerticalScope, anticipated operating expenses and capital expenditures, expected pension plan contributions, funding obligations and expenses and the anticipated impact of the Ontario Government's proposed new pension funding framework, and the potential merger of our defined benefit pension plans with the CAAT jointly sponsored defined benefit pension plan in Section 5 of this MD&A, expectations regarding cash flows and forecasted cash requirements and potential measures to increase liquidity, the impact of the Ontario Government's planned new pension funding framework, expected pension plan funding requirements, and timing and amount of digital media tax credits in Section 6 of this MD&A, expectations regarding the costs, obligations, contributions, return on plan assets, discount rates, required funding, solvency liabilities and other expectations related to employee future benefit obligations and the potential impact of the Ontario Government's planned new pension funding framework and new interim solvency relief measures in Section 8 of this MD&A, expectations described in connection with critical accounting policies and 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. We caution readers not to place undue reliance on the forward-looking statements in this MD&A as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, outlooks, expectations, goals, estimates or intentions expressed in the forward-looking statements.

These factors include, but are not limited to:
-the Company's ability to operate in highly competitive changing 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 and customers;
-the Company's ability to build and maintain adequate circulation/subscription levels;
-the Company's ability to attract and retain readers and traffic;
-the Company's ability to integrate the technology associated with new digital platforms;

-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;
-cybersecurity and risks of security breaches;
-the Company's ability to execute appropriate strategic growth initiatives including acquisitions;
-changes in employee future benefit obligations;
-unexpected costs or liabilities related to acquisitions and dispositions;
-investments in other businesses;
-reliance on printing operations;
-labour disruptions;
-newsprint costs;
-privacy, anti-spam, communications, competition, e-commerce, data use and environmental laws, health and safety regulations and other laws and regulations applicable generally to the Company's businesses;
-litigation;
-foreign exchange fluctuations and foreign operations;
-dependence on key personnel;
-availability of insurance;
-intellectual property rights and other content risks;
-credit risk;
-availability of capital and restrictions imposed by credit facilities;
-income tax and other taxes;
-dividend policy;
-controls over financial reporting, results of impairment tests and uncertainties associated with critical accounting estimates
-holding company structure; 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 conditions and competition; rates of return and discount rates relating to pension expense and pension plan obligations; discount rates and trends in healthcare costs relating to post employment benefits; expected future revenues; expected future liabilities; expected future cash flows and discount rates relating to valuation of intangible assets; and successful development and launch of strategic initiatives and new products. There is a risk that some or all of these assumptions may prove to be incorrect. There is no assurance regarding the amount and timing of future dividends. 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 our business and strategic initiatives

Torstar is a broadly based Canadian media company listed on the Toronto Stock Exchange (Symbol:TS.B). During the fourth quarter of 2017, Torstar realigned its management structure and operating segments in order to better align its operations by type of publication. The Company now has three reportable operating segments: Community Brands ("Communities"), Daily Brands ("Dailies") and Digital Ventures. Relevant comparative information has been restated to reflect these changes.

The Daily Brands include the daily Toronto Star newspaper and thestar.com, The Hamilton Spectator, the Waterloo Region Record, the St. Catharines Standard, the Niagara Falls Review, the Welland Tribune and the Peterborough Examiner daily newspapers, as well as each of their respective websites. The Dailies also include Free Daily News Group Inc. (“Metro”), which publishes the English-language Metro free daily newspapers in several of Canada’s largest cities, and through a joint venture arrangement, the Dailies owns an interest in the Chinese-language Sing Tao Daily and its related publications in Toronto, Vancouver and Calgary. The Dailies also include wheels.ca, toronto.com and other specialty publications and magazines and distribution services.

The Community Brands include more than 80 weekly community newspapers, digital properties (including homefinder.ca, save.ca, travelalerts.ca, and regional online sites, such as durhamregion.ca) and flyer distribution operations. The Communities also have a number of specialty publications, directories and consumer shows. The Communities also included wagjag.com (“WagJag”) until October 30, 2017 when it and related assets were sold for gross proceeds of $0.5 million.

Digital Ventures includes our 56% interest in VerticalScope, eyeReturn Marketing Inc. (“eyeReturn”) and our joint venture interest in Workopolis. Our investment in VerticalScope is classified as an associated business rather than a consolidated subsidiary or joint venture as a result of certain terms in the applicable shareholders’ agreement. VerticalScope is a Toronto-based vertically focused digital media company with expertise in programmatic advertising and which has approximately 215 employees and services the North American market through its network of user forums and premium content sites offering advertisers access to large audiences in popular verticals including automotive, powersports, outdoors, home and health.

We also have several other investments in Associated Businesses, which at December 31, 2017 included a 19% equity investment in Black Press Ltd. (“Black Press”), a 16% equity investment in Blue Ant Media Inc. (“Blue Ant”), a 33% equity investment in Canadian Press Enterprises Inc. (“Canadian Press”) and an approximate 22% interest in Nest Wealth Asset Management Inc. ("Nest Wealth").

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, the Yukon, Saskatchewan, Manitoba, Washington, California, Hawaii and Ohio.

Blue Ant is a privately held, international content producer, distributor and channel operator founded in 2011. Blue Ant creates content for multiple genres including factual, factual entertainment, short-form digital series and kids programming. Their distribution business, offers a catalogue of 3,200+ hours of content, including the largest 4K natural history offering on the market and their international channel business offers a portfolio of media brands.

Canadian Press operates The Canadian Press news agency.

Nest Wealth is an online investment portfolio manager, or 'robo-advisor' in the financial technology sector.

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 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 which has resulted in a structural shift in advertising spending from various traditional media, including newspapers, to digital media. In 2015 we made a significant investment in a high growth digital business opportunity in VerticalScope which has pursued a strategy of organic and acquisition related growth. During 2017 we refocused efforts on a multi-year transformation of our traditional news brands. At the core of this transformation our mission is to profitably grow by delivering and engaging each paying customer

with trusted news, information and content that is most relevant to their personal passions, needs and desire for positive change in our communities and businesses. We are striving to achieve this transformation, across our asset base, centred on the following anchors:

- A deep customer-centric obsession;
- An advanced data driven competency;
- Journalism excellence that fuels change around us while engaging consumers and clients that in turn generate profitable revenue;
- Achieving further digital evolution of our asset base; and
- A selfless, focused, agile and extremely collaborative culture

While the landscape is evolving quickly, we remain committed to maintaining a strong financial foundation to support a longer term transformation aimed at enabling sustainable growth.

2. Highlights

Highlights for 2017 compared to 2016

(in $000's, except per share amounts)	2017	2016	Favourable (Unfavourable)
Net loss from continuing operations	($30,638)	($76,036)	$45,398
Per Share	*($0.38)*	*($0.94)*	*$0.56*
Net loss attributable to equity shareholders	(29,171)	(74,750)	45,579
Per Share (Basic)	*($0.36)*	*($0.93)*	*$0.57*
Adjusted earnings (loss) per share[2]	*$0.01*	*($0.46)*	*$0.47*
Operating loss[1,2]	(25,134)	(118,507)	93,373
Adjusted EBITDA[1,2]	74,209	60,478	13,731
Revenues[1,2]	691,600	761,697	(70,097)

[1] Includes proportionately consolidated share of joint ventures and VerticalScope's operations.
[2]These are Non-IFRS or additional IFRS measures, refer to Section 14 of this MD&A.

Highlights:

- In November 2017, we completed a transaction with Postmedia Network Inc. ("Postmedia"), in which we purchased and sold a number of daily and community newspapers. As part of the transaction, we acquired eight weekly community publications, seven daily community newspapers and two free daily newspapers from Postmedia. In addition, we sold 22 weekly community newspapers in eastern and southern Ontario and the Metro Winnipeg and Metro Ottawa free daily publications to Postmedia. Readers and advertisers of certain publications we acquired are now being serviced by one or more of our other Community properties while we continue to operate four daily newspapers acquired from Postmedia now included in our Daily Brands segment. This transaction is expected to contribute to an improvement in annualized operating earnings in the range of $5 million to $7 million.

- On March 31, 2017, John Boynton was appointed President and Chief Executive Officer of Torstar and Publisher of the Toronto Star. Mr. Boynton comes to Torstar with deep expertise in marketing, technology and business transformation.

- Ended 2017 with $71.4 million of cash and cash equivalents and $9.1 million of restricted cash; Torstar has no bank indebtedness.

- Cash provided by operating activities was $15.4 million in 2017 reflecting $22.9 million of cash generated by operating activities partially offset by a $10.2 million increase in working capital.

- Our net loss from continuing operations was $30.6 million ($0.38 per share) in 2017 compared to $76.0 million ($0.94 per share) in 2016. Our net loss in 2017 included $66.9 million of non-cash amortization and depreciation, $28.1 million of which related to our investment in VerticalScope, and $11.1 million of non-cash impairment charges. Our net loss in 2016 included $122.0 million of non-cash amortization and depreciation and $7.5 million of non-cash impairment charges.

- Adjusted earnings per share was $0.01 in 2017, an improvement of $0.47 from an adjusted loss per share of $0.46 in 2016. Adjusted earnings per share included an $0.83 per share effect of amortization and depreciation.

- Our segmented adjusted EBITDA was $74.2 million in 2017, an improvement of $13.7 million from the prior year. Segmented adjusted EBITDA in the Daily Brands segment was $26.4 million, an improvement of $19.0 million which included the benefit of a $13.4 million digital media tax credit. This tax credit related to a claim made in respect of 2012 and not current year operations. Segmented adjusted EBITDA in the Community Brands segment was $31.5 million, down $4.4 million in 2017 while segmented adjusted EBITDA in the Digital Ventures segment was $26.9 million in 2017, down $0.4 million relative to 2016.

- Segmented revenue was $691.6 million in 2017, down $70.1 million (9.2%) from $761.7 million in 2016.

The following chart provides a continuity of earnings (loss) per share from the year ended December 31, 2016 to the year ended December 31, 2017:

	Earnings (Loss) Per Share	Adjusted Earnings (Loss) Per Share **
Loss per share from continuing operations attributable to equity shareholders in 2016	**($0.94)**	**($0.46)**
Changes		
• Adjusted EBITDA *	0.17	0.17
• Amortization and depreciation *	0.68	0.68
• **Operating earnings (loss) ***	(0.09)	0.39
• Restructuring and other charges*	0.35	
• Impairment of assets*	(0.04)	
• **Operating profit (loss) ***	0.22	0.39
• Interest and financing costs	0.01	0.01
• Non-cash foreign exchange	0.01	
• Income (loss) from associated businesses (excluding VerticalScope)	(0.14)	(0.14)
• Other income	(0.25)	
• Change in deferred taxes (including associated businesses)	(0.23)	(0.25)
Earnings (loss) per share attributable to equity shareholders in 2017 from continuing operations	**($0.38)**	**$0.01**
Earnings per share from discontinued operations attributable to equity shareholders in 2017	**$0.02**	
Earnings (loss) per share attributable to equity shareholders in 2017	**($0.36)**	**$0.01**

*Includes proportionately consolidated share of joint ventures and VerticalScope's operations. These are Non-IFRS or additional IFRS measures, refer to Section 14 of this MD&A.
**Refer to Section 14 for a reconciliation of earnings (loss) per share to adjusted earnings (loss) per share and a definition of adjusted earnings (loss) per share.

3. Annual Operating Results

A discussion of our operating results for 2017 and 2016

Unless otherwise noted, the following is a discussion of our 2017 operating results relative to 2016. During the fourth quarter of 2017, we realigned our management structure and operating segments in order to better align our operations by type of publication. We now have the following three reportable operating segments: Community Brands, Daily Brands and Digital Ventures. Relevant comparative information has been restated to reflect these changes.

Overall Performance

As noted above, we have three 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 including our proportionate share of joint venture operations as well as our 56% interest in VerticalScope. When reported in the consolidated statement of income, joint ventures and our 56% investment in VerticalScope (which, pursuant to certain terms in the shareholders agreement, is classified as an Associated Business rather than a consolidated subsidiary or joint venture), are accounted for using the equity method. The net income is included in “Income (loss) from joint ventures” and “Income (loss) from associated businesses”, as applicable. We own a significantly higher percentage of VerticalScope relative to our other Associated Businesses.

The following tables set out our segmented results which include our proportionate share of results from VerticalScope and our joint ventures for the years ended December 31, 2017 and December 31, 2016 and provide a reconciliation to the consolidated statement of income.

2017							
(in $000's)	Communities	Dailies	Digital Ventures	Corporate	Total Segmented *	Adjustments and Eliminations[1]	Per Consolidated Statement of Loss
Operating revenue	$304,253	$315,050	$72,297		$691,600	($75,915)	$615,685
Salaries and benefits	(140,098)	(100,229)	(22,062)	($6,699)	(269,088)	23,182	(245,906)
Other operating costs	(132,643)	(188,439)	(23,290)	(3,931)	(348,303)	22,672	(325,631)
Adjusted EBITDA**	31,512	26,382	26,945	(10,630)	74,209	(30,061)	44,148
Amortization & depreciation	(13,352)	(21,491)	(32,025)		(66,868)	29,881	(36,987)
Share based compensation	(595)	(199)	(1,414)	(284)	(2,492)	2,492	
Operating earnings (loss)**	17,565	4,692	(6,494)	(10,914)	4,849	2,312	7,161
Restructuring and other charges	(11,136)	(6,533)	(981)	(200)	(18,850)	1,338	(17,512)
Impairment of assets			(11,133)		(11,133)	3,000	(8,133)
Operating profit (loss)**	$6,429	($1,841)	($18,608)	($11,114)	($25,134)	$6,650	($18,484)
Loss from continuing operations							($30,638)
Income from discontinued operations							$1,350
Net loss							($29,288)

2016							
(in $000's)	Communities	Dailies	Digital Ventures	Corporate	Total Segmented *	Adjustments and Eliminations[1]	Per Consolidated Statement of Loss
Operating revenue	$332,379	$355,337	$73,981		$761,697	($76,598)	$685,099
Salaries and benefits	(155,187)	(137,847)	(21,361)	($7,448)	(321,843)	22,528	(299,315)
Other operating costs	(141,333)	(210,077)	(25,352)	(2,614)	(379,376)	23,184	(356,192)
Adjusted EBITDA**	35,859	7,413	27,268	(10,062)	60,478	(30,886)	29,592
Amortization & depreciation	(12,865)	(29,451)	(79,642)	(66)	(122,024)	78,004	(44,020)
Share based compensation	(528)	(268)	(1,128)	(630)	(2,554)	2,554	
Operating earnings (loss)**	22,466	(22,306)	(53,502)	(10,758)	(64,100)	49,672	(14,428)
Restructuring and other charges	(13,504)	(32,531)	(262)	(610)	(46,907)	1,084	(45,823)
Impairment of assets	(800)		(6,700)		(7,500)	6,700	(800)
Operating profit (loss)**	$8,162	($54,837)	($60,464)	($11,368)	($118,507)	$57,456	($61,051)
Loss from continuing operations							($76,036)
Income from discontinued operations							$1,200
Net loss							($74,836)

[1] Reflects eliminations of our proportionate share of joint ventures and our 56% interest in VerticalScope
*Includes our proportionately consolidated share of joint venture operations and VerticalScope
**These are non-IFRS or additional IFRS measures, refer to Section 14 of this MD&A.

Revenue

Segmented revenue was down $70.1 million or 9.2% in 2017 and included revenue growth of $4.8 million (12%) from VerticalScope (14% revenue growth in USD). Segmented revenue in 2017 reflected declines of 16% in print advertising revenues, with particular softness in national advertising revenues, a 6.6% decrease in distribution revenues and a 3.7% decrease in subscriber revenue. The decrease in print advertising revenues was the result of decreases in both volume and rate, whereas the decreases in flyer distribution and subscriber revenues were predominantly volume related.

Revenue excluding our proportionate share of revenue from joint ventures and our 56% interest in VerticalScope ("operating revenue") was down $69.4 million or 10%.

Digital revenue across all segments decreased 3.4% in 2017, reflecting lower revenues at eyeReturn, Workopolis, Toronto Star Touch and WagJag partially offset by continued solid growth at VerticalScope as well as in local digital advertising within the community websites in the Community Brands segment. Toronto Star Touch was discontinued effective July 31, 2017 and we sold WagJag and related assets for gross proceeds of $0.5 million on October 30, 2017, both of which are accretive to our earnings. Digital revenues were 19% of total segment revenues in 2017 compared to 18% in 2016.

The following charts provide a breakdown of total segmented operating revenue for 2017 and 2016 ($ in millions):

	Communities		Dailies		Digital Ventures		Total	
Year ended December 31, 2017	**$**	%	**$**	%	**$**	%	**$**	%
Print advertising	**$125.5**	**42%**	**$144.9**	**46%**			**$270.4**	**39%**
Digital advertising	**30.7**	**10%**	**25.5**	**8%**	**$72.3**	**100%**	**128.5**	**19%**
Distribution	**110.9**	**36%**	**19.0**	**6%**			**129.9**	**18%**
Subscriber	**0.7**		**114.3**	**36%**			**115.0**	**17%**
Other	**36.4**	**12%**	**11.4**	**4%**			**47.8**	**7%**
Total	**$304.3**	**100%**	**$315.1**	**100%**	**$72.3**	**100%**	**$691.6**	**100%**

	Communities		Dailies		Digital Ventures		Total	
Year ended December 31, 2016	**$**	%	**$**	%	**$**	%	**$**	%
Print advertising	$145.8	44%	$176.7	50%			$322.5	42%
Digital advertising	31.9	10%	27.3	8%	$74.0	100%	133.1	18%
Distribution	117.1	35%	22.0	6%			139.1	18%
Subscriber	0.9		119.2	33%			120.1	16%
Other	36.6	11%	10.2	3%			46.8	6%
Total	$332.4	100%	$355.3	100%	$74.0	100%	$761.7	100%

Salaries and benefits

Our segmented salaries and benefits costs were down $52.7 million or 16% in 2017 and included the benefit of a $13.4 million digital media tax credit (as this represents recoveries of previously incurred salary and benefits costs). Excluding the impact of the tax credit, segmented salaries and benefit costs in 2017 were down $39.3 million or 12% reflecting the benefit of savings from restructuring initiatives, including the closure of the Vaughan Printing Facility and lower staffing costs associated with Toronto Star Touch, partially offset by increased salary and benefit costs at VerticalScope.

Other operating costs

Segmented other operating costs primarily consist of circulation/flyer distribution costs, newsprint costs and other production costs which represented 41%, 12% and 13% respectively of segmented other operating costs in 2017. Segmented other operating costs were down $31.1 million (8.2%) in 2017 as a result of lower print volumes and the impact of other cost reductions partially offset by the introduction of outsourcing costs related to printing of the Toronto Star as well as increased operating costs at VerticalScope.

Adjusted EBITDA

Our segmented adjusted EBITDA was $74.2 million in 2017, an improvement of $13.7 million relative to the prior year. Segmented adjusted EBITDA in the Daily Brands segment was $26.4 million, an improvement of $19.0 million relative to 2016. The improvement in 2017 included the benefit of a $13.4 million digital media tax credit. This tax credit related to a claim made in respect of 2012 and not current year operations. Segmented adjusted EBITDA in the Community Brands segment was $31.5 million in 2017, down $4.4 million relative to 2016, while segmented adjusted EBITDA in the Digital Ventures segment was $26.9 million in 2017, a decrease of $0.4 million compared to 2016. Segmented adjusted EBITDA in 2017 included $31.4 million of savings from restructuring initiatives and $2.2 million of costs related to our transformation initiatives.

Amortization and depreciation

Total segmented amortization and depreciation decreased $55.1 million in 2017 primarily as a result of lower amortization associated with our investment in VerticalScope as well as the impact of the transition of printing of the Toronto Star to Transcontinental Printing in 2016.

Operating earnings (loss)

Segmented operating earnings were $4.8 million in 2017, compared to a segmented operating loss of $64.1 million in 2016. Operating earnings in 2017 included $28.1 million of amortization expense associated with our investment in VerticalScope. The operating loss in 2016 included $74.8 million of amortization expense associated with our investment in VerticalScope as well as the above mentioned amortization of equipment related to the transition of printing of the Toronto Star.

Restructuring and other charges

Total segmented restructuring and other charges were $18.9 million in 2017, $16.5 million of which related to ongoing efforts to reduce costs while $2.4 million related to restructuring associated with publications we acquired from Postmedia in November 2017. Excluding the restructuring associated with publications we acquired from Postmedia, the 2017 restructuring initiatives are expected to result in annualized net savings of approximately $22.0 million and a reduction of approximately 250 positions. Of the expected savings, $12.1 million was realized in 2017. Total segmented restructuring and other charges of $46.9 million were recorded in 2016 which included a charge of $20.0 million for severance and facility related expenses in respect of our decision to outsource printing of the Toronto Star.

Over the last few years we have undertaken several restructuring initiatives in order to reduce our ongoing operating costs. At December 31, 2017, our liability for payments in respect of these restructuring initiatives was $23.6 million (2016 - $37.1 million). The following chart provides a year-over-year summary of the realized and expected net savings by year:

	Year of Initiative			
(in $000's)	**2015**	**2016**	**2017**	**Total**
Realized net savings in:				
2015	$10,000			$10,000
2016	$13,200	$19,900		33,100
2017	100	16,600	$12,100	28,800
Expected net savings in:				
2018			9,900	9,900
Annualized net savings	$23,300	$36,500	$22,000	$81,800

Impairment of assets

During 2017, we incurred non-cash charges related to asset impairment of our goodwill and investments in joint ventures totalling $11.1 million. During 2016, we incurred charges related to asset impairment of intangible assets and investments in joint ventures totalling $7.5 million. These charges have no impact on cash flows.

In connection with our impairment test on December 31, 2017, we determined that the carrying amount of goodwill in the Digital Ventures Cash Generating Unit ("CGU") exceeded its value in use ("VIU") and accordingly, we recorded an impairment charge of $8.1 million in respect of goodwill in the Digital Ventures CGU. Please refer to the discussion of Critical Accounting Policies and Estimates in Section 9 of this MD&A for further discussion. Also, during the first quarter of 2017, we determined that the carrying amount of our joint venture investment in Workopolis exceeded the VIU and we recorded an impairment charge of $3.0 million in respect of this investment as a result of a further downward revision in longer term forecasted revenues reflecting further increased competition in the online recruitment and job search markets.

In carrying out our impairment testing during the fourth quarter of 2016, we determined that the carrying amount of our joint venture investment in Workopolis exceeded VIU and we recorded an impairment charge of $6.7 million in respect of this investment as a result of a further downward revision in longer term forecasted revenues reflecting continued increased competition in the online recruitment and job search markets as well as prevailing economic conditions.
Also, during the fourth quarter of 2016, following lower than forecasted performance in one of our digital CGUs in the Community Brands segment in the quarter, we recorded an impairment charge of $0.8 million in respect of intangible assets within this CGU.

Operating loss

In 2017, our segmented operating loss was $25.1 million compared to $118.5 million in 2016. Our 2017 segmented operating loss included $66.9 million of non-cash amortization and depreciation, $11.1 million of non-cash impairment charges. Our 2016 segmented operating loss included $122.0 million of non-cash amortization and depreciation and $7.5 million of non-cash impairment charges.

Our operating loss excluding our proportionate share of operating profit (loss) from VerticalScope and joint ventures decreased $42.6 million in 2017 compared to 2016.

