

**TORSTAR CORPORATION**  
**INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the three and six months ended June 30, 2009 and 2008**

**Dated: July 28, 2009**

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The following review and analysis of Torstar Corporation's (the "Company" or "Torstar") operations and financial position for the three and six months ended June 30, 2009 and 2008 is supplementary to, and should be read in conjunction with the audited consolidated financial statements of Torstar Corporation for the year ended December 31, 2008 set forth in the Company's Annual Report for such fiscal year and incorporated by reference in the Company's renewal Annual Information Form dated March 23, 2009.

Torstar reports its financial results under Canadian generally accepted accounting principles ("GAAP") in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding for the applicable period.

**Non-GAAP Measures**

Management uses both operating profit, as presented in the consolidated statements of income, and EBITDA as measures to assess the performance of the reporting units and business segments. EBITDA is a measure that is also used by many of Torstar's shareholders, creditors, other stakeholders and analysts as a proxy for the amount of cash generated by Torstar's operations or by a reporting unit or segment. EBITDA is not the actual cash provided by operating activities and is not a recognized measure of financial performance under GAAP. Torstar calculates EBITDA as the consolidated, segment or reporting unit operating profit before charges for interest, taxes, depreciation and amortization of intangible assets. Torstar also excludes restructuring and other charges from its calculation of EBITDA. Torstar's method of calculating EBITDA may differ from other companies and accordingly may not be comparable to measures used by other companies.

**Forward-looking statements**

Certain statements in this MD&A and in the Company's oral and written public communications may constitute forward-looking statements that reflect management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities as of the date of this report. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "believe", "plan", "forecast", "expect", "intend", "would", "could", "if", "may" and similar expressions. All such statements are made pursuant to the "safe harbour" provisions of applicable Canadian securities legislation. These statements reflect current expectations of management regarding future events and operating performance, and speak only as of the date of this report. 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.

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 to not 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. 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.



These factors include, but are not limited to: general economic conditions in the principal markets in which the Company operates, the Company's ability to operate in highly competitive industries, the Company's ability to compete with other forms of media, the Company's ability to attract advertisers, cyclical and seasonal variations in the Company's revenues, labour disruptions, newsprint costs, foreign exchange fluctuations, investments, restrictions imposed by existing credit facilities and availability of capital, pension fund obligations, reliance on its printing operations, reliance on technology and information systems, interest rates, availability of insurance, litigation, environmental regulations, dependence on key personnel, control of Torstar by the voting trust, loss of reputation, intellectual property rights and uncertainties associated with critical accounting estimates.

We caution that the foregoing list is not exhaustive of all possible factors, as other factors could adversely affect our results.

In addition, a number of assumptions, including those assumptions specifically identified throughout this MD&A, were applied in making the forward-looking statements set forth in this MD&A. Some of the key assumptions include, without limitation, assumptions regarding the performance of the North American economy; tax laws in the countries in which we operate; continued availability of printing operations; continued availability of financing on appropriate terms; exchange rates; market competition; and successful development of new products. There is a risk that some or all of these assumptions may prove to be incorrect.

## **OVERVIEW**

Torstar Corporation is a broadly based media company listed on the Toronto Stock Exchange (TS.B). Torstar reports its operations in two segments: Newspapers and Digital; and Book Publishing. The Newspapers and Digital Segment includes the Star Media Group led by the Toronto Star, Canada's largest daily newspaper with digital properties including thestar.com, toronto.com, Wheels.ca, Workopolis, Olive Media, and eyeReturn Marketing; and Metroland Media Group, publishers of community and daily newspapers in Ontario. The Book Publishing Segment represents Harlequin Enterprises Limited, ("Harlequin") a leading global publisher of books for women. Torstar also has investments in CTVglobemedia Inc. ("CTVgm") and Black Press Limited which are accounted for as Associated Businesses, using the equity method.

## **OPERATING RESULTS – Second quarter and year to date 2009**

### **Overall Performance**

Total revenue was \$373.7 million in the second quarter of 2009, down \$25.1 million or 6.3% from \$398.8 million in the second quarter of 2008. Newspapers and Digital revenue was \$249.6 million in the quarter, down \$30.4 million or 10.9% from \$280.0 million in 2008 with lower advertising revenue in most categories particularly those that are more subject to the impact of the economy such as employment and real estate. Book Publishing revenue was \$124.1 million in the second quarter of 2009, up \$5.2 million or 4.4% from \$118.9 million in the second quarter of 2008 as a \$7.7 million increase from the weaker Canadian dollar relative to a year ago more than offset a \$2.5 million decline in underlying revenues. North America Retail and North America Direct-To-Consumer revenues were both down in the quarter, more than offsetting increases in Overseas.

Year to date total revenue was \$712.7 million, down \$37.4 million or 5.0% from \$750.1 million in the first six months of 2008. Newspapers and Digital revenue was \$464.2



million year to date, down \$57.3 million or 11.0% from \$521.5 million in the same period last year. Book Publishing revenue was \$248.6 million year to date, up \$20.0 million or 8.7% from \$228.6 million in the same period last year including a \$19.2 million increase from the weaker Canadian dollar.

Operating profit before restructuring and other charges was \$41.5 million in the second quarter of 2009, down \$9.0 million from \$50.5 million in the second quarter of 2008. Including the \$3.8 million of restructuring and other charges, an operating profit of \$37.7 million was reported in the second quarter of 2009, down \$8.4 million from an operating profit of \$46.1 million in 2008 (which included \$4.4 million of restructuring and other charges). Year to date, operating profit before restructuring and other charges was \$53.1 million, down \$22.5 million from \$75.6 million in the first six months of 2008. Including the \$29.7 million of restructuring and other charges, an operating profit of \$23.4 million was reported year to date, down \$27.0 million from an operating profit of \$50.4 million in the same period last year (which included \$25.2 million of restructuring and other charges).

Newspapers and Digital Segment operating profit was \$25.2 million in the second quarter of 2009, down \$12.2 million from an operating profit of \$37.4 million in the second quarter last year. Year to date, Newspapers and Digital Segment operating profit was \$20.3 million, down \$29.5 million from \$49.8 million in the same period last year. Labour cost savings from restructuring initiatives, reduced newsprint consumption and general cost containment efforts helped to offset the lower revenue and higher pension costs in the second quarter and year to date.

Book Publishing operating profit was \$19.7 million in the second quarter of 2009, up \$2.4 million from \$17.3 million in the second quarter of 2008, including \$2.0 million from the impact of foreign exchange. Year to date, Book Publishing operating profit was \$40.3 million, up \$5.8 million from \$34.5 million in the first six months of 2008, including \$3.1 million from the impact of foreign exchange. Underlying results were up in the Overseas and North America Direct-To-Consumer divisions and down in North America Retail for both the second quarter and year to date.

Corporate costs were \$3.3 million in the second quarter, down \$0.9 million from \$4.2 million in the second quarter last year. Year to date, corporate costs were \$7.5 million, down \$1.2 million from \$8.7 million in the first six months of 2008. The lower costs in the second quarter primarily reflected lower compensation expense.

EBITDA<sup>1</sup>, excluding restructuring and other charges, was \$54.6 million in the second quarter of 2009, down \$9.6 million from \$64.2 million in 2008. Year to date, EBITDA was \$79.4 million, down \$23.1 million from \$102.5 million in 2008.

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<sup>1</sup> EBITDA is calculated as operating profit before interest, taxes, depreciation and amortization of intangible assets. It also excludes restructuring and other charges. See "non-gaap measures".



(in \$000's)	Second Quarter		Year to Date	
	2009	2008 <sup>2</sup>	2009	2008 <sup>2</sup>
Newspapers and Digital	\$37,083	\$49,819	\$44,240	\$74,222
Book Publishing	20,774	18,519	42,562	37,000
Corporate	(3,292)	(4,159)	(7,429)	(8,697)
EBITDA, excluding restructuring and other charges	\$54,565	\$64,179	\$79,373	\$102,525

#### Restructuring and other charges

Restructuring and other charges of \$3.8 million were recorded in the second quarter of 2009 compared with \$4.4 million in the second quarter of 2008. In both years, the amount related to restructuring provisions in the Newspapers and Digital Segment. Year to date, restructuring and other charges were \$29.7 million in 2009 and \$25.2 million in 2008. The 2009 year to date amount included \$12.8 million related to the transition in leadership at Torstar Corporate, \$15.5 million for restructuring provisions in the Newspapers and Digital Segment and \$1.4 million related to the closure of a distribution centre in Harlequin's U.K. operation. In the first six months of 2008, the restructuring charges were all related to the Newspapers and Digital Segment.

The restructuring charges in the Newspapers and Digital segment reflect the ongoing focus on reducing operating costs in both Metroland Media Group and Star Media Group in response to the revenue declines being realized. Total annual savings from the second quarter 2009 restructuring activities are expected to be approximately \$3.0 million (with approximately \$0.7 million realized during 2009) and a reduction of approximately 58 positions. In addition, savings of \$16.2 million are expected in the second half of 2009 related to restructuring efforts that were undertaken in 2008 and the first quarter of 2009.

Late in the first quarter of 2009, Harlequin announced the decision to close its direct-to-consumer distribution centre in the U.K. and to outsource that function. This will result in annual savings of \$0.6 million and a reduction of approximately 16 positions. Approximately one-half of these savings will be realized in the second half of 2009.

#### Interest

Interest expense was \$5.3 million in the second quarter of 2009, down \$1.8 million from \$7.1 million in the second quarter of 2008. The lower expense reflects lower effective interest rates and lower debt levels. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was \$621.3 million in the second quarter of 2009, down \$16.6 million from \$637.9 million in the same period last year. Torstar's effective interest rate was 3.4% in the second quarter of 2009 and 4.4% in the second quarter of 2008.

<sup>2</sup> The Newspapers and Digital 2008 EBITDA has been restated to reflect Transit TV as a discontinued operation and the Book Publishing 2008 EBITDA has been restated for the retrospective adoption of CICA Handbook Section 3064.



Year to date, interest expense was \$10.8 million, down \$4.1 million from \$14.9 million in the same period last year. The lower expense reflects lower effective interest rates and slightly lower debt levels. Year to date, the average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was \$623.3 million, down \$8.7 million from \$632.0 million in the same period last year. Year to date Torstar's effective interest rate was 3.5% compared with 4.6% in the first six months of 2008.

Net debt was \$623.6 million at June 30, 2009, down \$3.7 million from \$627.3 million at December 31, 2008.

#### Foreign Exchange

Torstar reported a non-cash foreign exchange loss of \$0.3 million in the first six months of 2009. This loss arose from the translation of foreign-currency (primarily U.S. dollars) denominated assets and liabilities into Canadian dollars. The amount of the gain or loss in any year will vary depending on the movement in relative value of the Canadian dollar and on whether Torstar has a net asset or net liability position in the foreign currency. In 2008, a non-cash foreign exchange gain of \$0.2 million and \$0.6 million were reported in the second quarter and year to date respectively.

#### Loss from associated businesses

The loss from associated businesses was \$27.7 million in the second quarter of 2009 compared with income of \$4.9 million in the second quarter of 2008. Year to date, the loss from associated businesses was \$34.7 million compared with income of \$3.7 million in the same period last year.