Loss from joint ventures

Loss from joint ventures was $1.8 million in 2017 and $5.5 million in 2016. These losses primarily reflect non-cash impairment charges of $3.0 million recorded in 2017 and $6.7 million recorded in 2016 related to our joint venture investment in Workopolis, as discussed above. Excluding the impact of these charges, income from joint ventures was $1.2 million in both 2017 and 2016 respectively.

Loss from associated businesses

Loss from associated businesses was $6.8 million in 2017 compared to a loss of $34.9 million in 2016. The 2017 loss included income of $1.4 million from Blue Ant and income of $0.7 million from Nest Wealth offset by a loss of $5.7 million from Black Press and a loss of $3.2 million from VerticalScope. The 2017 loss from VerticalScope included $28.1 million of amortization and depreciation expense. The 2016 loss included income of $5.6 million from Black Press and $2.4 million from Blue Ant offset by a loss of $0.6 million from Shop.ca, and a loss of $42.2 million from VerticalScope. The 2016 loss from VerticalScope included $74.8 million of amortization and depreciation expense.

Our share of Black Press' net loss was $5.7 million in 2017 (income of $5.6 million in 2016), representing Black Press' results through November 30, 2017. Black Press has a February fiscal year end and therefore does not have coterminous quarter-ends with us.

Our share of Blue Ant's net income was $1.4 million in 2017 ($2.4 million in 2016) representing Blue Ant's results through November 30, 2017 which included dilution gains of $2.9 million ($2.3 million in 2016). Our equity interest in Blue Ant was 16% at the end of 2017 relative to 18% at the end of 2016. Blue Ant has an August fiscal year end and therefore does not have coterminous quarter-ends with us.

Our share of the Shop.ca net loss was $0.6 million in 2016 which reduced the carrying value of our investment to $nil. Shop.ca declared bankruptcy in 2016.

We did not record any income or loss during 2017 or 2016 in respect of our investment in Canadian Press as the carrying value had previously been reduced to $nil. We will begin to report our share of Canadian Press' results once the unrecognized losses, including Other Comprehensive Income ("OCI") losses ($5.3 million as of December 31, 2017) have been offset by net income, OCI or additional investments are made. For the year ended December 31, 2017, we would have reported income of $1.1 million and other comprehensive loss of $1.8 million from Canadian Press (2016 – income of $0.3 million and other comprehensive loss of $1.8 million).

Investment in VerticalScope

We own a 56% interest in VerticalScope. During 2017, VerticalScope generated U.S. $32.3 million of cash from operations and made acquisitions totalling U.S. $39.6 million. VerticalScope's debt, net of cash, was up U.S. $12.7 million from U.S. $74.4 million at December 31, 2016 to U.S. $87.1 million at December 31, 2017. In 2017, VerticalScope entered into a new five-year, US $200 million senior credit facility.

In connection with the investment in VerticalScope, during 2017 we recorded $28.1 million of amortization and depreciation expense (2016 - $74.8 million). Further details of our accounting for this investment are outlined in our discussion of the operating results for the Digital Ventures segment below.

Other income

Other income was $3.9 million in 2017 compared to other income of $24.3 million in 2016. Other income in 2017 included a gain of $3.2 million related to the sale of publications to Postmedia and a gain of $0.5 million on the sale of WagJag and related assets.

On November 27, 2017 we entered into an asset purchase agreement with Postmedia relating to the purchase and sale of a number of community and daily newspapers. As part of the transaction, we acquired eight weekly community publications, seven daily community newspapers and two free daily newspapers from Postmedia. As consideration for the purchase, we sold 22 weekly community newspapers in eastern and southern Ontario and the Metro Winnipeg and Metro Ottawa free daily publications to Postmedia. The transaction was a non-monetary transaction as there was no cash exchanged. The estimated fair value of both the net assets acquired from Postmedia and the net assets we sold was $3.5 million. We recognized a gain on sale of $3.2 million which represented the difference between the consideration received, being the net assets acquired at fair value, and the carrying value of the net liabilities transferred and cost of disposal.

Income and other taxes

We recorded income tax expense of $5.7 million in 2017 and an income tax recovery of $3.9 million in 2016. Excluding the impact of non-deductible impairment charges, loss of joint ventures and associated businesses and the movement in deferred income tax assets not recognized, our effective tax rate in 2017 would have been 24.9% (2016 - 24.6%).

Net loss from continuing operations

Our net loss from continuing operations was $30.6 million ($0.38 per share) in 2017, compared to a loss of $76.0 million ($0.94 per share) in 2016. Our loss in 2017 included $66.9 million of amortization and depreciation expense and $11.1 million of non-cash impairment charges. Our 2016 net loss included $122.0 million of non-cash amortization and depreciation and $7.5 million of non-cash impairment charges.

Income (loss) from discontinued operations
In connection with the sale of Harlequin in 2014, Torstar indemnified the purchaser for costs and fees related to certain matters including certain tax and pre-existing litigation matters and estimated the exposure under these indemnities and recorded a contingent liability in respect of these matters. The income of $1.4 million in 2017 and income of $1.2 million in 2016 relate to revised estimates of indemnity provisions related to legal costs, taxes and other costs.

Net income (loss) attributable to equity shareholders
Our net loss attributable to equity shareholders was $29.2 million ($0.36 per share) in 2017 compared to net loss attributable to equity shareholders of $74.8 million ($0.93 per share) in 2016.

Segment Operating Results – Community Brands

Revenues
Revenues in the Community Brands segment were down $28.1 million or 8.5% in 2017. Local advertising revenues, on a combined print and digital basis, which represents the largest portion of the Community Brands advertising revenues, were down 9.5% in 2017. Within the combined print and digital local advertising revenues, declines in the real estate category improved noticeably through the year. Flyer distribution revenues which represented 36% of the Community Brands' total revenue in 2017 were down 5.3%. Flyer distribution revenues in the latter half of 2017 were negatively impacted by financial challenges experienced by certain of our retail clients. National advertising revenues, on a combined print and digital basis, which represents a less significant portion of the Community Brands overall revenue, were down 24% in 2017.

Relative to the prior year, digital revenues in the Community Brands segment were down 3.5% in 2017. Excluding WagJag, which was sold on October 30, 2017 for gross proceeds of $0.5 million and which will be accretive to our earnings, digital revenues in the Community Brands segment were up 2.5% in 2017. This was the result of continued strong growth in local digital advertising revenue partially offset by lower revenues from other digital properties.

Salaries and benefits costs
The Community Brands' salaries and benefits costs were down $15.1 million or 9.7% in 2017 resulting from $10.9 million of cost savings from restructuring as well as lower commission costs.

Other operating costs
The Community Brands' other operating costs were down $8.7 million or 6.2% in 2017, as a result of lower circulation and lower flyer distribution costs, lower newsprint consumption and other cost reductions.

Adjusted EBITDA
The Community Brands' adjusted EBITDA was $31.5 million, down $4.4 million relative to the prior year primarily reflecting the above noted revenue declines which was largely offset by total cost reductions of $23.8 million, including $10.9 million in savings from restructuring initiatives.

Operating profit (loss)
The Community Brands' operating profit was $6.4 million in 2017, compared to operating profit of $8.2 million in 2016 largely reflecting lower adjusted EBITDA in 2017.

Segment Operating Results – Daily Brands

Revenues
Revenues from the Daily Brands were down $40.2 million or 11% in 2017 reflecting lower print advertising revenues, particularly in the national advertising category. National advertising revenues, which represented 16% of the Daily Brands' overall revenue in 2017, were down 32% in the year. In addition, local print advertising revenues, which represented more than 20% of the Daily Brands total revenues in the year, were down 9.5% in 2017.

Subscriber revenues, which represented approximately 36% of the Daily Brands total revenue in 2017, were down a modest 3.6%, while flyer distribution revenues which represented 6% of the Daily Brands total revenue in 2017 were down 14%.

Digital revenues from the Daily Brands were down 6.6% in 2017. Excluding Toronto Star Touch, which was discontinued effective July 31, 2017, digital revenues from the Daily Brands grew 1.9% in 2017.

Salaries and benefits costs

The Daily Brands' salaries and benefits costs were down $37.6 million or 27% in 2017 and included the benefit of a $13.4 million digital media tax credit (as this represents recoveries of previously incurred salary and benefits costs). This tax credit related to a claim made in respect of 2012 and not current year operations. Excluding the impact of the tax credit, segmented salaries and benefit costs in 2017 for the Daily Brands were down $24.2 million or 18% and reflected the benefit of savings from restructuring initiatives, including the closure of the Vaughan Printing Facility and lower staffing costs associated with the discontinuation of Toronto Star Touch.

Other operating costs

The Daily Brands' other operating costs were down $21.7 million or 10% in 2017 reflecting volume related reductions in circulation and distribution costs, lower newsprint consumption and other cost reductions, including lower costs associated with Toronto Star Touch. These cost reductions were partially offset by incremental costs associated with outsourcing the printing of the Toronto Star effective the third quarter of 2016.

Adjusted EBITDA

The Daily Brands adjusted EBITDA was $26.4 million in 2017, up $19.0 million from 2016. Excluding the benefit of the $13.4 million digital media tax credit, adjusted EBITDA from the Daily Brands was up $5.6 million reflecting lower revenues which were more than offset by lower net costs related to Toronto Star Touch, $18.7 million of net savings from restructuring initiatives, and other cost reductions.

Operating profit (loss)

The Daily Brands' operating loss was $1.8 million in 2017, and included $6.5 million of restructuring and other charges and $21.5 million of non-cash depreciation and amortization expense. The Daily Brands' operating loss in 2017 reflected higher adjusted EBITDA and lower restructuring charges relative to 2016.

Segment Operating Results – Digital Ventures

Revenues

Digital Ventures revenues were down $1.7 million or 2.3% in 2017 as revenue growth of $4.8 million at VerticalScope was offset by lower revenues from Workopolis and eyeReturn. Our proportionate share of VerticalScope's revenue in 2017 was $44.9 million which represented growth of 12% (14% growth in USD) relative to 2016 resulting from a combination of organic revenue growth and growth from acquisitions.

Salaries and benefits costs

Digital Ventures' salaries and benefits costs were up $0.7 million or 3.3% in 2017 reflecting lower salary and benefit costs at Workopolis and eyeReturn, offset by increased salary and benefit costs at VerticalScope in support of organic and acquisition related growth.

Other operating costs

Digital Ventures' other operating costs were down $2.1 million or 8.3% in 2017 reflecting lower costs at Workopolis and eyeReturn, partially offset by increased costs at VerticalScope related to growth in the business.

Adjusted EBITDA

Digital Ventures' adjusted EBITDA decreased by $0.4 million to $26.9 million in 2017 reflecting lower adjusted EBITDA at Workopolis and eyeReturn partially offset by EBITDA growth at VerticalScope. Our proportionate share of VerticalScope's adjusted EBITDA was $24.8 million in 2017 representing an increase of 4.5% over 2016 (6.5% in USD). Adjusted EBITDA at VerticalScope as a percentage of revenue in 2017 was 55%.

Operating loss

Digital Ventures' operating loss was $18.6 million in 2017, compared to an operating loss of $60.5 million in 2016, primarily resulting from a $47.6 million decrease in amortization and depreciation expense (almost entirely related to the VerticalScope acquisition).

4. Fourth Quarter Operating Results

A discussion of our fourth quarter operating results

Unless otherwise noted, the following is a discussion of our fourth quarter 2017 operating results relative to the fourth quarter of 2016.

Overall Performance

The following tables set out our segmented results which include our proportionate share of results from VerticalScope and our joint ventures for the three months ended December 31, 2017 and December 31, 2016 and provide a reconciliation to the consolidated statement of income.

Fourth Quarter 2017							
(in $000's)	Communities	Dailies	Digital Ventures	Corporate	Total Segmented*	Adjustments & Eliminations[1]	Per Consolidated Statement of Income
Operating revenue	$83,185	$86,061	$20,279		$189,525	($20,186)	$169,339
Salaries and benefits	(35,401)	(13,902)	(5,662)	($2,143)	(57,108)	5,744	(51,364)
Other operating costs	(33,307)	(47,969)	(6,884)	(1,272)	(89,432)	6,040	(83,392)
Adjusted EBITDA**	14,477	24,190	7,733	(3,415)	42,985	(8,402)	34,583
Amortization & depreciation	(3,187)	(3,188)	(9,089)		(15,464)	8,530	(6,934)
Share based compensation	(133)	17	(319)	(472)	(907)	907	
Operating earnings (loss)**	11,157	21,019	(1,675)	(3,887)	26,614	1,035	27,649
Restructuring and other charges	(4,060)	(1,852)	(123)		(6,035)	123	(5,912)
Impairment of assets			(8,133)		(8,133)		(8,133)
Operating profit (loss)**	$7,097	$19,167	($9,931)	($3,887)	$12,446	$1,158	$13,604
Income from continuing operations							$7,847
Income from discontinued operations							$850
Net income							$8,697

Fourth Quarter 2016							
(in $000's)	Communities	Dailies	Digital Ventures	Corporate	Total Segmented*	Adjustments & Eliminations[1]	Per Consolidated Statement of Income
Operating revenue	$92,176	$95,665	$20,828		$208,669	($20,261)	$188,408
Salaries and benefits	(40,731)	(30,171)	(4,977)	($1,760)	(77,639)	4,798	(72,841)
Other operating costs	(37,640)	(54,028)	(6,985)	(466)	(99,119)	5,661	(93,458)
Adjusted EBITDA**	13,805	11,466	8,866	(2,226)	31,911	(9,802)	22,109
Amortization & depreciation	(4,103)	(2,743)	(8,687)	(30)	(15,563)	8,214	(7,349)
Share based compensation	(123)	(84)	(209)	(502)	(918)	918	
Operating earnings (loss)**	9,579	8,639	(30)	(2,758)	15,430	(670)	14,760
Restructuring and other charges	(2,558)	(1,418)	16	(480)	(4,440)	742	(3,698)
Impairment of assets	(800)		(6,700)		(7,500)	6,700	(800)
Operating profit (loss)**	$6,221	$7,221	($6,714)	($3,238)	$3,490	$6,772	$10,262
Income from continuing operations							$683
Income from discontinued operations							$400
Net income							$1,083

[1] Reflects eliminations of our proportionate share of joint ventures and our 56% interest in VerticalScope

*Includes our proportionately consolidated share of joint venture operations and VerticalScope

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

Postmedia Transaction

In November 2017, we completed a transaction with Postmedia, in which we purchased and sold a number of daily and community newspapers. As part of the transaction, we acquired eight weekly community publications, seven daily

community newspapers and two free daily newspapers from Postmedia. In addition, we sold 22 weekly community newspapers in eastern and southern Ontario and the Metro Winnipeg and Metro Ottawa free daily publications to Postmedia. Readers and advertisers of certain publications we acquired are now being serviced by one or more of our other Community properties while we continue to operate four daily newspapers acquired from Postmedia now included in our Daily Brands segment. This transaction is expected to contribute to an improvement in annualized operating earnings in the range of $5 million to $7 million. The Competition Act allows for a one-year period following the completion of a merger transaction during which the Commissioner of Competition may bring an application to the Competition Tribunal challenging the transaction on the basis that it prevents or lessens competition substantially in any relevant market. Please see Section 16 of this MD&A for further discussion.

Revenue

Segmented revenue was down $19.2 million or 9.2% in the fourth quarter and included revenue growth of $0.8 million (6.9%) from VerticalScope (12% in USD). Segmented revenue in the fourth quarter of 2017 reflected declines of 16% in print advertising revenues, with particular softness in national advertising revenues, an 8.9% decrease in distribution revenues and subscriber revenues which were comparable to the fourth quarter of 2016. As a result of the sale of a number of our weekly community newspapers and our purchase of additional daily newspaper publications in November 2017 (refer to further discussion in Section 3 of this MD&A), revenues in the Community Brands segment were $2.7 million lower in the fourth quarter of 2017, while revenues in the Daily Brands segment increased by $1.2 million in the fourth quarter.

Operating revenue (excluding our proportionate share of revenues from our joint ventures and our 56% interest in VerticalScope) was down $19.1 million or 10% in the fourth quarter of 2017.

Digital revenue in the fourth quarter of 2017 was down 1.1% relative to the fourth quarter of 2016 reflecting lower revenues at eyeReturn, Workopolis, Toronto Star Touch and WagJag offset by continued solid growth at VerticalScope as well as in local digital advertising within the community websites in the Communities segment. Toronto Star Touch was discontinued effective July 31, 2017 and we sold WagJag and related assets for gross proceeds of $0.5 million on October 30, 2017, both of which are accretive to our earnings. Digital revenues were 19% of total revenue in 2017 compared to 18% in 2016.

Salaries and benefits

Our segmented salaries and benefits costs decreased $20.5 million or 26% in the fourth quarter of 2017 and included the benefit of a $13.4 million digital media tax credit (as this represents recoveries of previously incurred salary and benefits costs). This tax credit related to a claim made in respect of 2012 and not current year operations. Excluding the impact of the tax credit, segmented salaries and benefit costs in the fourth quarter of 2017 were down $7.1 million or 9.2% reflecting the benefit of savings from restructuring initiatives, as well as lower staffing costs associated with Toronto Star Touch and $0.7 million of lower costs associated with the sale of publications to Postmedia.

Other operating costs

Segmented other operating costs primarily consist of circulation/flyer distribution costs, newsprint costs and other production costs which represented 42%, 12% and 14% respectively of segmented other operating costs in the fourth quarter of 2017. Segmented other operating costs were down $9.7 million or 10% in the fourth quarter as a result of lower print volumes and the impact of other cost reductions as well as $1.2 million of lower costs associated with the sale of publications to Postmedia.

Adjusted EBITDA

Our segmented adjusted EBITDA was $43.0 million in the fourth quarter of 2017, an improvement of $11.1 million from the fourth quarter of 2016. Segmented adjusted EBITDA in the Daily Brands segment was $24.2 million in the fourth quarter of 2017, an improvement of $12.7 million relative to the fourth quarter of 2016 and which included the benefit of a $13.4 million digital media tax credit. This tax credit related to a claim made in respect of 2012 and not current year operations. Segmented adjusted EBITDA in the Community Brands segment was $14.5 million, up $0.7 million relative to the comparable period in 2016 while segmented adjusted EBITDA in the Digital Ventures segment was $7.7 million, a decrease of $1.2 million relative to the fourth quarter of 2016. Segmented adjusted EBITDA in the fourth quarter of 2017 included $5.7 million of savings from restructuring initiatives and $0.8 million of costs related to our transformation initiatives.

Operating earnings

Segmented operating earnings were $26.6 million in the fourth quarter of 2017, an improvement of $11.2 million from operating earnings of $15.4 million in the fourth quarter of 2016 due primarily to an increase in adjusted EBITDA.

Restructuring and other charges
Total segmented restructuring and other charges were $6.0 million in the fourth quarter of 2017 and $4.4 million in the comparable period in 2016. Of the restructuring provisions in the fourth quarter of 2017, $3.6 million related to ongoing efforts to reduce costs while $2.4 million related to restructuring associated with publications we acquired from Postmedia in November 2017. Excluding the restructuring associated with publications we acquired from Postmedia, the 2017 restructuring initiatives are expected to result in annualized net savings of $2.8 million and a reduction of approximately 30 positions. $0.1 million of the savings associated with these initiatives were realized in the fourth quarter of 2017.

Impairment of assets
During the fourth quarter of 2017, we incurred non-cash charges related to asset impairment of $8.1 million in respect of goodwill in the Digital Ventures CGU (2016 - $7.5 million related to intangible assets and investments in joint ventures). These charges had no impact on cash flows and are discussed further in the discussion of annual operating results in Section 3 of this MD&A.

Operating profit
In the fourth quarter of 2017 our segmented operating profit was $12.4 million compared to $3.5 million in the fourth quarter of 2016.

Our operating profit, excluding our proportionate share of operating profit from our joint ventures and our investment in VerticalScope, increased $3.3 million in the fourth quarter of 2017 to $13.6 million.

Income (loss) from joint ventures
Income from joint ventures was $0.6 million in the fourth quarter of 2017 compared to a loss of $6.5 million in the fourth quarter of 2016. The loss in the fourth quarter of 2016 included a non-cash impairment charge of $6.7 million related to our joint venture investment in Workopolis.

Income (loss) from associated businesses
Loss from associated businesses was $2.0 million in the fourth quarter of 2017 compared to income of $2.3 million in the fourth quarter of 2016. The loss in the fourth quarter of 2017 included a loss of $2.9 million from Black Press and a loss of $0.3 million from Blue Ant, partially offset by income of $1.5 million from VerticalScope. Income from VerticalScope in the fourth quarter of 2017 included a $5.0 million gain related to one of their acquisitions as well as $8.1 million of amortization expense. Income from associated businesses in the fourth quarter of 2016 included income of $2.2 million from Black Press and $1.7 million from Blue Ant partially offset by a loss of $1.5 million from VerticalScope. The fourth quarter 2016 loss from VerticalScope included $7.7 million of amortization expense.

Other income
Other income was $3.9 million in the fourth quarter of 2017 and $nil in the fourth quarter of 2016. Other income in the fourth quarter of 2017 included a gain of $3.2 million related to the sale of publications to Postmedia as well as a gain of $0.5 million on the sale of WagJag and related assets.

Income and other taxes
We recorded income tax expense of $6.9 million in the fourth quarter of 2017 and income tax expense of $4.2 million in the fourth quarter of 2016. Excluding the impact of non-deductible impairment charges, loss of joint ventures and associated businesses and the movement in deferred income tax assets not recognized, the Company's effective tax rate in the fourth quarter of 2017 would have been 23.7% (2016 - 18.6%).

Net income from continuing operations
Our net income from continuing operations was $7.8 million ($0.10 per share) in the fourth quarter of 2017. This compares to net income of $0.7 million ($0.01 per share) in the fourth quarter of 2016.

The following chart provides a continuity of earnings per share from the fourth quarter of 2016 to the fourth quarter of 2017:

	Earnings (Loss) Per Share	Adjusted Earnings (Loss) Per Share **
Earnings per share from continuing operations attributable to equity shareholders in 2016	**$0.01**	**$0.16**
Changes		
• Adjusted EBITDA *	0.14	0.14
• **Operating earnings (loss)***	0.15	0.30
• Restructuring and other charges*	(0.02)	
• Impairment of assets*	(0.01)	
• **Operating profit ***	0.12	0.30
• Income (loss) from associated businesses (excluding VerticalScope)	(0.09)	(0.09)
• Other income	0.05	
• Change in deferred taxes (including associated businesses)	0.02	0.11
Earnings per share attributable to equity shareholders in 2017	**$0.10**	**$0.32**

*Includes proportionately consolidated share of joint ventures and 56% interest in VerticalScope. These include Non-IFRS or additional IFRS measures, refer to Section 14

**Refer to Section 14 for a reconciliation of earnings (loss) per share to adjusted earnings (loss) per share and a definition of adjusted earnings (loss) per share

Income from discontinued operations

Income from discontinued operations of $0.9 million in the fourth quarter of 2017 and $0.4 million in the fourth quarter of 2016 relate to adjustments made to provisions for indemnities associated with the sale of Harlequin in 2014. These adjustments reflect revised estimates of the amounts of these provisions in respect of taxes, legal and other costs.

Segment Operating Results – Community Brands

Revenues

Revenues from the Community Brands segment were down $9.0 million or 9.8% in the fourth quarter of 2017, compared to the fourth quarter of 2016 with $2.7 million of the decrease in revenue resulting from the sale of publications to Postmedia in November 2017 (Refer to Section 3 of this MD&A). Local advertising revenues, which represent the largest portion of the Community Brands' advertising revenues, on a combined print and digital basis, were down 9.8% in the fourth quarter of 2017 (9.4% excluding the impact of the Postmedia transaction). Relative to earlier in the year, combined print and digital declines in the real estate category improved noticeably in the fourth quarter. National advertising revenues, on a combined print and digital basis, which represent a less significant portion of the Community Brands' overall revenue, were down 22% in the fourth quarter 2017 (14% excluding the impact of the Postmedia transaction) representing a slight improvement in the trend relative to earlier in the year. Flyer distribution revenues which represented 38% of the Community Brands total revenue in the fourth quarter of 2017 were down 8.3% (5.1% excluding the impact of the Postmedia transaction). Revenues were negatively impacted by financial challenges experienced by certain of our retail clients.

Relative to the prior year, digital revenues in the Community Brands segment were down 3.1% in the fourth quarter of 2017. Excluding WagJag, which was sold on October 30, 2017, digital revenues in the Community Brands segment were up 7.4% in the fourth quarter of 2017. This was the result of continued strong growth in local digital advertising revenue.

Salaries and benefits costs

The Community Brands' salaries and benefits costs were down $5.3 million or 13% in the fourth quarter of 2017 from the fourth quarter of 2016 and included the benefit of $2.6 million in cost savings from restructuring as well as $0.9 million of lower costs associated with the sale of publications to Postmedia.

Other operating costs

The Community Brands' other operating costs were down $4.3 million or 11% in the fourth quarter of 2017, relative to the same period in 2016 as a result of volume related reductions in circulation and flyer distribution costs, lower newsprint consumption and price, and other cost reductions including $2.1 million of lower costs associated with the sale of publications to Postmedia.

Adjusted EBITDA

The Community Brands' adjusted EBITDA was up $0.7 million in the fourth quarter of 2017 from the fourth quarter of 2016 primarily reflecting the above noted revenue declines which was more than offset by the impact of $9.6 million in lower total costs, including $2.6 million of savings related to restructuring initiatives.

Operating profit

The Community Brands' operating profit was $7.1 million in the fourth quarter of 2017, an increase of $0.9 million from $6.2 million in the fourth quarter of 2016 reflecting higher adjusted EBITDA and lower amortization and depreciation expense partially offset by higher restructuring and other charges.

Segment Operating Results – Daily Brands

Revenues

Daily Brands segment revenues were down $9.6 million or 10% in the fourth quarter of 2017 from the fourth quarter of 2016 primarily reflecting lower print advertising revenues as national print advertising revenues, which represented 16% of the Daily Brands' overall revenue in the fourth quarter of 2017, were down 30% relative to the fourth quarter of 2016 (29% excluding the impact pf the Postmedia transaction). In addition, local print advertising revenues, which represent 22% of the Daily Brands' total revenues in the quarter, were down 11% (13% excluding the impact of the Postmedia transaction). Print advertising revenues from the Daily Brands segment were $0.5 million higher in the fourth quarter of 2017 as a result of the transaction with Postmedia in November 2017.

Subscriber revenues, which represented 34% of the Daily Brands total revenue in the fourth quarter of 2017, were comparable to the fourth quarter of 2016 and included the benefit of an incremental $0.5 million in subscriber revenues associated with the four daily newspapers we continued to operate following the Postmedia transaction. Excluding the impact of the Postmedia transaction, subscriber revenues were down by $0.2 million or 1% in 2017. Flyer distribution revenues, which represented 7% of the Daily Brands total revenue in the fourth quarter of 2017, were down 12% relative to the comparable period in 2016.

Digital revenues from the Daily Brands segment grew 6.1% in the fourth quarter of 2017. Excluding Toronto Star Touch, which was discontinued effective July 31, 2017, digital revenues from the Daily Brands grew 14% in the fourth quarter of 2017 representing a noticeable improvement from the trend earlier in the year. Results in the quarter reflected growth at thestar.com and the other daily websites.

Salaries and benefits costs

The Daily Brands' salaries and benefits costs decreased $16.3 million (54%) in the fourth quarter of 2017 compared with the fourth quarter of 2016 and included the benefit of a $13.4 million digital media tax credit. Excluding the impact of the tax credit, segmented salaries and benefit costs in the fourth quarter of 2017 were down $2.9 million or 9.6% as a result of savings from restructuring initiatives including lower staffing costs associated with the discontinuation of Toronto Star Touch.

Other operating costs

The Daily Brands' other operating costs were down $6.0 million or 11% in the fourth quarter of 2017 compared with the fourth quarter of 2016 reflecting lower costs for Toronto Star Touch, lower circulation and distribution costs, lower newsprint consumption and other cost reductions including $0.9 million of lower costs associated with the sale of publications to Postmedia.

Adjusted EBITDA

The Daily Brands' adjusted EBITDA was $24.2 million in the fourth quarter of 2017, up $12.7 million from the fourth quarter of 2016. The improvement in the fourth quarter of 2017 included a $13.4 million digital media tax credit. Adjusting for the tax credit, the Daily Brands' segmented adjusted EBITDA decreased $0.7 million in the fourth quarter as $3.1 million of net savings from restructuring initiatives and other cost reductions did not fully offset the above noted revenue declines.

Operating profit

The Daily Brands' operating profit was $19.2 million in the fourth quarter of 2017, an increase of $12.0 million compared to operating profit of $7.2 million in the fourth quarter of 2016. The improvement in operating profit in the fourth quarter of 2017 primarily reflects improvement in adjusted EBITDA which included the benefit of a $13.4 million digital media tax credit.

Segment Operating Results – Digital Ventures

Revenues
Digital Ventures' revenues decreased $0.5 million (2.4%) in the fourth quarter of 2017, as revenue growth at VerticalScope was more than offset by lower revenues from Workopolis and eyeReturn. Our proportionate share of VerticalScope's revenue in the fourth quarter of 2017 was $12.4 million which represented growth of 6.9% (12% in USD) relative to the fourth quarter of 2016 and which largely resulted from growth from acquisitions.

Salaries and benefits costs
Digital Ventures' salaries and benefits costs were up $0.7 million or 14% in the fourth quarter of 2017 compared with the fourth quarter of 2016 primarily reflecting lower salary and benefit costs at Workopolis and eyeReturn, offset by increased salary and benefit costs in support of organic and acquisition related growth at VerticalScope.

Other operating costs
Digital Ventures' other operating costs were down $0.1 million or 1.4% in the fourth quarter of 2017 from the relative period in 2016 reflecting lower costs at Workopolis and eyeReturn partially offset by increased costs at VerticalScope related to growth in the business.

Adjusted EBITDA
Digital Ventures' adjusted EBITDA was $7.7 million in the fourth quarter of 2017, down $1.2 million from $8.9 million in the fourth quarter of 2016 reflecting lower adjusted EBITDA at both eyeReturn and at VerticalScope. Our proportionate share of adjusted EBITDA at VerticalScope was $6.6 million in the fourth quarter of 2017 which represented 53% of revenue.

Operating profit (loss)
Digital Ventures' operating loss was $9.9 million in the fourth quarter of 2017, compared to an operating loss of $6.7 million in the fourth quarter of 2016.

5. Outlook

The outlook for our business in 2018

In 2017, the Community Brands and the Daily Brands segments continued to face a challenging print advertising market resulting from ongoing shifts in spending by advertisers particularly in the national advertising category while declines were more moderate in the local advertising categories. While these trends have continued early into 2018, it is difficult to predict if these trends will improve or worsen in the balance of the year. Flyer distribution revenues declined 6.6% in 2017 with flyer distribution revenues in the latter half of 2017 being negatively impacted by the financial challenges experienced by certain retail clients, and we expect flyer distribution revenues to continue to be impacted into the early part of 2018. Subscriber revenues declined a modest 3.7% in 2017 and we expect these declines to increase marginally in 2018 as we focus on subscriber profitability. Overall digital revenue at the Community Brands and Daily Brands is expected to grow in 2018 as it continues to benefit from growth at thestar.com and in local digital advertising at both the daily newspaper sites and the community sites offset by expected continued declines in other digital verticals.

We expect that the transaction with Postmedia in November 2017 will have a positive effect on earnings due to anticipated synergies, but a negative effect on revenue. We expect that this transaction will contribute to an improvement in operating earnings in the range of $5 million to $7 million in 2018. The full year impact of properties acquired and sold would have resulted in a net reduction in revenue in 2017 of approximately $14 million ($22 million lower in the Community Brands segment and $8 million higher in the Daily Brands segment).

Segmented operating earnings within the Digital Ventures segment predominantly reflect the underlying results of VerticalScope. In the latter half of 2017, VerticalScope added cost to support additional organic and acquisition related growth which we anticipate will translate into higher rates of growth in both revenue and adjusted EBITDA in 2018 relative to the growth rates experienced in 2017.

In 2018, we expect the cost base to benefit from $9.9 million of savings related to restructuring initiatives undertaken to date, exclusive of those related to the Postmedia transaction ($4.0 million in the Community Brands segment and $5.9 million in the Daily Brands segment). We are expecting to identify additional cost savings which we expect will largely offset additional operating expenses in areas important to our transformation efforts. Capital expenditures in 2018 are currently

anticipated to be in the range of $15 million, including approximately $5 million of additional capital spending related to technology platforms in connection with our transformation activities.

From a cash flow perspective, we currently expect full year contributions to our registered defined benefit pension plans in 2018 to be approximately $9 million, down from $10.9 million in 2017, and roughly $1.5 million lower than the expected expense included in our operating earnings in 2018. (Refer to further discussion in Section 8 of this MD&A).

The Ontario Government has now released final details of their proposed funding framework which is expected to be effective beginning in 2019. While there can be no certainty that the Ontario Government's new funding framework will be enacted as proposed, our preliminary analysis indicates that normal funding of our defined benefit pension plans for 2019 would be in the range of $8 million - $12 million, subject to changes in pension asset returns and interest rates.

In addition, as a result of changes surrounding regulations of single employer and jointly-sponsored pension plans, we are engaged in exploring a potential merger of our defined benefit pension plans with the CAAT jointly-sponsored defined benefit pension plan. We are in the early stages of such a process. Various approvals, including government approvals, member consent, final approval by Torstar and CAAT, would be required to complete such a merger and as a result, there can be no certainty as to the potential outcome.

6. Liquidity and Capital Resources

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

We use cash and cash equivalents on hand and the cash generated by our operations to fund working capital, capital expenditures, distributions to shareholders, and acquisitions. Based on our current and anticipated level of operations, it is expected that our future cash flows from operating activities, combined with existing cash and cash equivalents, will be adequate to cover forecasted cash requirements in the foreseeable future acknowledging that beginning in 2019 we anticipate that funding of our registered defined benefit pension plans will be subject to the new funding framework that the Ontario Government intends to enact sometime in 2018 (refer to further discussion in Section 8 of this MD&A). In the future we may need to take additional measures to increase our liquidity and capital resources. We currently expect that we would do so through the sale of investments or assets, obtaining additional debt or equity financing, reducing distributions to shareholders or reducing capital expenditures.

In 2017, we generated $15.4 million of cash from operating activities, used $11.5 million of cash in investing activities and used $7.9 million of cash in financing activities.

In the fourth quarter of 2017, we generated $23.6 million of cash from operating activities, used $1.7 million of cash in investing activities and used $1.9 million in financing activities.

At December 31, 2017, we had $71.4 million of cash and cash equivalents as well as $9.1 million of restricted cash. Restricted cash included $7.7 million held as collateral for outstanding standby letters of credit supporting an unfunded executive retirement plan liability. At December 31, 2016 we had $75.4 million of cash and cash equivalents as well as $11.8 million of restricted cash which included $10.5 million held as collateral for outstanding standby letters of credit supporting an unfunded executive retirement plan liability.

Operating Activities

In 2017, we generated $15.4 million of cash from operating activities. This included $16.8 million of funding towards our employee future benefit plans of which $10.9 million was contributed to registered defined benefit pension plans and $5.9 million was applied to unfunded pension and other post employment benefit plans. In addition, non-cash working capital increased $10.2 million and restricted cash decreased $2.8 million in 2017. During 2016, we used $10.6 million of cash from operating activities which included funding of $30.4 million of contributions to our employee future benefit plans, an $11.0 million decrease in non-cash working capital and a $3.3 million decrease in restricted cash.

In the fourth quarter of 2017, we generated $23.6 million of cash from operating activities which included $1.2 million of funding towards our employee future benefit plans and a $8.1 million increase in non-cash working capital. During the fourth quarter of 2016 we generated cash of $11.7 million of cash from operating activities. This included $15.9 million of contributions to our employee future benefit plans, a $2.5 million increase in non-cash working capital and a decrease of $6.9 million in restricted cash.

Investing Activities

During 2017, we used $11.5 million of cash in investing activities primarily for $11.4 million in additions to property, plant and equipment and intangible assets (excluding our proportionate share of additions related to our joint ventures and 56% interest in VerticalScope).

During 2016, we generated $65.3 million of cash from investing activities. This included the receipt of $61.0 million in proceeds on the sale of assets, including $53.6 million received on the sale of the Vaughan Printing Facility and surrounding lands and $7.4 million in respect of the sale of two Community Brands real estate properties. We also received $22.8 million from the release of escrowed cash related to the sale of Harlequin in February 2016.

During the fourth quarter of 2017, we used $1.7 million of cash from investing activities primarily for additions to property, plant and equipment and intangible assets. During the fourth quarter of 2016, we used $4.2 million of cash in investing activities.

Financing Activities

In 2017 we used cash of $7.9 million in financing activities which was primarily used for the payment of dividends. In 2016 cash of $14.5 million was used in financing activities with $14.3 million used for the payment of dividends.

We used cash of $1.9 million and $2.0 million for financing activities in the fourth quarters of 2017 and 2016 respectively, which was primarily used in the payment of dividends.

Dividends per share were 2.5 cents in each quarter of 2017. Dividends per share were 6.5 cents in each of the first and second quarters of 2016, and 2.5 cents in the third and fourth quarter of 2016.

Contractual Obligations and Other

As at December 31, 2017, we had the following significant contractual obligations which were not included in our liabilities in the Statement of Financial Position.

(In 000's) Nature of the Obligation	Total	2018	2019 – 2020	2021 – 2022	2023+
Office leases	$37,849	$13,893	$20,631	$3,152	$173
Services	49,118	24,963	20,894	3,261	
Total	$86,967	$38,856	$41,525	$6,413	$173
Receivable from office sub-leases	($4,601)	($2,114)	($2,487)		

On January 10, 2018 we received a notice from the Ontario Media Development Corporation approving one of our 2012 Ontario Interactive Digital Media Tax Credit claims. This claim will now be subject to audit by the Canada Revenue Agency and we anticipate this will occur within the next 12 months. Accordingly, in the fourth quarter of 2017, we recorded a payroll recovery of $13.4 million in our Daily Brands segment. While we have filed additional claims in respect of these credits, there is uncertainty regarding timing and amounts (if any) that may ultimately be received under this program or any of these tax credits. In addition, we are not eligible to make any further claims under this program for periods subsequent to April 23, 2015.

Outstanding Share and Share Option Information

As at February 23, 2018, we had 9,817,215 Class A voting shares and 71,037,088 Class B non-voting shares outstanding. As at December 31, 2017 we had 9,817,215 Class A voting shares and 71,037,138 Class B non-voting shares outstanding. More information on our share capital is provided in Note 20 of the 2017 Consolidated Financial Statements.

As at February 23, 2018, we had 6,953,187 (December 31, 2017 - 7,028,109) options to purchase Class B non-voting shares outstanding to executives. More information on Torstar's share option plan is provided in Note 21 of the 2017 Consolidated Financial Statements.

7. Financial Instruments

A summary of our financial instruments

Foreign Exchange

In order to offset the foreign exchange risk associated with the investment in VerticalScope, we continue to enter into zero cost collar arrangements to hedge the original net investment of U.S $137 million. As at December 31, 2016, the outstanding collar arrangement for U.S. $137 million which matured in 2017 established a rate of exchange with a range of Cdn $1.19 to Cdn $1.46 for U.S. $1.00. In February 2017, in connection with the expiry of the 2016 collar arrangement we simultaneously entered into a new U.S. $137.0 million zero cost collar arrangement maturing in 2018, with a range of Cdn $1.20 to Cdn $1.40 for U.S. $1.00.

The collar arrangements were designated as a hedge of the net investment in VerticalScope. Any fluctuations in fair value arising from fluctuations in the rate of exchange of Canadian dollar per U.S. dollar outside this collar range is recorded in OCI on the effective portion of the designated hedge, and any gains or losses related to the ineffective portion of the hedge are recorded in net income. While there are no cash payments or receipts while inside the collar range, any fluctuations within the collar range are recorded in net income.

In February 2018, at the expiry of the 2017 collar arrangement we simultaneously entered into a new U.S. $137.0 million zero cost collar arrangement maturing in August 2018, with a range of Cdn $1.15 to Cdn $1.31 for U.S. $1.00.

8. Employee Benefit Obligations

A summary of our employee benefit obligations

We have several registered defined benefit pension plans which provide pension benefits to our employees, and an unregistered, unfunded defined benefit pension plan that provides pension benefits to eligible senior management executives of Torstar. In addition, we have a number of capital accumulation (defined contribution) plans. We also have a post-employment benefit plan that provides health and life insurance benefits to certain grandfathered employees, primarily in the newspaper operations.

We had the following employee future benefit obligations as at December 31:

($000's)	2017	2016
Registered pension plans	($47,548)	($12,661)
Unregistered/unfunded pension plans	(8,947)	(10,658)
Post employment benefit plan	(48,221)	(47,015)
	($104,716)	($70,334)

At December 31, 2017, our net deficit related to our defined benefit pension plans was $47.5 million, representing an unfavourable movement of $17.7 million from a net deficit of $29.8 million at September 30, 2017 and an unfavourable movement of $34.9 million from a net deficit of $12.7 million at December 31, 2016.

We have recognized the following expense in operating profit related to the defined benefit obligations:

($000's)	2017	2016
Registered pension plans	($12,237)	($15,236)
Unregistered/unfunded pension plans	(305)	(612)
Post employment benefits plan	(199)	413
	($12,741)	($15,435)

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 management in 2017 and 2016 were:

	2017	2016
To determine the net benefit obligation at the end of the year:		
Discount rate	**3.1% to 3.4%**	3.2% to 3.8%
Rate of future compensation increase	**2.5%**	2.5%
To determine benefit expense:		
Discount rate	**3.2% to 3.8%**	3.1% to 3.9%
Rate of future compensation increase	**2.5%**	2.0% to 2.5%
	2018	
To determine the pension benefit expense for the following year:		
Discount rate	**3.1% to 3.4%**	
Rate of future compensation increase	**2.5%**	

The discount rates of 3.1% to 3.4% were the yields at December 31, 2017 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, 2017 of $114.2 million. A discount rate that was one percent lower would have increased the value of the net pension plan obligation at December 31, 2017 by $130.2 million.

Management has estimated the rate of future compensation increases to be 2.5%. 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, 2017 would be approximately $5.0 million lower. If the estimated discount rate were one percent lower, the obligation at December 31, 2017 would be approximately $6.1 million higher. For health care costs, the estimated trend was for a 5.0% increase for the 2017 expense. For 2018, health care costs are estimated to increase by 5.0%. If the estimated increase in health care costs were one percent higher, the obligation at December 31, 2017 would be approximately $1.5 million higher. If the estimated increase in health care costs were one percent lower, the obligation at December 31, 2017 would be approximately $1.3 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. We recognize these actuarial gains and losses as realized, through OCI. Actuarial losses of $35.8 million were recognized through OCI in 2017 and actuarial losses of $1.7 million were recognized through OCI in 2016.

There have been two key developments which will also impact future funding of our defined benefit pension plans. First, on May 19, 2017, the Ontario government announced that it is "implementing a new framework in respect of defined benefit pension plans" which will include a new funding framework. (http://www.fin.gov.on.ca/en/pension/solvency/). In December 2017, the Ontario government also announced additional detail regarding the proposed funding framework.

According to the announcements, highlights of the new funding framework for defined benefit pension plans include: requiring funding on enhanced going concern basis; changes to the going concern funding rules including shortening the amortization period from 15 years to 10 years for funding a shortfall in the plan and consolidating special payment requirements into a single schedule, requiring funding of a reserve within the plan, called a Provision for Adverse Deviation or PfAD and requiring funding on a solvency basis in the event that a plan's funded status falls below 85 per cent (and not requiring funding on a solvency basis where the plan's funded status is above 85 percent or higher).

Second, in June 2017, the Ontario Government issued interim solvency relief measures applicable to December 31, 2016 actuarial valuations (https://www.ontario.ca/laws/regulation/r17225) which permit the implementation of new solvency funding schedules required as a result of these actuarial valuations to be deferred for 24 months from January 1, 2017 to January 1, 2019.

Actuarial reports for our most significant group of registered defined benefit pension plans (in terms of assets and obligations) were completed as of December 31, 2016. Based on these valuations, as well as the impact of interim solvency relief measures applicable to December 31, 2016 actuarial valuations, we currently anticipate that 2018 minimum required funding in respect of registered defined benefit pension plans will be approximately $9 million. While there can be no certainty that the Ontario Government's new funding framework will be enacted as proposed, our preliminary analysis indicates that normal funding of our defined benefit pension plans for 2019 would be in the range of $8 million - $12 million subject to changes in pension asset returns and interest rates.

Based on the December 31, 2016 solvency report, we had an estimated solvency deficit of $119 million at December 31, 2016. This report also indicated that a 100 basis point change in the discount rate used to calculate solvency liabilities would result in a change in liabilities of approximately $148 million. The blended discount rate of the most significant group of our registered defined benefit pension plans which management uses to calculate the estimated solvency deficit decreased by 0.13% in 2017 from December 31, 2016. Given the change in the discount rate, combined with asset returns from December 31, 2016 through to December 31, 2017, we estimate that the solvency deficit for these plans at December 31, 2017 was approximately $98 million.

9. Critical Accounting Policies and Estimates

A description of accounting estimates and judgements that are critical to determining our financial results, and changes to accounting policies

Accounting Policies

The accounting policies used in the preparation of the 2017 Consolidated Financial Statements are outlined in Note 2 of the 2017 Consolidated Financial Statements for the year ended December 31, 2017. Several new amendments and interpretations applied for the first time in 2017. However, they had little or no impact on our consolidated financial statements.

Accounting Estimates and Judgements

The preparation of our 2017 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, tax credits 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 several 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 Future Benefits

The accrued net benefit asset or liability and the related cost of defined benefit pension plans and other post employment benefits earned by employees is determined each year by independent actuaries based on several assumptions. The actuarial valuation uses management's assumptions for rate of compensation increase, 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 2017 Consolidated Financial Statements.

Impairment of non-financial assets

At each reporting date, we are required to assess our investments, intangible assets, property, plant and equipment 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, we estimate the recoverable amount of the asset, CGU or group of CGUs and compare it to the carrying value. In addition, irrespective of whether there is any indication of impairment, we are required to test intangible assets with an indefinite useful life and goodwill for impairment at least annually. We complete our annual testing during the fourth quarter of each year.

For intangible assets other than goodwill, we are 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.

The test for impairment for property, plant and equipment, intangible assets, investments 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 cost to sell ("FVLCS"), and VIU. 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.