Torstar's share of CTVgm's net loss was \$27.6 million in the second quarter of 2009. Included in this second quarter loss was a \$29.9 million valuation allowance that was provided against certain of CTVgm's future income tax assets. Excluding the impact of the valuation allowance, Torstar's share of CTVgm's income was \$2.3 million in the second quarter compared with \$6.9 million in the second quarter of 2008. The lower net income in the second quarter of 2009 reflected lower advertising revenues in television, radio and print as the economy continued to be weak. Higher amortization and interest costs in the current year were offset by a one time unfavourable adjustment made in the second quarter of 2008 related to Part II licence fees.

Year to date, Torstar's share of CTVgm's net loss was \$34.5 million. Excluding the impact of the \$29.9 million second quarter valuation allowance, Torstar's share of CTVgm's net loss was \$4.6 million compared with net income of \$6.4 million in the first six months of 2008. The year to date decline in earnings reflects lower revenues combined with higher programming and production expenses, CTVgm announced restructuring activities and the decision to not renew several of its "A" conventional television licences. As a result of these decisions net income was reduced by restructuring provisions and the write-down of the carrying value of the television licences. Partially offsetting these expenses was lower interest expense and a first quarter gain on the sale of one-half of CTVgm's interest in Maple Leaf Sports and Entertainment Ltd.



Torstar did not record its share of Black Press's net loss in the first six months of 2009 as to do so would have resulted in a negative carrying value for the investment. Torstar's carrying value in Black Press was reduced to nil in the fourth quarter of 2008 as a result of estimated impairment losses related to Black Press's U.S. newspaper operations. Black Press finalized the amount of the impairment losses during the second quarter which were consistent with the estimate used by Torstar. In the second quarter of 2008, Torstar's share of Black Press's net loss was \$2.0 million reflecting a traditionally weaker quarter and non-cash losses recorded on marking financial derivatives to market. Year to date in 2008, Torstar's share of Black Press's net loss was \$2.9 million.

#### Gain on sale of land

In the second quarter of 2008, Torstar recognized a gain of \$9.2 million on the disposition of excess land.

#### Investment write-down

In the second quarter of 2008, Torstar recorded a write-down of \$2.4 million on its portfolio investment in U.S. based LiveDeal Inc. to fair value.

#### Income and other taxes

Torstar recorded a second quarter tax provision of \$9.1 million on income before taxes of \$4.7 million. Torstar's effective tax rate was 28.1% in the second quarter of 2009, excluding the impact of the \$27.7 million loss from associated businesses which was not tax affected. During the second quarter of 2008 Torstar's effective tax rate was 26.3%.

Year to date, Torstar recorded a tax provision of \$3.4 million on a loss before taxes of \$22.3 million. Torstar's effective tax rate was 27.5% year to date, excluding the impact of the \$34.7 million loss from associated businesses which was not tax affected. During the first six months of 2008, Torstar's effective tax rate was 24.7% excluding a one-time adjustment of \$1.3 million for a recovery of prior period taxes.

The effective tax rates in both periods in 2009 were slightly higher than in the prior year due to the mix of income year over year including items in 2008 that were tax affected at a capital gains rate.

#### Loss from continuing operations

Torstar reported a loss from continuing operations of \$4.4 million in the second quarter of 2009 compared with income of \$37.5 million in the second quarter of 2008. Year to date, Torstar reported a loss from continuing operations of \$25.7 million compared with income of \$36.4 million in the same period last year.

#### Discontinued operations

Transit TV ceased operations in early 2009 and the two Transit TV subsidiaries filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code. Accordingly, the Transit TV results for 2008 have been restated to be shown as discontinued operations.



### Net loss

Torstar reported a net loss of \$4.4 million or \$0.06 per share in the second quarter of 2009. In the second quarter of 2008 Torstar reported net income of \$36.2 million or \$0.46 per share. Year to date, Torstar reported a net loss of \$25.7 million or \$0.33 per share. In the first six months of 2008 Torstar reported net income of \$33.2 million or \$0.42 per share.

### Outstanding shares

The average number of Class A and Class B non-voting shares outstanding was 79.0 million in the second quarter of 2009 and 78.9 million year to date. In 2008, 78.8 million were outstanding in both the second quarter and first six months.

The following chart provides a continuity of earnings per share from 2008 to 2009:

	Second Quarter	Year to Date
<b>Net income (loss) per share 2008</b>	\$0.46	\$0.42
<b>Changes</b>		
• Operations	(0.09)	(0.16)
• Restructuring and other charges	0.01	(0.04)
• Loss from associated businesses	(0.41)	(0.48)
• Non-cash foreign exchange	0.02	(0.02)
• Gain on sale of land (2008)	(0.10)	(0.10)
• Investment write-down (2008)	0.03	0.03
• One-time tax expense adjustment (2008)	0.00	(0.02)
• Discontinued operations	0.02	0.04
<b>Net income (loss) per share 2009</b>	(\$0.06)	(\$0.33)

### **Segment Operating Results – Newspapers and Digital**

The Newspapers and Digital Segment includes the Star Media Group and Metroland Media Group (“Metroland”).

Star Media Group includes the Toronto Star, Canada’s largest daily newspaper which is read in print and online (thestar.com) by more than 2.9 million readers every week. In addition to thestar.com, Star Media Group includes the Wheels.ca and toronto.com websites. Star Media Group also includes eyeReturn Marketing and the Torstar Digital corporate group. In addition to the above wholly-owned operations, Star Media Group also includes Torstar’s proportionate interests in Sing Tao Daily, Metro, Workopolis, and Olive Media.

Metroland Media Group publishes in print and online more than 100 community newspapers and three daily newspapers – The Hamilton Spectator, the Waterloo Region Record and the Guelph Mercury. It is also the publisher of Gold Book Directories, a number of specialty publications, operates several consumer shows throughout Ontario and Torstar Media Group Television (a 24-hour direct response television business and commercial production house). Metroland Media Group has eight web press facilities which print the Metroland newspapers but also engage in commercial printing.



The following tables set out, in \$000's, the results for the reporting units within the Newspapers and Digital Segment for the three months ended June 30, 2009 and 2008.

	2009			2008 <sup>3</sup>		
	Metroland Media	Star Media	Total	Metroland Media	Star Media	Total
Operating revenue	\$137,433	\$112,201	\$249,634	\$155,709	\$124,246	\$279,955
EBITDA	\$28,779	\$8,304	\$37,083	\$36,054	\$13,765	\$49,819
Depreciation & amortization	4,091	7,830	11,921	3,941	8,457	12,398
Operating profit	\$24,688	\$474	\$25,162	\$32,113	\$5,308	\$37,421
EBITDA margin	20.9%	7.4%	14.9%	23.2%	11.1%	17.8%
Operating profit margin	18.0%	0.4%	10.1%	20.6%	4.3%	13.4%

The following tables set out, in \$000's, the results for the reporting units within the Newspapers and Digital Segment for the six months ended June 30, 2009 and 2008.

	2009			2008 <sup>3</sup>		
	Metroland Media	Star Media	Total	Metroland Media	Star Media	Total
Operating revenue	\$249,662	\$214,501	\$464,163	\$283,860	\$237,656	\$521,516
EBITDA	\$39,034	\$5,206	\$44,240	\$56,523	\$17,699	\$74,222
Depreciation & amortization	8,151	15,763	23,914	7,879	16,502	24,381
Operating profit	\$30,883	(\$10,557)	\$20,326	\$48,644	\$1,197	\$49,841
EBITDA margin	15.6%	2.4%	9.5%	19.9%	7.4%	14.2%
Operating profit margin	12.4%	n/a	4.4%	17.1%	0.5%	9.6%

Total revenue of the Newspapers and Digital Segment was \$249.6 million in the second quarter of 2009, down \$30.4 million or 10.9% from \$280.0 million in the second quarter of 2008. Year to date, total revenue of the Newspapers and Digital Segment was \$464.2 million, down \$57.3 million or 11.0% from \$521.5 million in the first six months of 2008. Over 60% of the decline in advertising revenue in the quarter (over 52% year to date) related to two categories that are especially vulnerable to the economic cycle, employment and real estate advertising. Digital revenues declined 5.5% in the second quarter of 2009 as revenue growth in some of the sites was more than offset by the decline realized at Workopolis. Year to date, digital revenues were down only 0.7%.

<sup>3</sup> 2008 results have been restated for the transfer of TMGTV from Star Media Group to Metroland Media Group and to reflect Transit TV as a discontinued operation.



Digital revenue was 6.2% of the total Newspapers and Digital revenue in the second quarter of 2009 and 6.4% year to date, up from 5.8% in the same periods last year.

Total EBITDA of the Newspapers and Digital Segment was \$37.1 million in the second quarter of 2009, down \$12.7 million from \$49.8 million in the second quarter of 2008. Year to date, total EBITDA of the Newspapers and Digital Segment was \$44.2 million, down \$30.0 million from \$74.2 million in the first six months of 2008. Labour cost savings from restructuring initiatives, reduced newsprint consumption and general cost containment efforts helped to offset the lower revenue and higher pension costs in the second quarter and year to date. Newsprint pricing was flat in the second quarter year over year but higher year to date.

The Newspapers and Digital segment was negatively impacted by the calendar during the second quarter of 2009 compared to the prior year. Most stores are closed for two days on Easter weekend and advertisers, accordingly, tend to reduce their advertising spend around that weekend. Easter weekend was in the second quarter of 2009 and the first quarter of 2008. Year to date there was no impact from the calendar.

#### Metroland Media Group

Metroland Media Group revenues were \$137.4 million in the second quarter of 2009 down \$18.3 million or 11.8% from \$155.7 million in the second quarter of 2008. Year to date, Metroland Media Group revenues were \$249.7 million down \$34.2 million or 12.0% from \$283.9 million in the same period last year. The economy continued to have a negative impact on advertising revenue during the second quarter. Lower employment and real estate advertising accounted for approximately 60% of the decline in advertising revenue in the quarter and over 50% year to date. Distribution revenues were higher in the second quarter but remained slightly lower year to date.

Metroland Media Group EBITDA was \$28.8 million in the second quarter of 2009 down \$7.3 million from \$36.1 million in the second quarter of 2008. Year to date, Metroland Media Group EBITDA was \$39.0 million down \$17.5 million from \$56.5 million in the first six months of 2008. Newsprint pricing was relatively flat year over year in the second quarter as prices decreased but remained higher year to date. Labour cost savings were realized in the second quarter and year to date from the restructuring undertaken in the fourth quarter of 2008 and the first quarter of 2009. These savings helped to offset the revenue decline, higher pension expense and the continued investment in Metroland's digital operations.

Metroland Media Group's operating profit was \$24.7 million in the second quarter of 2009 down \$7.4 million from \$32.1 million in the same period last year. Year to date, Metroland Media Group's operating profit was \$30.9 million down \$17.7 million from \$48.6 million in the same period last year.