We have computed the FVLCS using a forward EBITDA multiple that requires market participant assumptions about future cash flows and forward multiples. In calculating the recoverable amount, under either a VIU or FVLCS methodology, management is required to make several assumptions, including, but not limited to, expected future revenues, expected future cash flows, forward multiples and discount rates. Our 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 we are currently anticipating. We have also made certain assumptions for the forward multiples, discount and terminal growth rates to reflect possible variations in the cash flows. However, the risk premiums expected by market participants, as reflected in forward multiples, 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 may have a significant impact on the fair value of the investment, CGU or group of CGUs or intangible assets and the results of the related impairment testing. Refer to Note 12 of the 2017 Consolidated Financial Statements for further details about the methods and assumptions used in estimating the recoverable amount.

As at December 31, 2017 the carrying value of investments, intangible assets and property, plant & equipment represented 35%, 8%, and 11% respectively of total assets and each reporting segment had investments, intangible assets and property, plant and equipment with carrying values subject to these estimates. As at December 31, 2016 the carrying value of investments, intangible assets, property, plant and equipment and goodwill represented 33%, 10%, 11% and 1% respectively of total assets. These values, for the applicable segments, are outlined in the notes to the 2017 Consolidated Financial Statements. In the year ended December 31, 2017, we recorded impairment charges (on a segmented basis), related to goodwill and investments totaling $11.1 million. In the year ended December 31, 2016, we recorded impairment charges (on a segmented basis), related to intangible assets and investments totaling $7.5 million. These charges impact net income but have no effect on cash flow. Refer to the discussion of "Impairment of assets" in Section 3 for further detail surrounding the impairment of asset charges recorded during 2017.

Taxes

We are 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 calculated 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 our ability to utilize tax losses carried forward is to a large extent judgement-based. If our future taxable results differ significantly from those expected, we would be required to increase or decrease the carrying value of the deferred tax assets with a potentially material impact in our 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 our income taxes is provided in Note 14 of the 2017 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 we control, have 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 we have over an investment, management considers ownership percentages, board representation as well as other relevant provisions in shareholder agreements. Black Press, Blue Ant and Shop.ca have been classified as associated businesses based on management's judgement that we have, 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 2017 and 2016 for Black Press and until the third quarter of 2016 for Shop.ca and since the third quarter of 2016 for Blue Ant. Similarly, VerticalScope has been classified as an associated business, rather than a consolidated subsidiary or joint venture, based on management's judgement that we have, based on provisions in the shareholders agreement, significant influence despite owning 56% of the voting rights.

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. We have classified our 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 we have a contractual right to convert them into cash with 30 days' notice.

Determination of operating segments, reportable segments and CGUs

During the fourth quarter of 2017, we realigned our management structure and operating segments to better align our operations by type of publication. Accordingly, we have three reportable operating segments for segment reporting purposes: Community Brands, Daily Brands and Digital Ventures. "Corporate" is the provision of corporate services and administrative support. Our 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.

Each of the Communities, Dailies and Digital Ventures segments include CGUs which have been grouped together for purposes of impairment testing. Within the Communities segment, we have identified a number of CGUs including the community newspapers and their flyer distribution and printing operations as well as a number of separate digital CGUs. Within the Dailies segment, we have identified the Toronto Star and the Metro publications as well as a number of other smaller digital platforms as one CGU and the regional dailies as a separate CGU which includes the Hamilton Spectator, Waterloo Region Record, St. Catharines Standard, Welland Tribute, Niagara Falls Review, Peterborough Examiner and their respective flyer distribution operations. Within the Digital Ventures segment, we have identified eyeReturn as one CGU.

10. Recent Accounting Pronouncements

A discussion of recent IFRS developments that will affect our business

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(s) in our 2017 Consolidated Financial Statements. The following new standards or amendments to accounting standards, which will be effective subsequent to 2017, are expected to have an impact on the interim or annual consolidated financial statements or related disclosures:

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* 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. We have evaluated the new standard and there is no material impact on the consolidated financial statements from adoption of this standard. We plan to adopt the standard on its effective date of January 1, 2018.

In July 2014, the IASB issued a finalized version of IFRS 9 *Financial Instruments* which contains accounting requirements for financial instruments. We have evaluated the application of IFRS 9 to Torstar and we expect that (i) portfolio investments will be classified as fair value through other comprehensive income and, (ii) the hedge of the net investment in VerticalScope will be treated as a continuing hedge and previously recognized gains from the change in fair value of the hedges will be reclassified from retained earnings to a new category in the consolidated statement of changes in equity. We plan to adopt the standard on its effective date of January 1, 2018.

In addition, we also will present additional disclosure upon adoption of both IFRS 9 and IFRS 15.

In January 2016, the IASB issued IFRS 16 *Leases* which supersedes IAS 17 *Leases* and related interpretations. The new standard provides a single lessee accounting model which eliminates the distinction between operating and finance leases, by requiring lessees to recognize assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. We do not anticipate early adoption and we plan to adopt the standard on its effective date of January 1, 2019. We are in the process of reviewing the standard to determine the impact on the consolidated financial statements.

11. Controls and Procedures

A discussion of our 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, 2017, under the supervision of, and with the participation of the CEO and CFO, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our CEO and CFO have concluded that, as at December 31, 2017, our disclosure controls and procedures were effective.

Internal Controls Over Financial Reporting

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; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our 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, management acknowledges that our 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, 2017.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the three months ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

12. Selected Annual Information

A summary of selected annual financial information for 2017, 2016 and 2015

(in $000's - except per share amounts)	2017	2016	2015
Revenue	$615,685	$685,099	$786,631
Segmented Revenue *	$691,600	$761,697	$843,640
Net loss from continuing operations	($30,638)	($76,036)	($399,837)
Per Class A voting and Class B non-voting share - Basic and Diluted	($0.38)	($0.94)	($4.96)
Net income (loss)	(29,288)	(74,836)	(404,837)
Net income (loss) attributable to equity shareholders	(29,171)	(74,750)	(403,966)
Per Class A voting and Class B non-voting share Basic and Diluted	($0.36)	($0.93)	($5.02)
Average number of shares outstanding during the year (in 000's) Basic and Diluted	80,785	80,653	80,400
Cash dividends per Class A voting and Class B non-voting share	$0.100	$0.180	$0.525
Total assets	$481,227	$564,491	$696,416

*Includes proportionately consolidated share of joint venture operations and VerticalScope. This is a non-IFRS or additional IFRS measures, refer to Section 14 of this MD&A.

Revenue has declined each year reflecting a structural shift within the advertising industry from print media to digital media. Excluding the impact of the discontinuation of Toronto Star Touch in the third quarter of 2017, the sale of WagJag in the fourth quarter of 2017 and the closure of Olive Media on December 31, 2015, digital revenues increased 0.3% in 2017, 18% in 2016 and 14% in 2015. The increases in 2016 and 2015 primarily related to the investment in VerticalScope in July 2015.

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 over the three-year period reflecting total impairment charges of $11.1 million in 2017, $7.5 million in 2016 and $361.1 million in 2015. In addition, on a segmented basis, we recorded amortization and depreciation expenses totaling $66.9 million in 2017, $122.0 million in 2016, and $77.5 million in 2015, largely related to the investment in VerticalScope in July 2015.

13. Summary of Quarterly Results

A summary view of our 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, 2017**	**Sep 30, 2017**	**Jun 30, 2017**	**Mar 31, 2017**	**Dec 31, 2016**	**Sep 30, 2016**	**Jun 30, 2016**	**Mar 31, 2016**
Revenue	$169,339	$145,913	$161,757	$138,676	$188,408	$162,098	$177,912	$156,681
Net Income (loss) from continuing operations	$7,847	($6,589)	($7,499)	($24,397)	$683	$1,081	($24,268)	($53,532)
Per Class A voting and Class B non-voting share -								
Basic and Diluted	$0.10	($0.08)	($0.09)	($0.30)	$0.01	$0.01	($0.30)	($0.66)
Net Income (loss) attributable to equity shareholders	$8,652	($6,557)	($6,988)	($24,278)	$1,264	$1,432	($23,923)	($53,523)
Per Class A voting and Class B non-voting share								
Basic and Diluted	$0.11	($0.08)	($0.09)	($0.30)	$0.01	$0.02	($0.30)	($0.66)

The summary of quarterly results illustrates the cyclical nature of revenues and operating profit in Daily Brands, Community Brands and Digital Ventures. The second and fourth quarters are generally the strongest with the first and third quarters 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 $4.9 million, $6.2 million, $1.7 million and $6.0 million in the first, second, third and fourth quarters of 2017 and $31.8 million, $6.9 million, $3.7 million and $4.4 million in the first, second, third and fourth quarters of 2016 respectively. Additionally, losses on impairment of assets (reported on a segmented basis) of $3.0 million and $8.1 million were recorded in the first and fourth quarters of 2017 respectively and $7.5 million was recorded in the fourth quarter of 2016.

In addition, the second and fourth quarters of 2017 included pre-tax recoveries from discontinued operations of $0.6 million and $1.0 million respectively while the second, third and fourth quarters of 2016 included pre-tax recoveries from discontinued operations of $0.5 million, $0.4 million and $0.5 million respectively, all of which related to provisions for indemnities in respect of 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 loss, management uses the following non-IFRS measures: segmented revenue, adjusted EBITDA (and where applicable segmented adjusted EBITDA), operating earnings (loss) (and where applicable segmented operating earnings (loss)) and adjusted earnings (loss) per share, 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 2017 Consolidated Financial Statements, except that it is calculated using total segment results which includes our proportionately consolidated share of revenues from joint ventures and our 56% interest in VerticalScope. Management of each segment is accountable for the revenues, including the proportionately consolidated share of revenues from joint venture operations. We believe that segmented revenue is a useful measure for investors as it is a measure of the revenues for which management of each segment is accountable. The intent of segmented revenue is to provide additional useful information to investors, analysts and readers of our financial statements. The measure does not have any standardized meaning under IFRS and accordingly may not be comparable to measures used by other companies.

Adjusted EBITDA/Segmented Adjusted EBITDA

Management believes that adjusted EBITDA is an important proxy for the amount of cash generated by our ongoing operations (or by a reporting unit or business segment) to generate liquidity to fund future capital needs and we use 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. We calculate adjusted EBITDA as operating revenue, less salaries and benefits and other operating costs, as presented on the consolidated statement of income (loss), and exclude share based compensation, restructuring and other charges and impairment of assets. Share based compensation is eliminated as it is a non-cash expense that fluctuates significantly from period to period, in particular for VerticalScope as a result of industry compensation practices. 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, analysts and readers of our financial statements. 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, impairment of assets and share based compensation). Segmented adjusted EBITDA is calculated in the same manner described above, except that it is calculated using total segment results including proportionately consolidated results for joint ventures and our 56% interest in VerticalScope for which management is accountable.

Operating earnings (loss)/Segmented operating earnings (loss)

Operating earnings (loss) is used by management to represent the results of ongoing operations inclusive of amortization and depreciation. We use operating earnings (loss) as a measure of the amount of income (loss) generated by our ongoing operations (or by a reporting unit or business segment) after giving effect to amortization and depreciation. We believe this metric is also useful for investors for this purpose. We calculate operating earnings (loss) as operating revenue less salaries and benefits, other operating costs, share based compensation and amortization and depreciation. Operating earnings (loss) 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. Our method of calculating operating earnings (loss) (including calculating operating earnings (loss) 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. The intent of operating earnings (loss) is to provide additional useful information to investors, analysts and readers of our financial statements. The measure does not have any standardized meaning under IFRS, is not a recognized measure of financial performance under IFRS, and accordingly may not be comparable to measures used by other companies. Segmented operating earnings (loss) is calculated in the same manner described above, except that it is calculated using total segment results including proportionately consolidated operating earnings (loss) for joint ventures and our 56% interest in VerticalScope for which management is accountable.

The following is a reconciliation of adjusted EBITDA and operating earnings (loss) (and segmented adjusted EBITDA/ segmented operating earnings (loss) - as applicable) with operating profit (loss) (segmented operating profit (loss) - as applicable). Adjusted EBITDA, segmented adjusted EBITDA, operating earnings (loss) and segmented operating earnings (loss) are regularly reported to the chief operating decision maker and correspond to the definitions used in our historical discussions.

	Segmented		Per Consolidated Statement of Income	
	Fourth Quarter 2017	Fourth Quarter 2016	Fourth Quarter 2017	Fourth Quarter 2016
Operating profit (loss)	$12,446	$3,490	$13,604	$10,262
Add: Restructuring and other charges	6,035	4,440	5,912	3,698
Add: Impairment of assets	8,133	7,500	8,133	800
Operating earnings (loss)	$26,614	$15,430	$27,649	$14,760
Add: Share based compensation	907	918		
Add: Amortization and depreciation	15,464	15,563	6,934	7,349
Adjusted EBITDA	$42,985	$31,911	$34,583	$22,109

	Segmented		Per Consolidated Statement of Income	
	Twelve months ended December 31, 2017	Twelve months ended December 31, 2016	Twelve months ended December 31, 2017	Twelve months ended December 31, 2016
Operating profit (loss)	($25,134)	($118,507)	($18,484)	($61,051)
Add: Restructuring and other charges	18,850	46,907	17,512	45,823
Add: Impairment of assets	11,133	7,500	8,133	800
Operating earnings (loss)	$4,849	($64,100)	$7,161	($14,428)
Add: Share based compensation	2,492	2,554		
Add: Amortization and depreciation	66,868	122,024	36,987	44,020
Adjusted EBITDA	$74,209	$60,478	$44,148	$29,592

Adjusted earnings (loss) per share

Adjusted earnings (loss) per share is used by management to represent the per share earnings (loss) of results of our ongoing operations (or by a reporting unit or business segment) and is not a recognized measure of financial performance under IFRS. We believe this metric is also useful for investors for this purpose. We calculate adjusted earnings (loss) per share as earnings (loss) 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. 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. Non-cash foreign exchange, other income (expense) and changes in deferred taxes are eliminated as these are not related to routine operating activities. The intent of presenting adjusted earnings (loss) per share is to provide additional useful information to investors, analysts and readers of our financial statements. Our method of calculating adjusted earnings (loss) per share may differ from other companies and accordingly may not be comparable to measures used by other companies. The measure does not have any standardized meaning under IFRS, is not a recognized measure of financial performance under IFRS, 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		Twelve months ended December 31	
	2017	2016	2017	2016
Adjusted earnings (loss) per share	$0.32	$0.16	$0.01	($0.46)
• Restructuring and other charges	(0.07)	(0.06)	(0.23)	(0.58)
• Impairment of assets	(0.10)	(0.09)	(0.14)	(0.09)
• Non-cash foreign exchange	(0.01)		0.01	
• Other income (expense)	0.05		0.05	0.30
• Change in deferred taxes	(0.09)		(0.08)	(0.11)
Earnings (loss) per share from continuing operations	$0.10	$0.01	($0.38)	($0.94)

Operating profit (loss)/Segmented operating profit (loss)

Operating profit (loss) is an additional IFRS measure. Management uses operating profit (loss) to measure the results of operations inclusive of impairments and restructuring and other charges. Operating profit (loss) appears in our consolidated statement of income (loss). We believe that operating profit (loss) provides additional useful information to investors, analysts and readers of our financial statements. The measure does not have any standardized meaning under IFRS and accordingly may not be comparable to measures used by other companies. Our method of calculating operating profit (loss) may differ from other companies and accordingly may not be comparable to measures used by other companies. Segmented operating profit (loss) is calculated in the same manner described above, except that it is calculated using total segment results including proportionately consolidated results for joint ventures and our 56% interest in VerticalScope for which management is accountable.

15. Enterprise Risk Management

Enterprise risks and uncertainties Torstar is facing and how we manage these risks

Definition of Business Risk

We define 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.

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

Section 16 summarizes the principal risks and uncertainties that could affect our future business results.

Torstar's Risk and Control Assessment Process
In 2017, we used a multi-level enterprise risk and control assessment process that incorporated the insight of employees throughout the organization.

At a high level, during the year, we 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 included interviews with senior managers. Additionally, our assessment process incorporated input from internal and external audit, internal control over financial reporting compliance activities and risk assessment activities, as well as input 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, we 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, we have 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 our business

We are 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 our financial condition, financial performance or our business. The actual effect of any event on our business could be materially different from what is anticipated. The risks described below impact some or all of our businesses, including our investment in VerticalScope. This description of risks does not include all possible risks.

Revenue Risks
Our revenue is primarily dependent upon the sale of advertising, 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. 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.

In addition, the shift to digital media has resulted in a significant increase in competition from global competitors. Competitors are increasingly larger, may have interests in multiple forms of media and may be more successful in attracting advertising revenue.

Digital competition is not limited to platforms that provide news and news aggregation. Competitors include but are not limited to providers of search engine marketing, display advertising, digital flyers, digital classifieds, digital directories, social media, mobile advertising, loyalty programs, ecommerce and digital retailers and video advertising. In addition, online advertising networks, exchanges, real-time bidding and programmatic buying channels that allow advertisers to target audiences are playing an increasingly significant role in the advertising industry. Our platforms and sites, including those of VerticalScope, face competition for users, readers and advertisers. Our existing and potential future digital competitors range from start-up operations with low cost structures to large global players that may have access to greater operational, financial and other resources than us. The extent and nature of competition has intensified over the past several years as a result of the rapid and continued development of digital and other media alternatives, and this has resulted in the fragmentation of audiences. We expect intense competition to continue. Advertisers also have increased access to data and greater ability to reach customers directly with digital technologies, which may contribute to reduced spending on external advertising. We may not be able to successfully adapt to these rapid changes and increasing number of digital media options, to respond as quickly or effectively to new or emerging technologies and changes in consumer behavior as our competitors, or to distinguish our products and services from those of our competitors.

In response to this shift to digital media, we have been investing significant time and resources in our digital platforms to evolve our existing products and develop new products, including mobile platforms, video and other evolving content delivery platforms. There is a risk that we will be unable to successfully attract or retain users and advertisers with our existing or new digital platforms. Revenue generated by our advertising offerings will depend, to a large extent, on their perceived effectiveness and the continued growth in, and evolution of, digital advertising. Thus far, digital advertising revenues have not offset a significant portion of lost print advertising revenue and we may not be successful in replacing print revenue declines in the future. In addition, some of our digital platforms are in an early stage of development or implementation and may not contribute to profitability. We also use third party platforms to distribute some of our content and advertising. These third parties may discontinue or modify their platforms which could restrict access to our content, result in the loss of a direct relationship with consumers, and impact our ability to generate revenue through these platforms.

In addition, our success on mobile platforms depends upon the ability to provide advertising for most mobile connected devices, as well as the major operating systems that run on them. The design of mobile devices and operating systems is controlled by third parties with whom we do not have any formal relationships. These parties frequently introduce new devices, and from time to time they may introduce new operating systems or modify existing ones. In addition, these parties may also impact the ability to access specified content on mobile devices. If our solutions were unable to work or provide advertising on these devices, our ability to generate revenue could be significantly harmed.

Finally, the use of technology to restrict or block the targeting or display of advertising by device manufacturers, network carriers or consumers could increase, and this may have an adverse impact on our ability to provide advertising inventory and attract advertisers to our platforms.

Content, Audience and Readership

Advertisers often base their decisions about where to advertise in print 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 and as a result print newspaper readership is declining. If these or other trends continue to result in declining print circulation, circulation revenues and the ability to maintain advertising rates may be adversely affected. While digital readership appears to be an important factor in the ability of a newspaper to generate digital advertising revenue, it may have a negative impact on print circulation/subscription volumes and revenues and also on print readership.

Our reputation for quality journalism and content is an important factor in maintaining readership levels. We strive 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, and platforms for, content and the newsworthiness of current events, among other intangible factors, may also contribute to the fluctuation in readership levels, and accordingly, limit our ability to generate advertising and circulation/subscription revenue.

Digital readership and traffic levels are a key driver of how digital advertisers base their decisions about where to advertise digitally. In order to be successful, we need to generate traffic on our digital platforms that is valuable to advertisers. With the increase in alternative digital content providers and digital platforms, we face the risk that we may not be able to sufficiently

attract and retain a base of frequent and engaged visitors to our digital platforms. This is particularly important for certain of our platforms, including those of VerticalScope, that rely on user generated content and forum discussions. If usage is insufficient or if we do not meet advertisers' expectations by delivering quality traffic, we may not be able to create enough advertiser interest in our digital platforms, or our advertising partners may pay less or cease doing business with us altogether. We may incur additional costs to attract readers and increase our platform usage and we 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.

We may become more reliant on print and digital circulation/subscription revenues in the future. Our ability to build and maintain customers for digital content will depend on many factors, including consumer habits, the timely development and evolution of adequate and adaptable digital infrastructure, delivery platforms and pricing practices, available alternatives, delivery of high quality journalism and content, market acceptance of registration or subscription models and other factors. In addition, the reputation of our digital platforms is an important factor in growing and maintaining traffic and generating advertising and subscription revenue. The continuing availability of free high quality news content from competitors (including subsidized public broadcasters) could undermine our ability to attract and retain paying customers for, and to generate circulation/subscription revenues from, digital content. Advertisers' and customers' perceptions of the attractiveness of the content on our digital platforms, including in some cases user generated content and forum discussions, will impact our ability to generate advertising and customer revenue. Public preferences and tastes, general economic conditions, the availability of alternative sources of and platforms for content and forum discussions may also contribute to the fluctuation in traffic levels, and accordingly, limit our ability to generate advertising and customer revenue. To some degree, our traffic levels are dependent on internet search engines and our ability to influence search engine rankings as we depend in part on various internet search engines to direct traffic to our platforms and properties. Our ability to influence search engine rankings of platforms and properties through search engine optimization efforts is limited. Changes by internet search engines in their algorithms could cause us to receive less user traffic.

Economic Conditions and Customer Prospects

Revenue from our publications, digital platforms and distribution operations is dependent on the prospects of our advertising clients and the buying decisions of 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 have had and may continue to have a negative impact on the advertising industry, our customers and on our operations. Certain of our local and national advertisers operate in industries that are sensitive to adverse economic conditions and are subject to increasing competition, 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 our revenue.

Cost Structure

Our Daily Brands and Community Brands segments are characterized by a relatively high fixed cost structure and accordingly, a change in revenue could have a disproportionately negative effect on our financial performance. Over the last several years, we have reduced costs in a number of ways including by reducing staff and outsourcing certain services. It is becoming increasingly difficult to continue to reduce costs from current levels. Our ability to achieve cost savings may be impacted by the level of unionization at our newspaper operations, existing third-party suppliers and service providers and our ability to outsource additional components of our 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 our ability to attract and retain key employees (see "Dependence on Key Personnel" below).

Loss of Reputation

Our customers, shareholders and employees place considerable reliance on our good reputation, including our significant businesses and brands, and our ability to maintain our 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 our ongoing ability to preserve and leverage the value of this brand. Our ability to preserve and leverage the value of our various brands and VerticalScope's brands is also important to our success. In addition, as we outsource services and develop brand extensions, we may work with third party service providers or vendors whose actions could impact our reputation and the value of our brands. The loss or tarnishing of our reputation through negative publicity or otherwise, whether true or not, could have an adverse impact on our business, operations or financial condition.