#### Star Media Group

Star Media Group revenues were \$112.2 million in the second quarter of 2009, down \$12.0 million or 9.7% from \$124.2 million in the second quarter of 2008. Year to date, Star Media Group revenues were \$214.5 million, down \$23.2 million or 9.8% from \$237.7 million in the first six months of 2008. Advertising revenue continued to be down



in the Star Media Group during the second quarter as virtually all of the properties were impacted by the weak economy. Lower employment and real estate advertising accounted for over 60% of the decline in advertising revenue in the quarter and over 54% year to date.

Advertising revenues at the Toronto Star were down 13.2% in the second quarter, an improvement from the 18.3% decline realized in the first quarter. Year to date, Toronto Star advertising revenues were down 15.7%. The decline was experienced across a broad range of categories including employment and real estate. Toronto Star circulation revenues were up in both the quarter and year to date. The jointly-owned Sing Tao newspapers faced similar revenue challenges in the second quarter while the Metro newspapers grew revenue over the prior year. Revenue at Star Media Group's digital properties was down in the second quarter and year to date primarily from lower employment advertising at Workopolis.

Star Media Group EBITDA was \$8.3 million in the second quarter of 2009, down \$5.5 million from \$13.8 million in the second quarter of 2008. Year to date, Star Media Group EBITDA was \$5.2 million, down \$12.5 million from \$17.7 million in the same period last year. Newsprint pricing was relatively flat year over year in the second quarter as prices decreased but remained higher year to date. Lower consumption of newsprint produced cost savings in both the quarter and year to date. Labour cost savings were realized in the second quarter and year to date from the restructuring undertaken in 2008 and the first quarter of 2009. These savings helped to offset the revenue decline as well as pension expense that was up \$4.3 million in the second quarter and \$8.6 million year to date.

Star Media Group's operating profit was \$0.5 million in the second quarter of 2009 down \$4.8 million from \$5.3 million in the second quarter of 2008. Year to date, Star Media Group's operating loss was \$10.6 million compared with income of \$1.2 million in the same period last year.

#### **Segment Operating Results – Book Publishing**

The Book Publishing Segment reports the results of Harlequin, a leading global publisher of books for women. Harlequin publishes books around the world in a variety of genres and formats, selling through the retail channel and directly to the consumer by mail and the Internet. Harlequin's publishing operations are comprised of three divisions: North America Retail, North America Direct-To-Consumer and Overseas.

The following tables set out, in \$000's, a summary of operating results for the Book Publishing Segment and a continuity of revenue and operating profit, including the impact of foreign currency movements, for the three and six months ended June 30, 2009 and 2008.



	Second Quarter		Year to Date	
	2009	2008 <sup>4</sup>	2009	2008 <sup>4</sup>
Revenue	\$124,099	\$118,868	\$248,577	\$228,587
EBITDA	\$20,774	\$18,519	\$42,562	\$37,000
Depreciation & amortization	1,110	1,245	2,281	2,465
Operating profit	\$19,664	\$17,274	\$40,281	\$34,535
EBITDA margin	16.7%	15.6%	17.1%	16.2%
Operating profit margin	15.8%	14.5%	16.2%	15.1%

	Second Quarter	Year to Date
Reported revenue, prior year	\$118,868	\$228,587
Impact of currency movements and foreign exchange contracts	7,743	19,236
Change in underlying revenue	(2,512)	754
Reported revenue, current year	\$124,099	\$248,577
Reported operating profit, prior year	\$17,274	\$34,535
Impact of currency movements and foreign exchange contracts	1,999	3,121
Change in underlying operating profit	391	2,625
Reported operating profit, current year	\$19,664	\$40,281

Book Publishing revenues were down \$2.5 million in the second quarter of 2009 excluding the impact of foreign exchange. North America Retail was down \$3.7 million, North America Direct-To-Consumer was down \$0.7 million and Overseas was up \$1.9 million. Year to date, Book Publishing revenues were up \$0.8 million excluding the impact of foreign exchange. North America Retail was down \$1.5 million, North America Direct-To-Consumer was down \$2.1 million and Overseas was up \$4.4 million.

Book Publishing operating profits were up \$0.4 million in the second quarter of 2009 excluding the impact of foreign exchange. North America Retail was down \$1.1 million, North America Direct-To-Consumer was up \$1.0 million and Overseas was up \$0.5 million. Year to date, Book Publishing operating profits were up \$2.6 million excluding the impact of foreign exchange. North America Retail was down \$1.4 million, North America Direct-To-Consumer was up \$1.0 million and Overseas was up \$3.0 million.

North America Retail operating profits were down \$1.1 million in the quarter on \$3.7 million of lower revenues. The second quarter revenues and operating profits were down compared to prior year as the second quarter of 2008 benefited from positive adjustments to returns provisions that did not recur in 2009. Revenue in the quarter was also negatively impacted by lower sales volumes in the U.S. market including the impact of the first quarter bankruptcy of a U.S. distributor. Year to date, North America

<sup>4</sup> 2008 results have been restated for the retrospective adoption of CICA Handbook Section 3064.



Retail revenues were down \$1.5 million as the second quarter revenue declines offset the first quarter growth. Lower costs, primarily promotional spending and sales support, partially offset the revenue decline in both the quarter and the year to date.

North America Direct-To-Consumer lower revenues in the second quarter and first six months of 2009 were primarily related to a product line that was discontinued at the end of 2008. Traditional direct mail revenues continued to decline in the second quarter but were more than offset by higher digital revenues. Operating profit was up \$1.0 million in the second quarter and year to date from the improved digital revenues. In the traditional direct mail business, lower costs offset the lower revenues.

Overseas operating profit was up \$0.5 million in the second quarter of 2009 on \$1.9 million of higher revenues. The trends of the first quarter continued in most of the overseas markets with several countries reporting modest growth. The Japanese printed book business continued to struggle in the second quarter reflecting the challenges of the Japanese economy and the printed book market in Japan. The agreement in Japan with SoftBank Creative Corp., (a division of Softbank Corp., one of the largest providers of cell phone services in Japan) to distribute digital manga (comic) content on cell phones and Internet distribution sites continued to provide growth in the second quarter and has more than offset the decline in the printed book business year to date. The U.K. operation continued to face challenges in their direct mail and retail series businesses. During the second quarter, the U.K. operation completed the outsourcing of the fulfillment for their direct-to-consumer business which had been announced at the end of the first quarter.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

Torstar's businesses generate a significant amount of cash flow from operations. These funds are generally used for capital expenditures, acquisitions, distributions to shareholders and debt repayment. Long-term debt is used to supplement funds from operations as required, generally for capital expenditures or acquisitions. Approximately 60% of Torstar's long-term facility will not mature until January 2012. The remaining 40% of the facility was renewed for one year in early 2009 and has the ability to be extended at Torstar's option through January 2011. At June 30, 2009 Torstar had \$141.0 million of available credit under the long-term debt facility.

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

In the second quarter of 2009, \$1.0 million of cash was generated by operations after \$25.2 million of payments related to restructuring activities, \$7.2 million was used for investing activities and \$6.1 million was generated by financing activities. Year to date, \$24.6 million of cash was generated by operations. Investing activities used \$11.7 million of cash and \$27.5 million was used for financing activities. Cash and cash equivalents net of bank overdraft decreased by \$0.4 million in the quarter from \$26.7 million to \$26.3 million.

**Operating Activities**

Operating activities provided cash of \$1.0 million in the second quarter of 2009, down \$28.5 million from \$29.5 million in the second quarter of 2008. The decline in cash generated year over year was primarily as a result of an \$18.8 million decrease in restructuring provisions payable along with an incremental \$6.4 million of pension funding in the quarter related to restructuring activities.

Non-cash working capital investment increased \$34.7 million in the second quarter of 2009. This increase was a combination of lower accounts payable and higher accounts receivable offset by a decrease in the other working capital accounts. The decrease in accounts payable in the second quarter included the above noted \$18.8 million decrease in restructuring provisions with the balance related to the timing of payments. Accounts receivable generally increase in the second quarter reflecting the higher level of revenue in the second quarter compared to the first.

Year to date, operating activities provided cash of \$24.6 million, down \$16.0 million from \$40.6 million in the first six months of 2008. The decrease of cash provided year over year included the impact of restructuring provisions payable which decreased by \$3.8 million year to date in 2009 and increased by \$17.6 million in the same period in 2008. This \$21.4 million decrease in cash provided by operating activities was partially offset by lower working capital used for accounts receivable and income taxes year over year.

**Investing Activities**

During the second quarter of 2009, \$7.2 million was used for investments, down from \$13.2 million in the second quarter of 2008.

Additions to property, plant and equipment were \$3.3 million in the second quarter of 2009, down from \$5.5 million in the second quarter of 2008. In the second quarter of 2009, \$4.3 million was used for acquisitions in the Newspapers and Digital segment including Gottarent.com, Rosebud Media and the first installment of the deferred purchase price for eyeReturn Marketing. These acquisitions included \$2.0 million of deferred purchase price as well as potential performance payments based on future revenues. In the second quarter of 2008, acquisitions in the Newspapers and Digital segment included Central Ontario Web and eyeReturn Marketing. In the second quarter of 2008, \$3.1 million was received as proceeds on the sale of excess land.

Year to date, \$11.7 million was used for investments, down from \$25.5 million in the first six months of 2008. Additions to property, plant and equipment were \$8.0 million in the first six months of 2009, down from \$9.6 million in the same period last year. Year to date acquisitions were \$4.3 million in 2009 and \$18.7 million in 2008. The 2008 acquisitions included the Torstar's share of Workopolis' first quarter acquisition of the assets of Brainhunter Inc.

**Financing Activities**

Cash of \$6.1 million was provided by financing activities during the second quarter of 2009 as \$14.4 million of debt was issued in the quarter offset by \$7.3 million for the payment of dividends. In the second quarter of 2008 cash of \$14.8 million was used for financing activities primarily for the payment of dividends.



Year to date, cash of \$27.5 million was used for financing activities including \$12.1 million of net debt repayment and \$14.5 million for the payment of dividends. In the first six months of 2008 cash of \$14.4 million was used for financing activities as \$28.9 million was used for the payment of dividends offset by a net issuance of \$14.4 million of debt.

The dividend payment in both periods in 2009 reflected the reduction in Torstar's annual dividend that was announced earlier this year.

#### **Net Debt**

Net debt was \$623.6 million at June 30, 2009, up \$4.6 million from \$619.0 million at March 31, 2009. The \$4.6 million increase included \$14.4 million of long-term debt issuance offset by \$9.5 million from the strengthening of the Canadian dollar during the quarter. Changes in cash, bank overdraft and the value of the fair value hedge related to the medium term notes netted to a net decrease of \$0.3 million.

#### **Long-term Debt**

At June 30, 2009, Torstar had long-term debt of \$649.9 million outstanding. The debt consisted of U.S. dollar bankers' acceptances of \$109.0 million, Canadian dollar bankers' acceptances of \$438.2 million and Canadian dollar medium term notes of \$100.0 million increased by \$2.7 million related to fair value hedge adjustments.

Torstar's long-term credit facility for \$735 million acts as a standby line in support of letters of credit. At June 30, 2009, \$549.0 million was drawn under the facility and a \$20.0 million letter of credit was outstanding relating to an executive retirement plan.