Dependence on Third-Party Suppliers and Service Providers

We rely on third-party suppliers and service providers for certain key services including distribution, printing (including printing of the Toronto Star), call center services, certain information technology functions and digital publishing and circulation platforms, including cloud computing and storage and certain page production, advertising production and sales, content delivery and content supply requirements. In addition, we may outsource additional components of our business operations in the future. Our business or operations could be interrupted or otherwise adversely impacted by our third-party suppliers and service providers experiencing business difficulties or interruptions, the suppliers or service providers being unable or unwilling to provide services as anticipated or by our being unable to transition to, integrate with or effectively utilize the services of the third-party suppliers and service providers. In such event, we may be unable to find alternate service providers in a timely and efficient manner and on acceptable terms, if at all. In addition, delays in delivery or other service disruptions could have a negative impact on our subscriber base and our ability to generate revenue.

Reliance on Technology and Information Systems

We place considerable reliance upon technology and information systems ("IT"), including systems built internally as well as those of third party service providers, throughout our operations, including for digital platforms, content delivery, circulation, subscription, payment processing, email, back-office support, software provision and other functions. The continuing, uninterrupted and secure performance of our systems is critical to our businesses. We have a steering committee in place which oversees technology and information systems security and we provide periodic reports to the Audit Committee. We constantly re-assess our IT security threat landscape and its impact on our risk exposure. Despite our IT performance targets and security measures and those of our third-party service providers, our systems and those of our service providers may be vulnerable to interruption, downtime, poor performance, damage or failure, including from obsolescence, 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 or issues. This could compromise our systems, disrupt our activities and result in lost revenue. In addition, the information we store could be accessed, corrupted, publicly disclosed, lost or stolen, and the performance and continuing uninterrupted service of our systems could be compromised. See also the risks and uncertainties described below related to “Cybersecurity”.

Cybersecurity

Our businesses collect, use and store increasing amounts of sensitive data, including intellectual property, employee information, business information and personal information (including internal information and information from clients, customers, users of our digital platforms or services, suppliers and business partners). Businesses in general have 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. We seek to mitigate emerging and existing cyber risks through our continuous monitoring program, implementation of advanced technology based defense systems and administrative controls which include entity wide security policies and procedures. While we have implemented controls, and taken other preventative actions to protect our systems against attacks, we can give no assurance that these controls and preventative actions will be effective or that our systems and data or the systems and data of our service providers will be adequately protected.

The occurrence of any of these events could have an adverse effect on our operations and revenues, including through a disruption of our services or disclosure of personal or confidential information, which could harm our reputation, require us to expend resources to remedy such a breach or defend against further attacks, subject us to litigation, investigations, fines or liability including under privacy or other applicable laws or divert management’s attention and resources. In addition, protecting against these events is costly and requires ongoing monitoring and updating as technologies change. The techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and are becoming more sophisticated, and consequently we and our service providers may be unable to anticipate, prevent, identify or adequately remediate such incidents. Our general liability insurance may not cover these risks and consequently we could be required to expend significant resources in connection with any costs, liabilities or losses that may be incurred. See also the risks and uncertainties described above relating to “Reliance on Technology and Information Systems”

Strategic Initiatives, Acquisitions and Dispositions

Our growth, including growth of our investment in VerticalScope, is dependent on the ability to identify, develop and execute appropriate strategic initiatives, which may involve organic growth, growth through acquisition or investment, and also include our efforts to transform our traditional newsbrands. Acquisitions and investments involve numerous risks, such as: difficulties in integrating operations, technologies, products and personnel; diversion of financial and management resources from existing operations; operating under commercial agreements entered into by an acquisition target; risks of entering new

markets; potential loss of key employees; and inability to generate sufficient revenue to offset acquisition or investment costs.

There is no guarantee that any such acquisition or divestiture will be available to us or that they will be available at an appropriate price. The implementation of our strategic initiatives is subject to the risks affecting our businesses generally, the risks associated with identifying and implementing new strategies and the risks associated with acquisitions, investments or expansions. 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, acquisition or expansion will be successful.

In addition, acquisitions and divestitures are subject to regulatory risks. Please see "Government Regulations" below for further discussion. In November 2017, we completed a transaction with Postmedia, in which we purchased and sold a number of daily and community newspapers. As part of the transaction, we acquired eight weekly community publications, seven daily community newspapers and two free daily newspapers from Postmedia. In addition, we sold 22 weekly community newspapers in eastern and southern Ontario and the Metro Winnipeg and Metro Ottawa free daily publications to Postmedia. The Competition Act allows for a one-year period following the completion of a merger transaction during which the Commissioner of Competition may bring an application to the Competition Tribunal challenging the transaction on the basis that it prevents or lessens competition substantially in any relevant market. If such a challenge were to be brought successfully with respect to the Postmedia transaction it could adversely impact our businesses.

Unexpected Costs or Liabilities Related to Acquisitions and Dispositions
From time to time, we may make acquisitions or sell certain investments, subsidiaries, real property and other assets and these transactions may affect our costs, revenues, profitability and financial position. Transaction agreements may provide for certain post-closing adjustments and indemnities or the assumption of certain liabilities and we may be subject to unexpected costs or liabilities in connection with such transactions. For example, we may have, or may be required to provide representations, warranties and/or indemnities to third party purchasers which may expose us to costs or liabilities for breaches of representations and warranties or indemnity claims including as a result of unexpected or unknown changes.

Employee Future Benefits
Relative to our size, and when compared to other companies, we have large pension liabilities, funding requirements and costs. The funded status of our defined benefit pension plans and our contribution obligations may be impacted by many factors, including changes to pension laws, regulations and interpretations thereof, changes to benefits provided to plan participants, changes to actuarial assumptions and methods, changes in participant demographics, mortality, plan experience, changes to the discount rate used to determine our contribution obligations and the rate of return on plan assets. Changes to any of the foregoing factors could produce further changes in the funded status of our 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 our cash flows, liquidity and financial condition.

The most significant group of our registered defined benefit pension plans (in terms of assets and obligations) completed the preparation of actuarial reports as of December 31, 2016. As a result of these valuations along with interim solvency relief measures associated with the Ontario Government's proposed new funding framework in respect of defined benefit pension plans, we expect the full year funding of our registered defined pension plans for 2018 to be in the range of $9 million. However, there is no guarantee that the funding requirements beyond 2018 will not increase when employer contributions are expected to be determined by the new funding framework scheduled to be adopted by the Ontario Government sometime prior to 2019.

In addition to the registered defined benefit pension plans, we also have an unregistered, unfunded defined benefit pension plan that provides pension benefits to eligible senior management executives and a post-employment benefits plan that provides health and life insurance benefits to certain grandfathered employees. 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.

Investments in Other Businesses
We hold investments in businesses that we do not hold a controlling interest in and/or in which we do not exercise control over the management, strategic direction or daily operations.

Reliance on Printing Operations

Our newspaper operations place considerable reliance on the functioning of printing operations for the printing of our various publications. We transitioned printing of the Toronto Star in 2016 to Transcontinental following the closure of the Toronto Star's Vaughan Printing Facility. In the event that any of our print facilities or third party contracted print facilities experience a shutdown or disruption, we and/or the third-party printer will attempt to mitigate potential damage by shifting the printing to our remaining facilities or outsourcing such work to a third party commercial printer. However, given our reliance on such facilities, such a shutdown or disruption could result in being unable to print or distribute some publications, and consequently could have an adverse effect. See also the risks and uncertainties described above related to "Dependence on Third-Party Suppliers and Service Providers".

Labour Disruptions

We have a number of collective agreements at our 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 our business.

The Toronto Star has approximately 200 staff at One Yonge Street covered by a collective agreement which expires December 31, 2018.

Sing Tao has two collective agreements covering approximately 70 employees that expire in December 2018. Metro's Toronto operations have a collective agreement covering approximately 120 employees that will expire in March 2018.

At the other Daily Brands, there are thirteen agreements covering approximately 390 employees. One agreement covering approximately 10 employees at the Peterborough Examiner expired in August 2017 and negotiations have commenced. One agreement covering approximately 70 employees at the Hamilton Spectator and one agreement covering approximately 10 employees at the St. Catharines Standard expired in December 2017 and negotiations are expected to commence shortly. An agreement covering one employee at the St. Catharines Standard expires March 2018. Two agreements covering approximately 130 employees at the Hamilton Spectator and four agreements coving approximately 80 employees at the Waterloo Region Record will expire at the end of December 2018. Two agreements covering approximately 85 employees at the Hamilton Spectator will expire at the end of May 2019. One agreement covering four employees at the Niagara Falls Review will expire at the end of December 2020.

The Community Brands Group has a total of ten collective agreements covering approximately 205 employees. There are three agreements covering approximately 35 employees which expired December 2017 and negotiations are expected to commence shortly. Two agreements covering approximately 20 employees will expire in August 2018, three agreements covering approximately 35 employees will expire November 2019 and two agreements covering approximately 115 employees will expire December 2020.

Newsprint Costs

Newsprint is the single largest raw material expense for our newspaper operations and represents approximately 12% of total operating costs for 2017. Newsprint is priced as a commodity with the price varying widely from time to time.

We 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, and changes in trade agreements and arrangements. We primarily source newsprint from two main suppliers. For 2018, we have fixed the cost of newsprint for a portion of the year with one of our suppliers. Newsprint prices are currently expected to be somewhat higher than what we experienced in 2017. There can be no assurance that we will be able to extend these arrangements in future years or that we will not be exposed in the future to volatile or increased newsprint costs which could have an adverse effect on our financial performance.

Government Regulations

General

Our businesses are subject to a variety of laws and regulations, policies and decisions, including laws applicable generally to business and environmental, privacy, anti-spam, communications, competition and e-commerce laws. We may be notified from time to time of additional laws, regulations, policies or decisions which governmental organizations or others may claim should be applicable to certain of our businesses. We may also be subject to adverse outcomes of legal and regulatory

proceedings. Adverse outcomes of legal and regulatory proceedings, as well as changes in, or the failure to comply with, legislation, regulations, policies or decisions could adversely affect our operations. If we are required to alter our business practices as a result of additional laws, regulations, policies or decisions, or adverse outcomes of legal and regulatory proceedings, revenue could decrease, costs could increase and/or certain of our businesses could otherwise be harmed. In addition, the costs and expenses associated with dealing with any requests, order or actions related to such legal and regulatory proceedings, laws, regulations, policies and decisions, the diversion of management's attention and resources and any payments of related penalties, judgements or settlements could adversely impact certain of our businesses.

E-Commerce, Privacy, Confidential Information and Data Use and Protection
Laws relating to privacy, anti-spam, communications, data protection, e-commerce, direct marketing and digital advertising and use of data and 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 and enforced by regulators and courts in Canada and other jurisdictions, may impose limits on the collection and use of certain kinds of information, including without limitation online and mobile analytics, profiling data, geo-location data, data collected in the course of online behavioural advertising, and other personal data 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, invasion of privacy, privacy breaches and breach notification, cyber-crime and access could adversely impact our businesses.

In connection with many of our businesses, we routinely obtain personal and confidential information relating to our customers and users of our digital platforms or services, which may include potentially sensitive personal information. Our practices involving collection, use, disclosure and retention of personal information continue to evolve in light of changes in information technology and analytics technology and services. The potential misuse or inadvertent or unauthorized dissemination of such information could violate applicable laws, cause damage to our relationships with our customers or others, cause damage to our brands and reputation, impair our ability to attract and retain our audiences, or result in legal or regulatory actions. See also the risks and uncertainties described above related to “Reliance on Technology and Information Systems”, “Cybersecurity” and “Reputation”.

Environmental and Health and Safety
We are 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 we have 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, that additional expenditures will not be required to meet current or future legislation, or that we will be able to secure materials (such as recycled newsprint) that meet all applicable regulatory requirements. Compliance with existing and new environmental, health and safety laws and regulations may subject us 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

Litigation
We are involved in various legal actions, which arise in the ordinary course of business. These actions include the litigation as described in Note 17 to our 2017 Consolidated Financial Statements and under the heading “Legal Proceedings” in our most recent Annual Information Form. In particular, given the nature of our businesses, we have had, and may have, litigation claims filed which are related to the publication of our editorial and other content, copyright or trademark infringement, privacy, electronic communications and anti-spam, personal injury, product liability, breach of contract, misleading advertising, unfair competition or other legal claims. Although we maintain insurance for many of types of claims, there can be no assurance that insurance will be available or adequate 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 nor have a negative impact on our results. We could incur significant costs in investigating and defending such claims, even if ultimately found not to be liable.

Foreign Exchange Fluctuations and Foreign Operations

Our investment in VerticalScope is denominated in U.S. dollars, VerticalScope's functional currency. To offset the exposure to Torstar's U.S. dollar investment in VerticalScope, we have entered into forward foreign exchange collar contracts to sell U.S. dollars. As a result, our cash flows and operating results may be affected by changes in the value of the Canadian dollar relative to the U.S. dollar (See additional information on foreign exchange risks in Section 7 of this MD&A and in Note 15 to our 2017 Consolidated Financial Statements). In addition, predominantly all of VerticalScope's revenues (approximately 6% of Torstar's 2017 segmented operating revenues) are earned in U.S. dollars. As a result, Torstar's share of VerticalScope's revenues and operating earnings are affected by changes in the value of the Canadian dollar relative to the U.S. dollar.

In addition, exclusive of our interest in VerticalScope, certain of our revenues, expenses and monetary assets and liabilities are denominated in currencies other than the Canadian dollar, largely the U.S. dollar. To the extent that the value of the Canadian dollar changes relative to the applicable foreign currencies, this will result in a foreign currency gain or loss reflected in our earnings.

Over the past few years, 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 our operating results in the form of additional costs and reduced revenues.

Dependence on Key Personnel

We are dependent to a large extent upon the continued services of our senior management team and other key employees such as editorial, digital, sales and technical personnel, and including key employees of companies we invest in such as VerticalScope. There is intense competition for qualified managers and skilled employees and our failure to recruit, train and retain such employees could have an adverse effect on our business, financial condition or operating results.

Availability of Insurance

We have 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 we believe 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 or insured, that amounts owing from insurers will be collected or that the insurance coverage will be sufficient to cover every material loss or claim that may occur involving our operations or assets.

Intellectual Property Rights and Other Content Risks

We place considerable importance on the protection of our intellectual property rights. Our 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 our 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 our intellectual property rights and there is a risk that some of the content we generate may be defamatory or infringing, and that content generated by users of our platforms and services (including those of VerticalScope) may be defamatory, infringing, incorrect, negligent, unlawful or otherwise inappropriate. There can be no assurance that our actions will be adequate to prevent the infringement of our intellectual property rights, or protect us against claims by third parties. If third parties were to contest the validity or scope of our 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 us to incur significant costs in investigating and defending such claims and have a negative impact on our reputation or results. See also the risks and uncertainties described above related to "Litigation".

Credit Risk

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

While we apply 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 our 2017 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.

Our cash and cash equivalents, restricted cash and derivative instruments are held with Canadian chartered banks. While we regularly review the financial condition of these counterparties, a failure of a counterparty could adversely affect our consolidated financial condition.

Availability of Capital and Restrictions Imposed by Credit Facilities
If internal funds are not available from our operations, we may be required to raise additional financing through public or private equity or debt financings, or other arrangements with corporate sources or other sources of financing to fund operations and meet our financial commitments. However, there is no assurance that additional funding, if required, will be available to us in amounts or on terms acceptable to us, if at all.

We may from time to time, enter into agreements for additional financing, including agreements in respect of credit facilities. Such agreements may impose a number of restrictions on us including but not limited to restrictions on certain distributions as well as compliance with certain financial covenants and compliance with other affirmative and negative covenants.

In addition, the agreement governing certain indebtedness of VerticalScope imposes a number of restrictions and includes restrictions on certain distributions. The agreement also requires compliance with certain financial covenants and compliance with other affirmative and negative covenants.

These restrictions may limit flexibility in planning for and reacting to business or industry changes and strategic objectives and may make us more vulnerable to adverse economic and industry conditions.

Income Tax and Other Taxes
We collect, pay and accrue income and other taxes. We have 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.

We have also recorded the benefit of income and other tax positions based on estimates, using accounting principles that recognize the benefit of income and other 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 and other tax benefits, as well as the timing of realization of such amounts, can materially affect the determination of net income or cash flows.

While we believe that we have paid and provided for adequate amounts of tax, significant judgement is required in interpreting tax legislation and regulations in relation to our businesses. Our 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 our 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.

Dividends
Decisions on the declaration and payment of dividends are made on a quarterly basis by our Board of Directors based on our overall financial performance and cash flow outlook. There is no guarantee that dividends will be declared or that we will continue to make dividend payments at the current level.

Financial Reporting and Impairment
We are responsible for establishing and maintaining adequate internal controls over financial reporting, a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Economic, market, legal, regulatory, competitive, customer, contractual and other factors may affect the value of our long-lived assets, intangible assets and investments. If any of these factors impair the value of these assets, IFRS requires that

we reduce their carrying value and recognize an impairment charge. This would reduce our reported assets and earnings in the year the impairment charge is recognized.

Holding Company Structure

We have no material sources of income or assets, other than the interests that we hold in our subsidiaries, joint arrangements and other entities. As a holding company, our ability to meet our financial obligations is dependent primarily upon the receipt of cash dividends, interest and principal payments on intercompany advances, and other payments and distributions from our subsidiaries, joint arrangements and other entities in which we have an interest together with proceeds we raise through the issuance of equity and the incurrence of debt, and from proceeds received on the sale of assets. The payment of dividends and other amounts by our subsidiaries, joint arrangements and other entities in which we have an interest may be subject to statutory or contractual restrictions, are contingent upon the earnings of those entities and are subject to various business and other considerations.

Control of Torstar by the Voting Trust

Almost 99% of our 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 all matters submitted to a vote of shareholders of Torstar.

TORSTAR

NOTES

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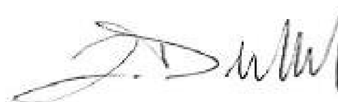
MANAGEMENT'S REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

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.



John Boynton
President and Chief Executive Officer
February 27, 2018

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, 2017 and 2016, and the consolidated statements of loss, comprehensive loss, 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, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
February 27, 2018

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

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

	As at December 31, 2017	As at December 31, 2016
Assets		
Current:		
Cash and cash equivalents	**$71,377**	$75,374
Restricted cash (note 5)	**9,056**	11,847
Receivables (note 15)	**112,946**	116,487
Inventories (note 6)	**4,326**	4,829
Derivative financial instruments (note 15)	**57**	
Prepaid expenses	**4,373**	4,467
Prepaid and recoverable income taxes	**1,000**	9,271
Total current assets	**203,135**	222,275
Investments in joint ventures (note 7)	**23,420**	27,463
Investments in associated businesses (note 8)	**142,769**	157,897
Property, plant and equipment (note 9)	**55,259**	61,969
Intangible assets (note 10)	**40,217**	55,945
Goodwill (note 11)		8,133
Other assets (note 13)	**12,967**	12,414
Employee benefits (note 19)		7,073
Deferred income tax assets (note 14)	**3,460**	11,322
Total assets	**$481,227**	$564,491
Liabilities and Equity		
Current:		
Accounts payable and accrued liabilities (note 15)	**$89,132**	$101,133
Derivative financial instruments (note 15)		472
Provisions (note 17)	**18,113**	28,473
Income taxes payable	**6,781**	7,212
Total current liabilities	**114,026**	137,290
Provisions (note 17)	**6,714**	11,104
Other liabilities (note 18)	**6,599**	7,616
Employee benefits (note 19)	**104,716**	77,407
Deferred income tax liabilities (note 14)	**3,342**	4,904
Equity:		
Share capital (note 20)	**403,040**	402,814
Contributed surplus	**21,322**	20,797
Accumulated deficit	**(176,180)**	(102,599)
Accumulated other comprehensive income (loss) (note 22)	**(2,207)**	5,176
Total equity attributable to equity shareholders	**245,975**	326,188
Minority interests	**(145)**	(18)
Total equity	**245,830**	326,170
Total liabilities and equity	**$481,227**	$564,491

(see accompanying notes)

ON BEHALF OF THE BOARD

John Honderich
Director

Paul Weiss
Director

Torstar Corporation
Consolidated Statement of Loss

(Thousands of Canadian Dollars except per share amounts)

	Year ended December 31	
	2017	2016
Operating revenue	**$615,685**	$685,099
Salaries and benefits	**(245,906)**	(299,315)
Other operating costs	**(325,631)**	(356,192)
Amortization and depreciation (notes 9 and 10)	**(36,987)**	(44,020)
Restructuring and other charges (note 17)	**(17,512)**	(45,823)
Impairment of assets (note 12)	**(8,133)**	(800)
Operating loss	**(18,484)**	(61,051)
Interest and financing costs (note 15)	**(2,213)**	(3,080)
Foreign exchange	**493**	298
Loss from joint ventures (note 7)	**(1,845)**	(5,532)
Loss from associated businesses (note 8)	**(6,824)**	(34,919)
Other income (note 23)	**3,935**	24,348
	(24,938)	(79,936)
Income and other taxes recovery (expense) (note 14)	**(5,700)**	3,900
Net loss from continuing operations	**(30,638)**	(76,036)
Income from discontinued operations (note 24)	**1,350**	1,200
Net loss	**($29,288)**	($74,836)
Attributable to:		
Equity shareholders	**($29,171)**	($74,750)
Minority interests	**($117)**	($86)
Net income (loss) attributable to equity shareholders per Class A (voting) and Class B (non-voting) share (note 20(c)):		
Basic and Diluted:		
From continuing operations	**($0.38)**	($0.94)
From discontinued operations	**$0.02**	$0.01
	($0.36)	($0.93)

(see accompanying notes)

Torstar Corporation
Consolidated Statement of Comprehensive Loss
(Thousands of Canadian Dollars)

	Year ended December 31	
	2017	2016
Net loss	**($29,288)**	($74,836)
Other comprehensive income (loss) ("OCI") that are or may be reclassified subsequently to net income (loss):		
Unrealized foreign currency translation adjustment ("CTA") (no income tax effect)	**38**	27
Unrealized foreign currency translation adjustment for associated businesses (no income tax effect) (note 8)	**(7,489)**	(5,459)
Net movement on available-for-sale financial assets	**(332)**	2,910
Income tax effect	**400**	(400)
Unrealized gain on hedge of net investment		5,777
Income tax effect		(800)
	(7,383)	2,055
OCI that will not be reclassified subsequently to net income (loss):		
Actuarial loss on employee benefits (note 19)	**(35,757)**	(1,734)
Actuarial gain (loss) on employee benefits for associated businesses (no income tax effect) (note 8)	**66**	(1,726)
	(35,691)	(3,460)
Comprehensive loss, net of tax	**($72,362)**	($76,241)
Attributable to:		
Equity shareholders	**($72,245)**	($76,155)
Minority interests	**($117)**	($86)

(see accompanying notes)

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

	Share capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income (loss) ("AOCI")	Total attributable to equity shareholders	Minority interests	Total equity
At December 31, 2015	$402,500	$19,858	($7,560)	$3,121	$417,919	$1,818	$419,737
Net loss for the year			(74,750)		(74,750)	(86)	(74,836)
Other comprehensive income (loss)			(3,460)	2,055	(1,405)		(1,405)
Total comprehensive income (loss)			(78,210)	2,055	(76,155)	(86)	(76,241)
Dividends (note 20)	168		(14,514)		(14,346)		(14,346)
Issue of share capital – other (note 20)	146				146		146
Share of associate paid in capital (note 8)			(2,315)		(2,315)		(2,315)
Share-based compensation expense		939			939		939
Distribution						(1,750)	(1,750)
At December 31, 2016	**$402,814**	**$20,797**	**($102,599)**	**$5,176**	**$326,188**	**($18)**	**$326,170**
Net loss for the year			**(29,171)**		**(29,171)**	**(117)**	**(29,288)**
Other comprehensive loss			**(35,691)**	**(7,383)**	**(43,074)**		**(43,074)**
Total comprehensive loss			**(64,862)**	**(7,383)**	**(72,245)**	**(117)**	**(72,362)**
Dividends (note 20)	**133**		**(8,079)**		**(7,946)**		**(7,946)**
Issue of share capital – other (note 20)	**93**				**93**		**93**
Share of associate paid in capital (note 8)			**(640)**		**(640)**		**(640)**
Share-based compensation expense		**525**			**525**		**525**
Distribution						**(10)**	**(10)**
At December 31, 2017	**$403,040**	**$21,322**	**($176,180)**	**($2,207)**	**$245,975**	**($145)**	**$245,830**

(see accompanying notes)

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

	Year ended December 31	
	2017	2016
Cash was provided by (used in)		
Operating activities	**$15,404**	($10,599)
Investing activities	**(11,520)**	65,337
Financing activities	**(7,881)**	(14,505)
Increase (decrease) in cash	**(3,997)**	40,233
Cash, beginning of year	**75,374**	35,141
Cash, end of year	**$71,377**	$75,374
Operating activities:		
Net loss from continuing operations	**($30,638)**	($76,036)
Amortization and depreciation (notes 9 and 10)	**36,987**	44,020
Deferred income taxes (note 14)	**6,500**	4,500
Loss from joint ventures (note 7)	**1,845**	5,532
Distributions from joint ventures (note 7)	**2,187**	159
Loss from associated businesses (note 8)	**6,824**	34,919
Dividend from associated businesses (note 8)	**194**	387
Impairment of assets (note 12)	**8,133**	800
Non-cash employee benefit expense (note 19)	**15,393**	18,506
Employee benefits funding (note 19)	**(16,768)**	(30,445)
Gain on sale of assets (note 23)	**(3,725)**	(24,338)
Other (note 25)	**(4,074)**	(2,926)
	22,858	(24,922)
Decrease in restricted cash (note 5)	**2,791**	3,338
Decrease (increase) in non-cash working capital	**(10,245)**	10,985
Cash provided by (used in) operating activities	**$15,404**	($10,599)
Investing activities:		
Additions to property, plant and equipment and intangible assets	**($11,402)**	($17,670)
Received from (investment in) associated businesses (note 8)	**63**	(500)
Sale of (investment in) joint ventures (note 7)	**167**	(293)
Acquisitions and portfolio investments (note 26)	**(873)**	(373)
Receipt of escrowed cash from the sale of Harlequin (note 5)		22,750
Proceeds from sale of assets (note 23)	**500**	61,037
Other	**25**	386
Cash provided by (used in) investing activities	**($11,520)**	$65,337
Financing activities:		
Dividends paid	**($7,946)**	($14,346)
Other	**65**	(159)
Cash used in financing activities	**($7,881)**	($14,505)
Cash represented by:		
Cash	**$36,068**	$25,237
Cash equivalents – short-term deposits	**35,309**	50,137
Net cash, end of year	**$71,377**	$75,374

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

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

1. CORPORATE INFORMATION

Torstar Corporation (the "Company") 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, 2017. These consolidated financial statements have been authorized for issue in accordance with a resolution from the Board of Directors on February 27, 2018.

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 de-consolidated on the date when control ceases.

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

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

(d) Investments in joint ventures and associated businesses

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

An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not represent control or joint control over those decisions.

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

Investments in joint ventures and associates are accounted for using the equity method, whereby the investment is carried in the consolidated statement of financial position at cost (which includes acquisition-related fees) 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 or loss 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 consolidated 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 or loss.

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

(e) Foreign currency translation

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

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

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

(f) Financial instruments

Financial assets and liabilities

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

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

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

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 or loss.

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 or loss.

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 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 or loss 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.

Collar arrangements and foreign exchange contracts to sell U.S. dollars have been designated as hedges against the foreign currency exposure on the net investment in VerticalScope. Gains and losses on these instruments, to the extent of hedge effectiveness, are transferred to OCI to offset the gains and losses on translation of the net investment. The portion of the hedge that is deemed ineffective is recorded in the consolidated statement of income or loss.

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. The 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 or loss 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 or loss. 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 or loss.

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 or loss 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. 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 or loss.

Net investment hedges

These are hedges of the Company's net investment in its foreign operations, currently VerticalScope. 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 or loss 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 or loss.

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 varies 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 or loss.

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 or loss.

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 foreign exchange forward contracts and collar arrangements to hedge the foreign currency exposure on its net investment in VerticalScope. 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 the foreign exchange forward contracts and collar arrangements is classified within Level 2 as it is based on foreign currency rates quoted by banks and is the difference between the forward exchange rate and the contract rate.

The 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 classified within Level 3 and determined when possible using a valuation technique that maximizes the use of observable market inputs and unobservable market inputs such as earnings multiples and cash flow projections.

(g) 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.

(h) 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 or loss as incurred.

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

• Buildings	
▪ Structural	25 – 60 years
▪ Components	10 – 35 years
• Machinery and equipment	
▪ Machinery and equipment	3 – 40 years
▪ Furniture and fixtures	3 – 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 or loss when the asset is derecognized.

(i) 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
• Trademarks	2 – 5 years
• Domain names	5 – 10 years
• Other	5 – 10 years

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 or loss when the asset is derecognized.

(j) 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 or loss.

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 loss 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 or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(k) 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. Remaining 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;
- A major line of business or major geographical area; or
- Classified as held for sale or already disposed in such a way.

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

(l) Impairment of non-financial assets

Property, plant and equipment, intangible assets and goodwill 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 and goodwill are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (a CGU). The test for impairment for property, plant and equipment, intangible assets 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 ("FVLCS"), and value in use ("VIU"). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. In its assessment of the recoverable amounts of the group of CGUs at both December 31, 2017 and December 31, 2016, the Company considered both the VIU and FVLCS approaches.

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 VIU 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 VIU 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, approved by the Company's Board of Directors, three year strategic plans and management forecasts beyond that period.

- In calculating the VIU, the Company uses a discount rate in order to establish 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.

The FVLCS calculation uses projections for a one year period and a forward multiple. The key assumptions in the fair value less cost to sell calculation are:

- Earnings before interest, taxes, depreciation and amortization, restructuring and other charges, and impairment of assets ("Adjusted EBITDA"). The projections are based on the most recent financial budgets approved by the Company's Board of Directors.

- Forward multiples which are based on public market data including information from analysts covering the Company as well as competitor data.

(m) Revenue recognition

The Company has a number of different revenue streams. Print and digital advertising revenue is primarily generated through the provision of advertisements in print publications as well as on various digital platforms. Revenue from circulation/subscribers is largely generated by home delivery subscriptions; single copy sales at newsstands and vending machines; and the provision of digital format subscriptions. Distribution revenue is primarily generated from the delivery of flyers to consumers on behalf of advertisers. Other revenues are generated from the provision of commercial printing for external customers as well as the sale of various products.

Print advertising and distribution revenue

Revenue related to print advertising and flyer distribution is recognized when a print advertisement or flyer is included in the newspaper and the newspapers are delivered to the reader.

Digital advertising revenue

The Company has a number of digital advertising revenue streams. The majority of the Company's digital revenue is recognized when advertisements are placed on digital platforms and to a lesser extent when a user clicks on an advertisement, on a per click basis.

Circulation/subscription revenue

In respect of revenue from circulation/subscribers related to print newspapers, the Company recognizes revenue at the time of delivery of the newspaper to the customer/subscriber. Revenue from single copy sales is recognized net of a provision for returns based on historical rates of returns. In the case of revenue from subscribers, revenue is recognized proportionately over the term of the subscription.

Other revenue

Other revenue is recognized upon delivery to or at the time that goods are made available to the customer. For example, when products are printed for external customers, revenue is recognized at the time that such materials are made available to the customer. In the case of product sales, revenue is recognized per the terms of delivery.

(n) 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 are 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 or loss.

- Past service costs are recognized immediately in the consolidated statement of income or loss.

- Current service costs, past service costs, special termination benefits, curtailment gains or losses and administration costs are recognized in the consolidated statement of income or loss 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 defined contribution 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.

(o) 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 is 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. RSU grants accrue dividend equivalents payable in additional units in an amount equal to dividends paid on Class B non-voting shares of the Company. 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.

(p) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of income or loss, unless it relates to items recognized outside the consolidated statement of income or loss. Tax expense relating to items recognized outside of the consolidated statement of income or loss 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.

(q) 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.

(r) 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, tax credits 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 FVLCS and its VIU. The FVLCS calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices for similar transactions, adjusted for the specific facts and circumstances, less incremental costs for disposing of the asset. The VIU calculation is based on a discounted cash flow model. The key estimates and assumptions used in arriving at the FVLCS and VIU are outlined in Note 2(l).

In calculating the recoverable amount, management is required to make several assumptions, including, but not limited to, expected future revenues, expected future cash flows, forward multiples and discount rates. Management'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 is currently anticipated. Management has also made certain assumptions for the forward multiples, discount and terminal growth rates to reflect possible variations in the cash flows, however, the risk premiums expected by market participants, as reflected in forward multiples, 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 may have a significant impact on the fair value of the investment, CGU or group of CGUs or intangible assets and the results of the related impairment testing.

As at December 31, 2017, the carrying value of investments, intangible assets and property plant and equipment represented 35%, 8%, and 11% respectively of total assets and each reporting segment had investments and intangible assets with carrying values subject to these estimates. As at December 31, 2016, the carrying value of investments, intangible assets, property, plant and equipment and goodwill represented 33%, 10%, 11% and 1% respectively of total assets. Additionally, as a result of rapid and significant shifts in the print and digital advertising markets, expected future revenues and cash flows, the Company has recorded impairment charges related to goodwill and investments totalling $11.1 million in the year ended December 31, 2017 ($7.5 million of impairment charges related to intangible assets and investments in the year ended December 31, 2016). These charges impact net income or loss but have no effect on cash flows.

More details 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 or loss. 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.

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 investment in VerticalScope as an associated business (rather than being consolidated subsidiary or classified as a joint venture) based on management's judgement that the Company does not have control but has significant influence, based on rights to board representation and other provisions in the shareholders agreement. The Company has classified its investments in Black Press Ltd., Blue Ant Media Inc. and up until July 5, 2016, Shop.ca Network Inc. as associated businesses based on management's judgement that the Company has significant influence despite holding less than 20%, based on rights to board representation and other provisions in the respective shareholders' agreements.

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 without loss of interest after the initial 30 days.

Determination of operating segments, reportable segments and CGUs

During the fourth quarter of 2017, the Company realigned its operating segments into Community Brands and Daily Brands in order better align its operations by type of publication. The Company has three reportable operating segments: Community Brands ("Communities"), Daily Brands ("Dailies") and Digital Ventures. "Corporate" is the provision of corporate services and administrative support. Digital businesses outside the traditional newspaper operations are managed as one operating segment - Digital Ventures, and remains a separate reportable segment. 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.

Within the Communities operating segment, the Company has identified a number of CGUs including the community newspapers and their flyer distribution, printing operations as well as a number of separate digital CGUs. In addition, the Company has identified two CGUs within the Dailies operating segment, which includes all daily newspapers and their respective flyer distribution as well as a number of other smaller digital platforms and publications. Within the Digital Ventures segment, the Company has identified eyeReturn Marketing as one CGU.

(s) Changes in accounting policies

Policies adopted in 2017:

Several new amendments and interpretations applied for the first time in 2017. However, they had little or no impact on the 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:

There are several new standards and amendments to accounting standards which will be effective for the Company subsequent to 2017, however, only the following new standards are expected to have a material impact on the interim or annual consolidated financial statements or disclosures of the Company:

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* 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 has evaluated the new standard and there is no material impact on the consolidated financial statements from the adoption of this standard. The Company plans to adopt the standard on its effective date of January 1, 2018 and will present additional disclosure upon adoption.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued a finalized version of IFRS 9 *Financial Instruments* which contains accounting requirements for financial instruments. The Company has evaluated the application of IFRS 9 and expects that (i) portfolio investments will be classified as fair value through other comprehensive income and, (ii) the hedge of the net investment in VerticalScope will be treated as a continuing hedge and previously recognized gains from the change in fair value of the hedges will be reclassified from retained earnings to a new category in the consolidated statement of changes in equity. The Company plans to adopt the standard on its effective date of January 1, 2018 and will also present additional disclosure upon adoption of IFRS 9.

IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16 which supersedes IAS 17 *Leases* and related interpretations. The new standard provides a single lessee accounting model which eliminates the distinction between operating and finance leases, by requiring lessees to recognize assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The Company does not anticipate early adoption and plans to adopt the standard on its effective date of January 1, 2019. The Company is in the process of reviewing the standard to determine the impact on the consolidated financial statements.

3. SEGMENTED INFORMATION

During the fourth quarter of 2017, the Company realigned its management structure and operating segments into Community Brands and Daily Brands in order to better align its operations by type of publication. The Company has three reportable operating segments: Communities, Dailies and Digital Ventures. Corporate is the provision of corporate services and administrative support. Digital businesses outside the traditional newspaper operations are managed as one operating segment - Digital Ventures, and remains a separate reportable segment. 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.

Year ended December 31, 2017	**Communities**	**Dailies**	**Digital Ventures**	**Corporate**	**Total**	**Adjustments and Eliminations[1]**	**Per Consolidated Statement of Loss**
Operating revenue	**$304,253**	**$315,050**	**$72,297**		**$691,600**	**($75,915)**	**$615,685**
Salaries and benefits	**(140,693)**	**(100,428)**	**(23,476)**	**($6,983)**	**(271,580)**	**25,674**	**(245,906)**
Other operating costs	**(132,643)**	**(188,439)**	**(23,290)**	**(3,931)**	**(348,303)**	**22,672**	**(325,631)**
Amortization and depreciation	**(13,352)**	**(21,491)**	**(32,025)**		**(66,868)**	**29,881**	**(36,987)**
Restructuring and other charges	**(11,136)**	**(6,533)**	**(981)**	**(200)**	**(18,850)**	**1,338**	**(17,512)**
Impairment of assets			**(11,133)**		**(11,133)**	**3,000**	**(8,133)**
Reportable segment operating profit (loss)	**$6,429**	**($1,841)**	**($18,608)**	**($11,114)**	**($25,134)**	**$6,650**	**($18,484)**
Interest and financing costs							**(2,213)**
Foreign exchange							**493**
Loss from joint ventures							**(1,845)**
Loss from associated businesses							**(6,824)**
Other income							**3,935**
Loss before taxes from continuing operations							**($24,938)**

Year ended December 31, 2016	Communities	Dailies	Digital Ventures	Corporate	Total	Adjustments and Eliminations[1]	Per Consolidated Statement of Loss
Operating revenue	$332,379	$355,337	$73,981		$761,697	($76,598)	$685,099
Salaries and benefits	(155,715)	(138,115)	(22,489)	($8,078)	(324,397)	25,082	(299,315)
Other operating costs	(141,333)	(210,077)	(25,352)	(2,614)	(379,376)	23,184	(356,192)
Amortization and depreciation	(12,865)	(29,451)	(79,642)	(66)	(122,024)	78,004	(44,020)
Restructuring and other charges	(13,504)	(32,531)	(262)	(610)	(46,907)	1,084	(45,823)
Impairment of assets	(800)		(6,700)		(7,500)	6,700	(800)
Reportable segment operating profit (loss)	$8,162	($54,837)	($60,464)	($11,368)	($118,507)	$57,456	($61,051)
Interest and financing costs							(3,080)
Foreign exchange							298
Loss from joint ventures							(5,532)
Loss from associated businesses							(34,919)
Other income							24,348
Loss before taxes from continuing operations							($79,936)

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

The following charts provide a breakdown of total segmented operating revenue for the years ended December 31, 2017 and December 31, 2016.

	Communities		Dailies		Digital Ventures		Total	
Year ended December 31, 2017	**$**	%	**$**	%	**$**	%	**$**	%
Print advertising	**$125,520**	**41.3%**	**$144,864**	**46.0%**			**$270,384**	**39.1%**
Digital advertising	**30,747**	**10.1%**	**25,495**	**8.1%**	**$72,297**	**100.0%**	**128,539**	**18.6%**
Distribution	**110,883**	**36.4%**	**18,991**	**6.0%**			**129,874**	**18.8%**
Subscriber	**715**	**0.2%**	**114,262**	**36.3%**			**114,977**	**16.6%**
Other	**36,388**	**12.0%**	**11,438**	**3.6%**			**47,826**	**6.9%**
Total	**$304,253**	**100.0%**	**$315,050**	**100.0%**	**$72,297**	**100.0%**	**$691,600**	**100.0%**

	Communities		Dailies		Digital Ventures		Total	
Year ended December 31, 2016	**$**	%	**$**	%	**$**	%	**$**	%
Print advertising	$145,817	43.9%	$176,722	49.7%			$322,539	42.3%
Digital advertising	31,854	9.6%	27,288	7.7%	$73,981	100.0%	133,123	17.5%
Distribution	117,147	35.2%	21,965	6.2%			139,112	18.3%
Subscriber	934	0.3%	119,194	33.5%			120,128	15.8%
Other	36,627	11.0%	10,168	2.9%			46,795	6.1%
Total	$332,379	100.0%	$355,337	100.0%	$73,981	100.0%	$761,697	100.0%

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	
	2017	2016	**2017**	2016
Canada	**$612,266**	$681,731	**$95,476**	$126,047
United States	**3,419**	3,368		
Total	**$615,685**	$685,099	**$95,476**	$126,047

[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.

4. INVESTMENTS IN SUBSIDIARIES

The Company's material subsidiaries are: Toronto Star Newspapers Limited and Metroland Media Group Ltd., which are Ontario corporations and Free Daily News Group Inc., which is a New Brunswick corporation. The Company has 100% voting and equity securities interest in each of these corporations.

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

5. RESTRICTED CASH

At December 31, 2017, the Company had restricted cash totalling $9.1 million (December 31, 2016 – $11.8 million) which includes $7.7 million (December 31, 2016 – $10.5 million) held as collateral for outstanding standby letters of credit in respect of an unfunded executive retirement plan liability (Note 19).

In February 2016, the Company received $22.8 million related to the sale of Harlequin Enterprises Limited ("Harlequin") in August 2014 which had been held in an escrow account.

6. INVENTORIES

	December 31, 2017	December 31, 2016
Work in progress	**$73**	$118
Raw materials	**4,253**	4,711
	$4,326	$4,829

The Company expensed inventory costs of $39.5 million for the year ended December 31, 2017 (2016 – $42.9 million).

7. INVESTMENTS IN JOINT VENTURES

The Company's joint ventures include investments in Workopolis (50%) and Sing Tao Daily (approximately 50%).

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

	Year ended December 31	
	2017	2016
Balance, beginning of year	**$27,463**	$32,861
Loss from joint ventures	**(1,845)**	(5,532)
Distributions from joint ventures	**(2,187)**	(159)
Investment and other	**(11)**	293
Balance, end of year	**$23,420**	$27,463

Summarized Supplemental Financial Information

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

(i) Statement of Financial Position

	As at December 31, 2017	As at December 31, 2016
Cash and cash equivalents	**$7,324**	$7,880
Other current assets	**6,260**	6,049
Total current assets	**13,584**	13,929
Total non-current assets	**16,786**	21,227
Total assets	**$30,370**	$35,156
Current liabilities	**$6,216**	$6,825
Other non-current liabilities	**734**	868
Total equity	**23,420**	27,463
Total liabilities and equity	**$30,370**	$35,156

(ii) Statements of Loss and Comprehensive Loss

	Year ended December 31	
	2017	2016
Operating revenue	**$31,126**	$36,634
Salaries and benefits	**(12,609)**	(14,739)
Other operating costs	**(14,327)**	(16,167)
Amortization and depreciation	**(1,816)**	(3,203)
Restructuring and other charges	**(814)**	(780)
Impairment of assets (note 12)	**(3,000)**	(6,700)
Operating loss	**(1,440)**	(4,955)
Interest and financing costs	**(5)**	(21)
Foreign exchange	**4**	20
Other income	**(3)**	
	(1,444)	(4,956)
Income and other taxes	**(401)**	(576)
Net loss and Comprehensive loss	**($1,845)**	($5,532)

8. INVESTMENTS IN ASSOCIATED BUSINESSES

As of December 31, 2017, the Company's investments in associated businesses include a 19.4% equity interest in Black Press Ltd. ("Black Press"); a 15.9% equity investment in Blue Ant Media Inc. ("Blue Ant"); a 33.3% equity interest in Canadian Press Enterprises Inc. ("Canadian Press"); a 56.4% equity investment in VerticalScope and a

22.3% interest in Nest Wealth Asset Management Inc. ("Nest Wealth"). The Company also had a 14.7% equity investment in Shop.ca Network Inc. ("Shop.ca") until July 5, 2016.

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

	Year ended December 31	
	2017	2016
Balance, beginning of year	**$157,897**	$202,203
Dividends received	**(194)**	(387)
Investments during the year		500
Sale of investment	**(47)**	
Share of associate paid in capital (with minority interest)	**(640)**	(2,315)
Loss of associated businesses	**(6,824)**	(34,919)
OCI – Actuarial loss on employee benefits	**66**	(1,726)
OCI – Foreign currency translation adjustment	**(7,489)**	(5,459)
Balance, end of year	**$142,769**	$157,897

The table below provides details of income and losses from associated businesses:

	Net income (loss)		OCI	
	2017	2016	**2017**	2016
VerticalScope	**($3,192)**	($42,237)	**($7,434)**	($5,377)
Black Press	**(5,721)**	5,635	**102**	(1,881)
Blue Ant	**1,370**	2,447	**(91)**	73
Shop.ca		(613)		
Nest Wealth	**719**	(151)		
Total	**($6,824)**	($34,919)	**($7,423)**	($7,185)

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, the Yukon, Saskatchewan, Manitoba, Washington, California, Hawaii and Ohio. For the year ended December 31, 2017, the Company's share of Black Press' net loss was $5.7 million and other comprehensive income of $0.1 million (2016 – net income of $5.6 million and other comprehensive loss of $1.9 million).

Blue Ant

Blue Ant is a privately held, international content producer, distributor and channel operator founded in 2011. Blue Ant creates content for multiple genres including factual, factual entertainment, short-form digital series and kids programming. Their distribution business, offers a catalogue of 3,200+ hours of content, including the largest 4K natural history offering on the market and their international channel business offers a portfolio of media brands. The Company's equity interest at December 31, 2017 was 15.9% (December 31, 2016 – 18.3%). The Company's share of Blue Ant's net income in 2017 was $1.4 million (2016 – net income of $2.4 million) and includes dilution gains of $2.9 million in 2017 and $2.3 million in 2016.

Canadian Press

Canadian Press operates The Canadian Press news agency. The Company's carrying value in Canadian Press was previously reduced to $nil. The Company will begin to report its share of Canadian Press' results once the unrecognized losses ($5.3 million as of December 31, 2017) have been offset by net income, other comprehensive income or additional investments are made. For the year ended December 31, 2017, the Company would have

reported income of $1.1 million and other comprehensive loss of $1.8 million from Canadian Press (2016 – income of $0.3 million and other comprehensive loss of $1.8 million).