Torstar has a \$25.0 million medium term note that will mature on September 9, 2009. It is Torstar's intention to refinance the medium term note through the issuance of bankers' acceptances or through its long-term credit facility. As of June 30, 2009 the long-term credit facility had \$166.0 million of available credit which would adequately cover the refinancing of the \$25.0 million medium term note. Therefore, the \$25.0 million medium term note continues to be classified as long-term debt on Torstar's balance sheet.

After providing for the refinancing of the \$25.0 million medium term note, Torstar's credit facility has \$141.0 million of available credit.

Torstar's credit facilities are subject to financial tests and other covenants with which it was in compliance at June 30, 2009.

#### **Contractual Obligations**

Other than as discussed below, there were no material changes in Torstar's significant contractual obligations during the first six months of 2009.

During the second quarter, Torstar completed an acquisition that provided for \$2.0 million of deferred purchase price as well as potential performance payments based on future revenues and a second acquisition that has up to \$3 million of potential



performance payments based on future revenues. The deferred payments have been accrued in accounts payable and long-term liabilities based on the payment dates.

CTVgm successfully completed the re-negotiation of its credit facilities on April 30, 2009. As part of the new facility, the shareholders of CTVgm, including Torstar, could be required to purchase a portion of CTVgm's financial obligations to its lenders. Torstar's maximum exposure under the arrangement would be \$45 million. Torstar has also entered into a separate arrangement with another CTVgm shareholder which allows Torstar to assign its purchase obligation, and as a result anticipates no new net exposure.

### **Funding of Post Employment Benefits**

Torstar's consolidated pension expense is expected to be approximately \$32.5 million (excluding the \$4.2 million included in restructuring and other charges) in 2009, up \$19.7 million from \$12.8 million in 2008. However, as the most significant group of Torstar's pension plans (in terms of assets and obligations) are not required to prepare an actuarial report until December 31, 2009 Torstar's required pension funding for its registered pension plans in 2009 is expected to be approximately \$15.0 million, relatively consistent with the funding requirements in 2008. Unless capital market conditions improve significantly, Torstar anticipates that its required funding for these plans could increase significantly in 2010 and beyond. If current market conditions do not change it is likely that the registered pension funding in 2010 will exceed the amount of the 2009 registered pension plan expense. Recent regulatory changes may allow Torstar to defer the increase in registered pension funding until 2011.

### **Foreign Exchange**

Torstar has entered into forward foreign exchange contracts to sell \$25.3 million U.S. dollars during the next two quarters of 2009 at an average rate of \$1.13; \$30.8 million U.S. dollars in 2010 at an average rate of \$1.22; and \$5.0 million U.S. dollars in 2011 at an average rate of \$1.11. These U.S. dollar contracts are designated as revenue hedges for accounting purposes and any resulting gains or losses are recognized in Book Publishing revenues as realized.

### **OUTLOOK**

The continued weakness in the Ontario economy has resulted in revenue challenges for the Newspapers and Digital segment during the first six months of 2009. Torstar expects that advertising revenue will continue to be soft through the balance of the year. The segment will continue to face higher pension costs. In contrast, if newsprint pricing stays at current levels, the second half of 2009 will benefit from year over year savings. In response to these challenges, the Newspapers and Digital segment has continued with the restructuring efforts to reduce costs. The restructuring initiatives have resulted in savings of \$17.1 million in the first six months of 2009 and are expected to generate savings of \$16.9 million in the second half of the year.

Harlequin had a solid first six months and is expected to have full-year growth but not at the rate realized in the first half. The first six months included the benefit of the SoftBank digital sales in Japan which began in the second quarter of 2008 and therefore will have a lower year over year benefit during the next two quarters. Harlequin



continues to face risk from the global and, in particular, the U.S. economic situation including disruptions to the U.S. retail distribution system and potential further reductions in consumer spending. Harlequin's 2009 results will benefit from a year over year weaker Canadian dollar relative to the U.S. dollar. In 2008, including the impact of the U.S. dollar contracts, Harlequin's U.S. dollar earnings were translated at a rate of approximately \$1.07. For 2009, Torstar has U.S. dollar contracts for \$50.1 million U.S. at an average exchange rate of \$1.12. The balance of Harlequin's U.S. earnings in 2009 will be translated at the average exchange rates realized during the year.

**SUMMARY OF QUARTERLY RESULTS**

(In thousands of dollars except for per share amounts)

In the following chart, the 2008 and 2007 quarterly results have been restated to reflect the reclassification of Transit TV as a discontinued operation and for Harlequin's retrospective adoption of CICA Handbook Section 3064.

	Quarter Ended			
	June 30, 2009	Mar. 31, 2009	Dec. 31, 2008	Sept. 30, 2008
Revenue	\$373,733	\$339,007	\$412,351	\$371,299
Net income (loss) from continuing operations	(\$4,362)	(\$21,385)	(\$211,661)	\$16,566
Net income (loss)	(\$4,362)	(\$21,385)	(\$213,917)	(\$748)
Net income (loss) from continuing operations per Class A voting and Class B non-voting share				
Basic	(\$0.06)	(\$0.27)	(\$2.68)	\$0.21
Diluted	(\$0.06)	(\$0.27)	(\$2.68)	\$0.21
Net income (loss) per Class A voting and Class B non-voting share				
Basic	(\$0.06)	(\$0.27)	(\$2.71)	(\$0.01)
Diluted	(\$0.06)	(\$0.27)	(\$2.71)	(\$0.01)