Shop.ca

For the year ended December 31, 2016, the Company's share of Shop.ca's net loss was $0.6 million. Shop.ca declared bankruptcy on July 5, 2016.

Nest Wealth

Nest Wealth is an online investment portfolio manager, or 'robo-advisor' in the financial technology sector. The Company's share of Nest Wealth's income was $0.7 million for the year ended December 31, 2017 (2016 – loss of $0.2 million).

VerticalScope

VerticalScope is a Toronto-based vertically focused digital media company with expertise in programmatic advertising which services the North American market through its network of user forums and premium content sites offering advertisers access to large audiences in popular verticals including automotive, powersports, outdoors, home and health.

The Company has acquired a 56.4% interest in VerticalScope. Pursuant to certain terms in the shareholders agreement, the investment is accounted for as an associated business using the equity method.

The following is summarized supplemental financial information for 100% of VerticalScope including the Company's fair value adjustments on acquisition of the investment:

(i) Statement of Financial Position

	As at December 31, 2017	As at December 31, 2016
Cash and cash equivalents	**$28,682**	$24,310
Other current assets	**16,015**	16,716
Total current assets	**44,697**	41,026
Total non-current assets	**303,189**	319,149
Total assets	**$347,886**	$360,175
Current portion long-term debt	**$3,450**	$6,009
Other current liabilities	**19,701**	9,162
Total current liabilities	**23,151**	15,171
Long-term debt	**130,920**	115,692
Other non-current liabilities	**4,747**	23,840
Total equity	**189,068**	205,472
Total liabilities and equity	**$347,886**	$360,175

(ii) Statements of Loss and Comprehensive Loss

	Year ended December 31	
	2017	2016
Operating revenue	**$79,572**	$71,043
Net loss	**($5,657)**	($74,848)
Other comprehensive loss	**(13,173)**	(9,528)
Total comprehensive loss	**($18,830)**	($84,376)

Torstar's comprehensive loss attributable to its interest in VerticalScope was $10.6 million for the year ended December 31, 2017 ($47.6 million for the year ended December 31, 2016).

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and leasehold improvements	Machinery and equipment	Total
Cost				
Balance at December 31, 2015	$2,698	$124,870	$153,471	$281,039
Additions		1,132	3,794	4,926
Disposals	(1,291)	(62,371)	(44,595)	(108,257)
Foreign exchange			(1)	(1)
Balance at December 31, 2016	**1,407**	**63,631**	**112,669**	**177,707**
Additions		**330**	**2,550**	**2,880**
Disposals		**(2,770)**	**(7,696)**	**(10,466)**
Foreign exchange			**(3)**	**(3)**
Balance at December 31, 2017	**$1,407**	**$61,191**	**$107,520**	**$170,118**
Depreciation and impairment				
Balance at December 31, 2015		$60,287	$102,959	$163,246
Additions [1]		5,438	18,581	24,019
Disposals		(26,962)	(44,565)	(71,527)
Balance at December 31, 2016		**38,763**	**76,975**	**115,738**
Additions		**2,866**	**6,687**	**9,553**
Impairments (note 12)			**23**	**23**
Disposals		**(2,770)**	**(7,682)**	**(10,452)**
Foreign exchange			**(3)**	**(3)**
Balance at December 31, 2017		**$38,859**	**$76,000**	**$114,859**
Net book value				
At December 31, 2015	$2,698	$64,583	$50,512	$117,793
At December 31, 2016	$1,407	$24,868	$35,694	$61,969
At December 31, 2017	**$1,407**	**$22,332**	**$31,520**	**$55,259**

[1] As a result of the decision to outsource printing of the Toronto Star, additional depreciation expense totalling $9.3 million was recorded in respect of certain machinery and equipment.

10. INTANGIBLE ASSETS

	Indefinite life	Finite life			Total
		Software	Other	Total	
Cost					
Balance at December 31, 2015	$38,414	$94,814	$14,104	$108,918	$147,332
Additions - internally developed		4,871		4,871	4,871
Additions - purchased		4,054		4,054	4,054
Reclassifications [2]	(38,414)		38,414	38,414	
Disposals		(16,531)		(16,531)	(16,531)
Balance at December 31, 2016		**87,208**	**52,518**	**139,726**	**139,726**
Acquisitions (note 26)			**5,339**	**5,339**	**5,339**
Additions - internally developed [1]		**4,091**		**4,091**	**4,091**
Additions - purchased		**2,276**		**2,276**	**2,276**
Disposals		**(26,018)**		**(26,018)**	**(26,018)**
Balance at December 31, 2017		**$67,557**	**$57,857**	**$125,414**	**$125,414**
Amortization and Impairment					
Balance at December 31, 2015	$19,276	$49,240	$10,995	$60,235	$79,511
Amortization		17,160	2,841	20,001	20,001
Impairments (note 12)			800	800	800
Reclassifications [2]	(19,276)		19,276	19,276	
Disposals		(16,531)		(16,531)	(16,531)
Balance at December 31, 2016		**49,869**	**33,912**	**83,781**	**83,781**
Amortization		**20,479**	**6,955**	**27,434**	**27,434**
Disposals		**(26,018)**		**(26,018)**	**(26,018)**
Balance at December 31, 2017		**$44,330**	**$40,867**	**$85,197**	**$85,197**
Net book value					
At December 31, 2015	$19,138	$45,574	$3,109	$48,683	$67,821
At December 31, 2016		$37,339	$18,606	$55,945	$55,945
At December 31, 2017		**$23,227**	**$16,990**	**$40,217**	**$40,217**

[1] This amount includes $0.8 million for software in development for which amortization has not commenced.
[2] During the year ended December 31, 2016, the Company both tested for impairment and then reclassified certain indefinite life intangible assets in the Communities and Dailies segments to finite life intangible assets to be amortized over a period of five to ten years.

11. GOODWILL

The following is a continuity of the Goodwill balance:

	2017	2016
Balance, beginning of year	**$8,133**	$8,133
Impairment (note 12)	**(8,133)**	
Balance, end of year		$8,133

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 at December 31, 2017 and 2016 has been allocated to the following groups of CGUs:

	December 31, 2017	December 31, 2016
Digital Ventures		$8,133

12. IMPAIRMENT OF ASSETS

The Company recorded the following impairment on its assets:

	Year ended December 31	
	2017	2016
Intangible assets (note 10)		800
Goodwill (note 11)	**8,133**	
	8,133	800
Investments in joint ventures (note 7)	**3,000**	6,700
	$11,133	$7,500

Impairment Testing

During the first quarter of 2017, the Company recorded a $3.0 million impairment charge in respect of its joint venture investment in Workopolis. This resulted from a further downward revision in longer term forecasted revenues reflecting further increased competition in the online recruitment and job search markets.

During the fourth quarter of 2017, the Company performed its annual goodwill impairment test In carrying out this testing, it was determined that the carrying amount of the Digital Ventures CGU was below its recoverable amount, calculated using the VIU approach, and recorded an impairment charge of $8.1 million for goodwill. The impairment was a result of lower forecasted revenues reflecting the rapidly evolving digital advertising market. In addition, the Company tested for impairment in one CGU in the Communities segment and one CGU in the Dailies segment and no impairment was recorded.

2016

During 2016, the Company tested for impairment and then reclassified certain indefinite life intangible assets in the Dailies and Communities segments to finite life intangible assets. In carrying out the associated impairment test, it was determined that certain intangible assets in the Communities segment were impaired and accordingly the Company recorded an impairment charge totalling $0.8 million in respect of these assets.

In addition, the Company also recorded a $6.7 million impairment charge in respect of its joint venture investment in Workopolis during the fourth quarter of 2016. This resulted from a further downward revision in longer term forecasted revenues reflecting continued increased competition in the online recruitment and job search markets as well as prevailing economic conditions. The Company performed its annual impairment test in the fourth quarter of 2016. No further impairments were identified as a result of this test.

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

	2017		2016	
	Discount	**Growth**	Discount	Growth
Communities	**11.7%**	**0.0%**	11.7%	0.0%
Dailies	**12.1%-14.9%**	**0.0%**	12.1% – 14.9%	0.0%
Digital Ventures	**13.3%**	**3.0%**	13.3%	3.0%

The discount rates for the Dailies segment include a range reflective of both the traditional newspaper and digital operations. These after-tax rates correspond to pre-tax rates in an estimated range of 14% – 19% for 2017 and 14% – 19% for 2016.

13. OTHER ASSETS

	December 31, 2017	December 31, 2016
Portfolio investments	**$10,885**	$10,344
ESPP receivable	**59**	18
Other	**2,023**	2,052
	$12,967	$12,414

14. INCOME TAXES

Income tax expense (recovery) is made up of the following:

	Year ended December 31	
	2017	2016
Current income tax expense (recovery):		
Current year	**($1,000)**	($7,400)
Recognition of previously unrecognized tax benefits		(1,500)
Adjustment for prior years	**200**	500
	(800)	(8,400)
Deferred income tax expense:		
Origination and reversal of temporary differences		2,200
Reduction in carrying amount of deferred income tax assets	**6,500**	
Adjustment for prior years		2,300
	6,500	4,500
Income tax expense (recovery) in the consolidated statement of loss	**5,700**	(3,900)
Current income tax expense in OCI		100
Deferred income tax expense (recovery) in OCI	**(400)**	1,100
Income tax expense (recovery) in OCI	**(400)**	1,200
Total income tax expense (recovery)	**$5,300**	($2,700)

Income taxes of $1.0 million were paid and refunds of $9.6 million were received during the year from continuing operations (2016 – $0.1 million paid and refunds of $6.8 million received).

Reconciliation of effective tax rate

The combined Canadian federal and provincial statutory rate was 26.5% in 2017 (2016 – 26.5%).

	Year ended December 31	
	2017	2016
Loss before taxes from continuing operations	**($24,938)**	($79,936)
Recovery of income taxes based on Canadian statutory rate of 26.5% (2016 - 26.5%)	**($6,600)**	($21,200)
Increase (decrease) in taxes resulting from:		
Loss of joint ventures and associated businesses not recognized	**2,500**	10,800
Non-deductible impairment charges	**2,100**	
Recognition of previously unrecognized tax benefits		(1,500)
Movement in deferred income tax assets not recognized	**7,300**	5,000
Non-taxable portion of capital gains	**(600)**	(1,400)
Non-deductible expenses and other permanent differences	**1,100**	1,200
Adjustment for prior years	**200**	2,800
Effect of lower provincial tax rates	**(300)**	400
Income tax expense (recovery) in the consolidated statement of loss	**$5,700**	($3,900)
Effective income tax rate	**(22.9)%**	4.9%

2017

The Company recognized losses on impairment of assets of $8.1 million (2016 - $0.8 million), which was not deductible for tax purposes. Excluding the impact of non-deductible impairment charges, loss of joint ventures and associated businesses and the movement in deferred income tax assets not recognized, the Company's effective tax rate in 2017 would have been 24.9% (2016 - 24.6%).

2016

During 2016, the Canadian Cultural Property Export Review Board completed its review of the application in respect of the 2014 Toronto Star photo archive donation and concluded on both the value of the donation and the Canadian cultural property designation. The review board concluded on a lower value for the donation than originally estimated by independent valuations. The adjustment for prior years includes an adjustment of $3.0 million to the estimated income tax recovery in respect of this donation.

In 2016, the Company utilized a previously unrecognized tax benefit related to its equity investment in Shop.ca to reduce current tax expense.

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, 2017 and December 31, 2016 are as follows:

	December 31, 2016	Recognized in net income (loss) from continuing operations	Recognized in OCI from continuing operations	Recognized in net income (loss) from discontinued operations	December 31, 2017
Provisions for returns and doubtful accounts	**$850**	**($279)**			**$571**
Property, plant and equipment	**(5,376)**	**429**			**(4,947)**
Intangible assets	**(3,468)**	**2,165**			**(1,303)**
Financial instruments	**100**	**(100)**			
Provision for employee benefit obligations	**(1,961)**	**1,961**			
Share-based payment transactions	**619**	**93**			**712**
Tax losses carried forward	**3,279**	**453**			**3,732**
Provisions	**5,662**	**(2,294)**		**($200)**	**3,168**
Goodwill	**995**	**(16)**			**979**
Excess tax basis over carrying value of investments	**5,884**	**(6,284)**	**$400**		
Other	**(166)**	**(2,628)**			**(2,794)**
Net deferred income tax assets	**$6,418**	**($6,500)**	**$400**	**($200)**	**$118**
As reported in the consolidated statement of financial position					
Deferred income tax assets	**$11,322**				**$3,460**
Deferred income tax liabilities	**(4,904)**				**(3,342)**
Net deferred income tax assets	**$6,418**				**$118**

	December 31, 2015	Recognized in net income (loss) from continuing operations	Recognized in OCI from continuing operations	Recognized in net income (loss) from discontinued operations	December 31, 2016
Provisions for returns and doubtful accounts	$1,124	($274)			$850
Property, plant and equipment	(4,639)	(737)			(5,376)
Intangible assets	(6,259)	2,791			(3,468)
Financial instruments	900	(100)	($700)		100
Provision for employee benefit obligations	(1,761)	(200)			(1,961)
Share-based payment transactions	666	(47)			619
Tax losses carried forward	2,776	503			3,279
Provisions	8,779	(2,217)		($900)	5,662
Goodwill	1,098	(103)			995
Excess tax basis over carrying value of investments	7,776	(1,492)	(400)		5,884
Other	2,458	(2,624)			(166)
Net deferred income tax assets	$12,918	($4,500)	($1,100)	($900)	$6,418
As reported in the consolidated statement of financial position					
Deferred income tax assets	$15,233				$11,322
Deferred income tax liabilities	(2,315)				(4,904)
Net deferred income tax assets	$12,918				$6,418

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, 2017, the Company had Canadian non-capital losses available for carry forward in continuing operations of approximately $40.4 million (2016 – $28.5 million) that will expire between 2028 and 2037 for which it has recognized a deferred income tax asset of $3.7 million (2016 – $3.3 million). The Company also had capital losses of $29.9 million (2016 – $2.9 million) that can be carried forward indefinitely and applied against future capital gains, for which no deferred income tax asset has been recognized.

As at December 31, 2017, the total non-capital losses, capital losses and deductible temporary differences for which no deferred income tax asset has been recognized was $250.0 million (2016 – $160.0 million).

Investments in subsidiaries, associates and joint ventures

As at December 31, 2017, 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 $628.7 million (2016 – $580.9 million).

15. FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

	December 31, 2017	December 31, 2016
Financial assets:		
Loans and receivables, measured at amortized cost:		
Cash and cash equivalents	**$71,377**	$75,374
Restricted cash (current)	**9,056**	11,847
Trade accounts receivable	**90,183**	112,730
Other receivables [1]	**22,763**	3,757
Receivables	**112,946**	116,487
Available-for-sale, measured at fair value:		
Portfolio investments [2]	**10,885**	10,344
Foreign currency forward contracts	**57**	(472)
Other financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	**(89,132)**	(101,133)
Provisions (current)	**(18,113)**	(28,473)
Provisions (non-current)	**(6,714)**	(11,104)

[1]Includes $14.9 million receivable for Digital Media Tax Credits. The Company received certification from the Ontario Media Development Corporation that digital media tax credits for the year ended December 31, 2012 were eligible to be claimed. The Company is not eligible to make any further claims under this program for periods subsequent to April 23, 2015. The claim, which will be subject to an audit by the Canada Revenue Agency, primarily relates to the recovery of previously recognized compensation expenses. The Company recorded a recovery of $13.4 million in compensation expense related to this claim.

[2]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, 2017			At December 31, 2016		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Measured at fair value:						
Portfolio investments			**$10,885**			$10,344
Derivative financial instruments:						
- Foreign currency collar arrangements		**$57**			($472)	

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

	Year ended December 31	
	2017	2016
Balance, beginning of year	**$10,344**	$7,439
Additions (note 26)	**873**	368
Distributions received		(373)
Exchange differences and OCI	**(332)**	2,910
Balance, end of year	**$10,885**	$10,344

Interest and financing costs

	Year ended December 31	
	2017	2016
Interest earned on short-term investments	**$484**	$427
Interest accretion costs	**(185)**	(355)
Interest – other	**140**	(81)
Net financial expense related to employee benefit plans	**(2,652)**	(3,071)
	($2,213)	($3,080)

Interest paid during the year ended December 31, 2017 was $nil (2016 – $0.1 million). Interest received during the year ended December 31, 2017 was $0.4 million (2016 – $0.5 million).

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. As at December 31, 2017, the Company had $71.4 million in cash and cash equivalents (December 31, 2016 – $75.4 million).

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

	2018	2019	2020	2021	2022	2023+	Total
Foreign currency collar arrangements	$57						$57
Accounts payable and accrued liabilities[1]	87,771						87,771
Licenses	1,361						1,361
Provisions	18,113	$2,676	$1,360	$779	$682	$1,684	25,294
	$107,302	$2,676	$1,360	$779	$682	$1,684	$114,483

[1] This amount excludes the $1.4 million of Licenses payable in 2018.

(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. 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 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, 2017	December 31, 2016
Gross accounts receivable:		
Current	**$44,874**	$55,624
Up to three months past due date	**42,570**	52,247
Three to twelve months past due date	**7,095**	10,151
Impaired	**260**	65
	94,799	118,087
Allowances for doubtful accounts	**(4,616)**	(5,357)
	$90,183	$112,730

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

	Year ended December 31	
	2017	2016
Balance, beginning of year	**($5,357)**	($5,294)
Utilized	**3,478**	958
Income statement movements	**(2,737)**	(1,021)
Balance, end of year	**($4,616)**	($5,357)

(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's primary exposure to foreign currency risk is through its investment in VerticalScope, which is denominated in the U.S. dollar. In order to offset the foreign exchange risk on its consolidated statement of financial position from its net investment in VerticalScope, the Company entered into collar arrangements totaling U.S. $137.0 million which were designated as a hedge of the original net investment in VerticalScope. Any fluctuations in fair value arising from fluctuations in the rate of exchange of Cdn. dollar per U.S. dollar within the collar range will be recorded in net income while any fluctuations outside this collar range will be recorded in OCI to the extent of hedge effectiveness to offset any gains or losses on translation of the net investment.

As at December 31, 2016, the collar arrangements for U.S. $137.0 million established a rate of exchange with a range of Cdn. $1.19 to Cdn. $1.46 for U.S. $1.00 maturing in 2017.

During the three month period ended March 31, 2017, the Company rolled over the collar arrangements totaling U.S. $137 million and simultaneously entered into a new U.S. $137.0 million zero cost collar arrangement with a range of Cdn. $1.20 to Cdn. $1.40 for U.S $1.00 maturing in 2018.

The hedges were highly effective during the year ended December 31, 2017. The change in the fair value of the hedges was a gain of $0.5 million which has been included in foreign exchange in the consolidated statement of income (loss).

The net fair value of the collar options outstanding at December 31, 2017 was $0.1 million favourable (December 31, 2016 - $0.5 million unfavourable).

In February 2018, the Company rolled over the collar arrangement totaling U.S. $137.0 million and simultaneously entered into a new U.S. $137.0 million zero cost collar arrangement with a range of Cdn. $1.15 to Cdn. $1.31 for U.S. $1.00 maturing in 2018.

b. Interest rate risk

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, 2017 would have decreased net income by $0.5 million (2016 – $0.4 million), 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 meet its potential obligations resulting from internal growth and acquisitions and to pay dividends.

The Company defines capital as total equity. At December 31, 2017, capital under management was $245.8 million (December 31, 2016 – $326.2 million). There have been no changes to the Company's approach to capital management during the year.

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, issue new shares or sell assets.

The Company is currently meeting all its financial commitments. The Company is not subject to any external capital requirements.

17. PROVISIONS

	Restructuring	Other	Total
Balance at December 31, 2015	$33,286	$8,963	$42,249
Provisions made during the year	48,477		48,477
Reversals of provisions during the year	(3,989)		(3,989)
Discontinued operations		(1,400)	(1,400)
Adjustment to contingent consideration		(10)	(10)
Provisions paid during the year	(40,900)	(5,106)	(46,006)
Interest accretion	256		256
Balance at December 31, 2016	**$37,130**	**$2,447**	**$39,577**
Provisions made during the year	**18,509**		**18,509**
Reversals of provisions during the year	**(997)**		**(997)**
Discontinued operations		**(1,550)**	**(1,550)**
Provisions received (paid) during the year	**(31,139)**	**293**	**(30,846)**
Interest accretion	**134**		**134**
Balance at December 31, 2017	**$23,637**	**$1,190**	**$24,827**
Current	**$16,923**	**$1,190**	**$18,113**
Non-current	**$6,714**		**$6,714**
Balance at December 31, 2016			
Current	$26,026	$2,447	$28,473
Non-current	$11,104		$11,104
Balance at December 31, 2015			
Current	$20,058	$8,963	$29,021
Non-current	$13,228		$13,228

Restructuring

During the year ended December 31, 2017, the Company recorded restructuring charges of $17.5 million related to ongoing efforts to reduce costs. Restructuring charges of $11.1 million were recorded in the Communities Segment, $6.2 million in the Dailies Segment and $0.2 million at Corporate.

In 2016, the Company recorded restructuring charges of $45.8 million. The restructuring charges included $44.5 million related to ongoing efforts to reduce costs (including a provision of $20.0 million in respect of the outsourcing of printing of the Toronto Star to Transcontinental Printing) as well as additional charges of $0.5 million in respect of inventory related to MMG's decision to phase out product sales and $0.8 million write-off of receivables. Restructuring charges of $13.5 million were recorded in the Communities Segment; $31.7 million in the Dailies Segment and $0.6 million at Corporate.

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

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 assessed the fees that it may incur as well as the probability of occurrence of any losses in respect of these matters, estimated the exposure under these indemnities and recorded a contingent liability in respect of these matters. The Company reviews the estimates at each reporting period and any required adjustments are included in the determination of Income from discontinued operations.

The Company is also 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.

On October 21, 2016, the Company accepted service of a proposed class action proceeding that has been commenced in the Ontario Superior Court of Justice against the Company, certain of its subsidiaries and employees, and other third parties relating to the sale and display of certain advertisements on the wheels.ca and autocatch.com digital properties. The representative plaintiffs are two used car dealers. They are seeking damages based on alleged breach of contract, negligence, and misleading marketing practices. A settlement has been reached, but remains subject to court approval. It is expected that the action will be certified on consent for purposes of effecting settlement. While there can be no assurance as to the outcome of any litigation, based on the information currently available to us, the Company does not believe that this litigation, including the Company's contribution to the anticipated settlement, will have a material effect on the Company's financial position or results of operations.

18. OTHER LIABILITIES

	December 31, 2017	December 31, 2016
Employees' shares subscribed (note 21(b))	**$627**	$765
RSU Plan (note 21(c))	**853**	754
DSU Plan (note 21(d))	**1,982**	1,651
Other employment benefits	**1,515**	1,401
Licenses		1,308
Other	**1,622**	1,737
	$6,599	$7,616

19. EMPLOYEE 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 defined contribution 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.

Other post employment benefits plans 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 defined contribution 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 were as follows:

	Pension plans		Other post employment benefit plans	Total
	Funded	Unfunded [1]		
At December 31, 2015	$11,426	$21,238	$47,875	$80,539
Expense recognized in the consolidated statement of income or loss:				
Salaries and benefits	14,401	612	187	15,200
Restructuring and other charges	835		(600)	235
Interest and financing costs	599	676	1,796	3,071
	15,835	1,288	1,383	18,506
Amounts recognized in OCI	3,351	(1,782)	165	1,734
Contributions to plans	(17,951)	(10,086)	(2,408)	(30,445)
At December 31, 2016	**12,661**	**10,658**	**47,015**	**70,334**
Expense recognized in the consolidated statement of income or loss:				
Salaries and benefits	**12,237**	**305**	**199**	**12,741**
Interest and financing costs	**562**	**350**	**1,740**	**2,652**
	12,799	**655**	**1,939**	**15,393**
Amounts recognized in OCI	**32,938**	**1,105**	**1,714**	**35,757**
Contributions to plans	**(10,850)**	**(3,471)**	**(2,447)**	**(16,768)**
At December 31, 2017	**$47,548**	**$8,947**	**$48,221**	**$104,716**

[1] As at December 31, 2017, the unfunded pension plan includes an executive retirement plan liability of $8.9 million (December 31, 2016 – $10.7 million) which is supported by an outstanding letter of credit of $7.7 million as at December 31, 2017 (December 31, 2016 – $10.5 million).

A summary of the components of the net defined benefit obligation as at December 31, 2017 and 2016 is as follows:

2017	Pension plans		Other post employment benefit plans	Total
	Funded	Unfunded		
Defined benefit obligations	**$938,427**	**$8,947**	**$48,221**	**$995,595**
Fair value of plan assets	**(890,879)**			**(890,879)**
Net defined benefit obligation	**$47,548**	**$8,947**	**$48,221**	**$104,716**
Recorded in:				
Liabilities	**$47,548**	**$8,947**	**$48,221**	**$104,716**

2016	Pension plans		Other post employment benefit plans	Total
	Funded	Unfunded		
Defined benefit obligations	$913,578	$10,658	$47,015	$971,251
Fair value of plan assets	(900,917)			(900,917)
Net defined benefit obligation	$12,661	$10,658	$47,015	$70,334
Recorded in:				
Assets	$7,073			$7,073
Liabilities	$19,734	$10,658	$47,015	$77,407

The following charts provide a summary of changes in the defined benefit obligation and the fair value of plan assets during 2017 and 2016:

2017	Pension Plans		Other post employment benefit plans	Total
	Funded	Unfunded		
Accrued benefit obligations:				
Balance, beginning of year	**$913,578**	**$10,658**	**$47,015**	**$971,251**
Current service cost	**11,086**	**305**	**199**	**11,590**
Interest cost	**33,879**	**350**	**1,740**	**35,969**
Benefits paid	**(75,973)**	**(3,471)**	**(2,447)**	**(81,891)**
Remeasurement losses	**53,455**	**1,105**	**1,714**	**56,274**
Participant contributions	**2,402**			**2,402**
Balance, end of year	**$938,427**	**$8,947**	**$48,221**	**$995,595**
Plans' assets:				
Fair value, beginning of year	**$900,917**			**$900,917**
Interest income included in net interest expense	**33,317**			**33,317**
Remeasurement gains	**20,517**			**20,517**
Benefits paid	**(75,973)**	**($3,471)**	**($2,447)**	**(81,891)**
Employer contributions	**10,850**	**3,471**	**2,447**	**16,768**
Participant contributions	**2,402**			**2,402**
Administration costs	**(1,151)**			**(1,151)**
Fair value, end of year	**$890,879**			**$890,879**
Funded status – deficit	**$47,548**	**$8,947**	**$48,221**	**$104,716**

2016	Pension Plans		Other post employment benefit plans	Total
	Funded	Unfunded		
Accrued benefit obligations:				
Balance, beginning of year	$920,659	$21,238	$47,875	$989,772
Current service cost	12,896	612	187	13,695
Interest cost	35,247	676	1,796	37,719
Benefits paid	(68,940)	(10,086)	(2,408)	(81,434)
Remeasurement losses (gains)	9,919	(1,782)	165	8,302
Participant contributions	2,962			2,962
Special termination benefits	1,022			1,022
Curtailment	(187)		(600)	(787)
Balance, end of year	$913,578	$10,658	$47,015	$971,251
Plans' assets:				
Fair value, beginning of year	$909,233			$909,233
Interest income included in net interest expense	34,648			34,648
Remeasurement gains	6,568			6,568
Benefits paid	(68,940)	($10,086)	($2,408)	(81,434)
Employer contributions	17,951	10,086	2,408	30,445
Participant contributions	2,962			2,962
Administration costs	(1,505)			(1,505)
Fair value, end of year	$900,917			$900,917
Funded status – deficit	$12,661	$10,658	$47,015	$70,334

Net benefit expense for defined benefit plans recognized in the 2017 and 2016 consolidated statement of income or loss is as follows:

2017	Pension plans		Other post employment benefit plans	Total
	Funded	Unfunded		
Current service cost	**$11,086**	**$305**	**$199**	**$11,590**
Net interest expense	**562**	**350**	**1,740**	**2,652**
Administration costs	**1,151**			**1,151**
Net benefit expense	**$12,799**	**$655**	**$1,939**	**$15,393**

2016	Pension plans		Other post employment benefit plans	Total
	Funded	Unfunded		
Current service cost	$12,896	$612	$187	$13,695
Net interest expense	599	676	1,796	3,071
Special termination benefits	1,022			1,022
Curtailment	(187)		(600)	(787)
Administration costs	1,505			1,505
Net benefit expense	$15,835	$1,288	$1,383	$18,506

Amounts recognized in the 2017 and 2016 consolidated statements of comprehensive income or loss (before tax):

2017	Pension plans		Other post employment benefit plans	Total
	Funded	Unfunded		
Remeasurement gains (losses):				
Actuarial gain (loss) from:				
Financial assumptions	**($47,827)**	**($68)**	**($2,165)**	**($50,060)**
Experience adjustment	**(5,628)**	**(1,037)**	**451**	**(6,214)**
Total actuarial losses	**(53,455)**	**(1,105)**	**(1,714)**	**(56,274)**
Return on plan assets excluding amounts included in net interest expense	**20,517**			**20,517**
Amounts recognized in OCI	**($32,938)**	**($1,105)**	**($1,714)**	**($35,757)**

2016	Pension plans		Other post employment benefit plans	Total
	Funded	Unfunded		
Remeasurement gains (losses):				
Actuarial gain (loss) from:				
Financial assumptions	($12,049)	$97	($533)	($12,485)
Demographic assumptions		2,018		2,018
Experience adjustment	2,130	(333)	368	2,165
Total actuarial gains (losses)	(9,919)	1,782	(165)	(8,302)
Return on plan assets excluding amounts included in net interest expense	6,568			6,568
Amounts recognized in OCI	($3,351)	$1,782	($165)	($1,734)

The significant assumptions used by the Company in 2017 and 2016 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 2017 and 2016, the Company used the 2014 Private Sector Canadian Pensioners' Mortality Table projected generationally using scale B with a multiplier applied at December 31, 2017 and December 31, 2016 (for the larger plans, the multiplier ranged from 94% to 103%).

	Pension plans		Other post employment benefit plans	
	2017	2016	**2017**	2016
To determine benefit obligation at end of year:				
Discount rate	**3.1% to 3.4%**	3.2% to 3.8%	**3.4%**	3.8%
Rate of future compensation increase	**2.5%**	2.5%		
To determine benefit expense:				
Discount rate	**3.2% to 3.8%**	3.1% to 3.9%	**3.8%**	3.9%
Rate of future compensation increase	**2.5%**	2.0% to 2.5%		
Health care cost trend rates at end of year:				
Initial rate			**5.0%**	4.8%
Ultimate rate			**5.0%**	5.0%
Year ultimate rate reached			**2018**	2017
Longevity for pensioners currently at age 65:				
Male	**21.9 years**	21.8 years		
Female	**24.2 years**	24.2 years		

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

	December 31, 2017		December 31, 2016	
	1% increase	**1% decrease**	1% increase	1% decrease
Pension plans:				
Discount rate	**($114,175)**	**$130,189**	($113,605)	$129,897
Rate of compensation increase	**8,974**	**(8,822)**	8,651	(8,503)
Other post employment benefit plans:				
Discount rate	**(5,028)**	**6,131**	(4,880)	5,945
Per capita cost of health care	**1,457**	**(1,267)**	1,336	(1,166)

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 2.5% (December 31, 2016 – 2.4%).

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 consolidated statement of financial position.

Pension plan assets for the Canadian plans, measured as at December 31, 2017 and 2016 are as follows:

	2017	2016
Investments quoted in active markets:		
Cash and cash equivalents	**$170,149**	$147,457
Equity investments		
Canada	**82,095**	111,353
United States	**75,052**	67,839
Outside North America	**91,146**	81,659
Unquoted investments:		
Fixed income		
Government of Canada	**69,963**	44,616
Provinces and municipalities of Canada	**308,782**	338,239
Canadian corporations	**17,927**	33,309
Government of United States	**861**	
Pooled funds		
Equity – North America	**845**	2,067
Fixed Income – Canadian corporations	**74,059**	74,378
	$890,879	$900,917

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, 2017, the target allocation mix was 28% equity securities and 72% fixed income securities for the Canadian plans (December 31, 2016 – 29% equity securities and 71% fixed income securities).

The Company's 2017 actual funding for its Canadian registered pension plans was approximately $11 million (2016 – $18 million). The Company has prepared actuarial reports as of December 31, 2016 for its significant plans. Estimated funding in 2018 is expected to be approximately $9 million. The next required actuarial reports will be as of December 31, 2019 for the majority of the Company's defined benefit pension plans.

The weighted average duration of the defined benefit obligation is 13.8 years (2016 – 12.9 years). As at December 31, 2017, the expected maturity profile of the undiscounted pension plan and other post employment benefits is $81 million in the next year, $509 million in 2 to 10 years and $1,362 million in over 10 years (December 31, 2016 – $49 million in the next year, $470 million in 2 to 10 years and $1,090 million in over 10 years for continuing operations).

Defined contribution plans

The total amount expensed for defined contribution plans in 2017 was $2.0 million (2016 – $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			
	2017		2016	
	Shares	**Amount**	Shares	Amount
Class A shares (voting)				
Balance, beginning of period	**9,826,215**	**$2,670**	9,839,355	$2,673
Converted to Class B	**(9,000)**	**(2)**	(13,140)	(3)
Balance, end of period	**9,817,215**	**$2,668**	9,826,215	$2,670
Class B shares (non-voting)				
Balance, beginning of period	**70,891,322**	**$400,144**	70,707,063	$399,827
Converted from Class A	**9,000**	**2**	13,140	3
Dividend reinvestment plan	**85,280**	**133**	93,201	168
Issued under ESPP	**50,911**	**92**	76,868	144
Other	**625**	**1**	1,050	2
Balance, end of period	**71,037,138**	**$400,372**	70,891,322	$400,144
Total Class A and Class B shares	**80,854,353**	**$403,040**	80,717,537	$402,814

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 (loss) per share

Basic earnings (loss) per share amounts have been determined by dividing net income or loss attributable to equity shareholders by the weighted average number of Class A and Class B shares outstanding during the period.

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 the ESPP does not result in an adjustment to income or loss.

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

(thousands of shares)	Year ended December 31 **2017**	2016
Weighted average number of shares outstanding, basic and diluted	**80,785**	80,653

Outstanding share options totalling 7,028,109 (December 31, 2016 – 5,686,932), 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, and in total:

	Year ended December 31 **2017**	2016
First quarter ended March 31: 2.5 cents (2016 – 6.5 cents)	**$2,018**	$5,236
Second quarter ended June 30: 2.5 cents (2016 – 6.5 cents)	**2,020**	5,243
Third quarter ended September 30: 2.5 cents (2016 – 2.5 cents)	**2,020**	2,018
Fourth quarter ended December 31: 2.5 cents (2016 – 2.5 cents)	**2,021**	2,017
Total dividends	**$8,079**	$14,514

21. SHARE-BASED COMPENSATION PLANS

(a) Share option plan

The maximum number of shares that may be issued under the share option plan is 18,000,000 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, 2017, options to purchase 13,040,461 shares have been granted, net of options cancelled (December 31, 2016 – 11,669,284).

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

	2017		2016	
	Share options	**Weighted average exercise price**	Share options	Weighted average exercise price
Units outstanding, beginning of year	**5,686,932**	**$7.08**	5,543,589	$8.66
Granted	**2,205,018**	**$1.70**	1,389,039	$2.78
Forfeited or expired	**(863,841)**	**$8.53**	(1,245,696)	($9.31)
Units outstanding, end of year	**7,028,109**	**$5.12**	5,686,932	$7.08

As at December 31, 2017, 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
$1.59 – $5.85	3,927,040	8.20	$2.82	1,422,855	$4.34
$6.33 – $7.81	2,171,993	5.31	$6.80	1,920,586	$6.84
$8.28 – $18.78	929,076	2.71	$10.93	929,076	$10.93
$1.59 – $18.78	7,028,109	6.58	$5.12	4,272,517	$6.89

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

	2017	2016
Fair Value	**$0.31 – $0.44**	$0.30 – $0.35
Risk-free interest rate	**1.0% – 1.5%**	0.6% – 1.1%
Expected dividend yield	**5.2% – 6.3%**	9.4%
Expected share price volatility	**37.4% – 40.5%**	34.2% – 38.9%
Expected weighted average time until exercise (years)	**6**	6

(b) ESPP

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

	2017		2016	
Maturing in	**2018**	**2019**	2017	2018
Subscription price at entry date	**$1.84**	**$1.55**	$6.28	$1.84
Number of shares	**173,973**	**203,190**	62,046	203,975

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

	2017	2016
Fair Value	**$0.24**	$0.23
Risk-free interest rate	**0.6%**	0.6%
Expected dividend yield	**6.3%**	14.3%
Expected share price volatility	**47.8%**	47.2%
Expected time until exercise (years)	**2**	2

(c) RSU plan

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

	2017	2016
Units outstanding, beginning of year	**975,734**	872,160
Vested and paid	**(284,468)**	(294,936)
Granted	**794,372**	446,762
Forfeited	**(155,267)**	(124,075)
Dividend equivalents	**87,198**	75,823
Units outstanding, end of year	**1,417,569**	975,734

As at December 31, 2017, 769,489 units have been accrued at a value of $1.3 million of which 270,454 units have been accrued in Accounts payable and accrued liabilities at a value of $0.5 million while 499,035 units have been accrued in Other liabilities at a value of $0.9 million (December 31, 2016 – 679,576 units were accrued at a value of $1.3 million of which 284,468 units were accrued in Accounts payable and accrued liabilities at a value of $0.5 million and 395,108 units were accrued in Other liabilities at a value of $0.8 million).

The Company has entered into a derivative instrument in order to lock in the expense for 345,300 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 the RSUs are accrued over the three-year period until the RSUs vest, there will not be an exact offset each period.

In January 2018, 270,454 RSUs have vested and were paid.

(d) DSU plan

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

	2017	2016
Units outstanding, beginning of year	**864,147**	657,483
Granted	**235,602**	160,072
Directors' mandatory retainer	**6,387**	10,833
Directors' voluntary election	**16,031**	21,913
Dividends	**62,496**	96,595
Redemption	**(25,682)**	(82,749)
Units outstanding, end of year	**1,158,981**	864,147

As at December 31, 2017, the 1,158,191 units outstanding were valued at $2.0 million (December 31, 2016 – 864,147 units valued at $1.7 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.

(e) In 2017, the Company has recognized share-based compensation expense totalling $1.1 million (2016 – $1.4 million).

22. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is a continuity for the components of Accumulated other comprehensive income:

	Foreign CTA [1]	Available-for-sale securities [2]	Net investment hedge [3]	Total
As at December 31, 2015	$10,782	$346	($8,007)	$3,121
OCI	(5,432)	2,510	4,977	2,055
As at December 31, 2016	**5,350**	**2,856**	**(3,030)**	**5,176**
OCI	**(7,451)**	**68**		**(7,383)**
As at December 31, 2017	**($2,101)**	**$2,924**	**($3,030)**	**($2,207)**

[1]Net of deferred income tax asset/liability of $nil (2016 – $nil).
[2]Net of deferred income tax liability of $nil (2016 – $400).
[3]Net of current income tax recovery of $500 (2016 – deferred income tax recovery of $500).

23. OTHER INCOME

	Year ended December 31	
	2017	2016
Gain on sale of assets		$24,338
Gain on sale of newspapers	**$3,225**	
Gain on sale of wagjag.com	**500**	
Other	**210**	10
	$3,935	$24,348

2017

The gain on sale of newspapers was related to the transaction with Postmedia Network Inc. (“Postmedia”) for the purchase and sale of a number of community and daily newspapers (note 26).

In October 2017, wagjag.com and related assets were sold for gross proceeds of $0.5 million.

2016

In February 2016, the Company sold a real estate property in Mississauga for net cash proceeds of $5.5 million and recorded a gain of $1.3 million.

In July 2016, the Company sold a real estate property in Guelph for net cash proceeds of $1.9 million and recorded a gain of $1.3 million.

In September 2016, the Company sold the Vaughan printing facility and surrounding lands for net cash proceeds of $53.6 million and recorded a gain of $21.8 million.

24. DISCONTINUED OPERATIONS

On August 1, 2014, the Company sold 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"). In connection with the sale, the Company indemnified the Purchaser for costs and fees related to certain matters including certain tax and pre-existing litigation matters for which the Company estimated the exposure under these indemnities and recorded a contingent liability in respect of these matters. During the year ended December 31, 2017, the Company reviewed its estimates and recorded a reduction in its provisions of $1.6 million (2016 – reduced its provision by $1.4 million) as presented below:

(i) Statement of Income

	Year ended December 31	
	2017	2016
Gain on sale of Harlequin (note 17)	**$1,550**	1,400
Income before taxes from discontinued operations	**1,550**	1,400
Income and other taxes	**(200)**	(200)
Net income from discontinued operations	**$1,350**	$1,200
Attributable to:		
Equity shareholders	**$1,350**	$1,200
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	**$0.02**	$0.01

(ii) Statement of Comprehensive Income

	Year ended December 31	
	2017	2016
Net income from discontinued operations	**$1,350**	$1,200
Comprehensive income from discontinued operations, net of tax	**$1,350**	$1,200
Attributable to:		
Equity shareholders	**$1,350**	$1,200

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

	Year ended December 31	
	2017	2016
Share-based compensation plans	**$955**	$740
Foreign exchange	**(493)**	(298)
Restructuring provisions	**(4,390)**	(2,380)
Interest accretion	**185**	355
Other	**(331)**	(1,343)
	($4,074)	($2,926)

26. ACQUISITIONS, DIVESTITURES AND PORTFOLIO INVESTMENTS

2017 Acquisitions

On November 27, 2017 the Company entered into an asset purchase agreement with Postmedia relating to the purchase and sale of a number of community and daily newspapers. As part of the transaction, the Company acquired eight weekly community publications, seven daily community newspapers and two free daily newspapers from Postmedia. As consideration for the purchase, the Company sold 22 weekly community newspapers in eastern and southern Ontario and the Metro Winnipeg and Metro Ottawa free daily publications to Postmedia. The transaction was a non-monetary transaction as there was no cash exchanged. The estimated fair value of both the net assets acquired from Postmedia and the net assets sold by the Company was $3.5 million. The difference between the consideration received, being the net assets acquired at fair value, and the carrying value of the net liabilities transferred and cost of disposal was recognized as a gain on disposal of newspapers (note 23). In the year ended December, 31, 2017, the Company also incurred severance costs of $1.4 million and provisions for onerous leases and contracts of $0.5 million and $0.5 million respectively, which are included in Restructuring and other charges (note 17).

In 2017, revenue and operating earnings were $1.5 million lower ($2.7 million lower in Communities segment and $1.2 million higher in the Dailies segment) and $0.3 million higher respectively as a result of this transaction. The full year impact of properties acquired and sold would have resulted in a net reduction in revenue in 2017 of approximately $14 million ($22 million lower in the Communities segment and $8 million higher in the Dailies segment).

The fair value of identifiable assets acquired and liabilities assumed were as follows:

	Communities
Assets acquired	
Prepaid expenses	$36
Intangible assets (note 10)	5,339
Total assets acquired	5,375
Liabilities assumed	
Accounts payable and accrued liabilities	(8)
Deferred revenue	(1,845)
Other liabilities	(50)
Total liabilities assumed	(1,903)
Net assets acquired at fair value	$3,472

The Company transferred the following net liabilities to Postmedia and recognized a gain on disposal of newspapers as follows:

	Communities
Consideration for disposal	
Prepaid assets	$60
Deferred revenue	(112)
Net liabilities transferred	(52)
Consideration received (net assets acquired at fair value)	3,472
Disposal costs	(299)
Gain on disposal of newspapers	$3,225

During the year ended December 31, 2017, the Company made additional investments of $0.9 million in its portfolio investments in corporate.

2016 Acquisitions

During the year ended December 31, 2016, the Company made additional investments of $0.4 million in its portfolio investments as indicated below:

Year ended December 31, 2016	Communities	Dailies	Corporate	Total
Contingent consideration on prior acquisitions		$5		$5
Portfolio investments		18	$350	368
Total cash used in acquisitions and portfolio investments		$23	$350	$373

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. ("Kanetix"), 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**	**2018**	**2019 – 2020**	**2021 – 2022**	**2023+**
Office leases	$37,849	$13,893	$20,631	$3,152	$173
Services	49,118	24,963	20,894	3,261	
Total	$86,967	$38,856	$41,525	$6,413	$173
Receivable from office sub-leases	($4,601)	($2,114)	($2,487)		

28. RELATED PARTY TRANSACTIONS

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

	Year ended December 31	
	2017	2016
Salaries and benefits	**$5,210**	$5,163
Post-employment benefits	**435**	1,837
Share based payments	**649**	65
Other benefits		1,535
Total	**$6,294**	$8,600

The following summarizes the total value of 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				
2017	**$294**	**$156**		$22
2016	317	158	$195	41
Associates				
2017	**45**	**8,085**	**19**	**380**
2016	186	8,233		1,121

Sales to and purchases of goods and services from related parties were made at market prices. In 2017, the Company received in 2017 $0.4 million (2016 – $0.2 million) of rent from a joint venture. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

TORSTAR

BOARD OF DIRECTORS

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Former Publisher, Toronto Star
Director since 2004

Campbell R. Harvey

Professor of Finance
Duke University

Director since 1992

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President and Chief Executive Officer
Thall Group of Companies

Director since 2002

Elaine B. Berger

Corporate Director

Director since 2006

Daniel A. Jauernig

President and Chief Operating Officer
Element Fleet Management Corp.

Director since 2009

Alnasir Samji
Managing Principal
Alderidge Consulting

Director since 2009

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Corporate Director
Director since 2009

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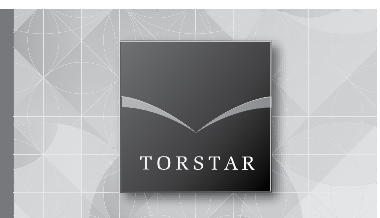
Former Publisher, Edmonton Journal
Director since 2010

Dorothy Strachan
Partner
Strachan-Tomlinson Inc.
Director since 2013

Daryl Aitken
Owner
Fabric Spark
Director since 2015

John Boynton
President and Chief Executive Officer
Torstar Corporation
Director since 2017



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NOTES

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