	Quarter Ended			
	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sept. 30, 2007
Revenue	\$398,823	\$351,280	\$402,468	\$368,654
Net income (loss) from continuing operations	\$37,548	(\$1,168)	\$47,806	\$13,478
Net income (loss)	\$36,178	(\$3,017)	\$45,782	\$10,922
Net income (loss) from continuing operations per Class A voting and Class B non-voting share				
Basic	\$0.48	(\$0.02)	\$0.61	\$0.17
Diluted	\$0.48	(\$0.02)	\$0.61	\$0.17
Net income (loss) per Class A voting and Class B non-voting share				
Basic	\$0.46	(\$0.04)	\$0.58	\$0.14
Diluted	\$0.46	(\$0.04)	\$0.58	\$0.14

The summary of quarterly results illustrates the cyclical nature of revenues and operating profit in the Newspapers and Digital Segment. The fourth and second quarters are generally the strongest for the newspapers however the revenue declines realized in 2008 and the first quarter of 2009 have masked some of the cyclical impact. Book Publishing revenues will vary depending on the publishing schedule and the impact of foreign exchange rates.

Restructuring and other charges have impacted the level of net income in several quarters. In 2009, the first and second quarters had restructuring and other charges of \$25.9 million and \$3.8 million respectively. In 2008, the first, second, third and fourth quarters had restructuring and other charges of \$20.8 million, \$4.4 million, \$19.4 million and \$14.6 million respectively. The third and fourth quarter included write downs related to the assets of Transit TV of \$16.0 million and \$1.5 million respectively. The fourth quarter also included a \$2.4 million impairment loss on certain community newspaper mastheads and customer relationship intangible assets. In 2007, the fourth quarter had a restructuring and other charge of \$7.5 million.

A net loss was reported in the fourth quarter of 2008 as a result of losses from associated businesses and a write down of investments. The loss from associated businesses was driven by accounting for impairment losses in intangible assets and goodwill. Further losses from associated businesses were reported in the first and second quarters of 2009 related to accounting for impairment losses in intangible assets and valuation allowances for income tax assets.

**CHANGES IN ACCOUNTING POLICIES**

**Future Accounting Changes – International Financial Reporting Standards**

The CICA has confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. At this date, Torstar will be required to prepare financial statements in accordance with IFRS. IFRS uses a conceptual



framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

Torstar has completed an initial review of IFRS and has made a preliminary classification of the IFRS standards into those that could have a significant, moderate or no impact on Torstar's financial reporting. Torstar is currently developing its IFRS conversion plan which will include a deeper analysis of the IFRS standards, with priority being placed on those that have been identified as possibly having a significant impact. The analysis of each IFRS standard will include identifying the differences between IFRS and Torstar's accounting policies, assessing the impact of the difference, and where necessary, analyzing the various policies that Torstar could elect to adopt.

Torstar has identified that the proposed amendment to IAS 31 "Joint Ventures" is one IFRS standard that will likely have a significant impact on Torstar's financial reporting. Under this new standard some of Torstar's joint ventures that are currently proportionately consolidated may be required to be accounted for either as a fully consolidated subsidiary (with minority interest) or under the equity method. Torstar is currently reviewing the classification of each of its joint ventures under IFRS and is not able to provide any further guidance on the impact at this time.

#### **RISKS AND UNCERTAINTIES**

There have been no material changes in any risks or uncertainties facing Torstar since the year ended December 31, 2008.

#### **CONTROLS AND PROCEDURES**

##### **Changes in Internal Control over Financial Reporting**

There have been no changes in Torstar's internal controls over financial reporting that occurred during the second quarter of 2009, the most recent interim period, that have materially affected, or are reasonably likely to materially affect, Torstar's internal controls over financial reporting.

#### **OTHER**

The Torstar Board of Directors has confirmed that at this time there is no search underway for a Chief Executive Officer and that the timing of a decision will be made regarding a search prior to the end of the year.

#### **Share Data**

At June 30, 2009, Torstar had 9,882,587 Class A voting shares and 69,110,424 Class B non-voting shares outstanding. More information on Torstar share capital is provided in Note 8 of the interim consolidated financial statements.

At June 30, 2009, Torstar had 3,722,880 options to purchase Class B non-voting shares outstanding to executives and non-executive directors. More information on Torstar's stock option plan is provided in Note 9 of the interim consolidated financial statements.

Additional information relating to Torstar including the Annual Information Form is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Torstar's corporate website at [www.torstar.ca](http://www.torstar.ca).

**Torstar Corporation**  
**Consolidated Balance Sheets**

*(Dollars in Thousands)*

*(Unaudited)*

	<i>June 30</i> 2009	<i>December 31</i> 2008 <i>(note 1)</i>
<b>Assets</b>		
<b>Current:</b>		
Cash and cash equivalents	\$35,465	\$45,787
Receivables	237,678	273,658
Inventories <i>(note 5)</i>	38,271	41,075
Prepaid expenses	59,428	59,814
Prepaid and recoverable income taxes	24,394	13,719
Future income tax assets	20,293	25,716
<b>Total current assets</b>	<b>415,529</b>	<b>459,769</b>
Property, plant and equipment (net)	280,963	298,475
Investment in associated businesses <i>(note 7)</i>	163,516	201,571
Intangible assets	35,748	34,667
Goodwill	579,300	577,116
Other assets	148,701	156,543
Future income tax assets	41,228	50,592
<b>Total assets</b>	<b>\$1,664,985</b>	<b>\$1,778,733</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current:</b>		
Bank overdraft	\$9,139	\$4,425
Accounts payable and accrued liabilities	183,790	238,600
Income taxes payable	17,737	10,057
<b>Total current liabilities</b>	<b>210,666</b>	<b>253,082</b>
Long-term debt <i>(note 2)</i>	649,923	668,700
Other liabilities	105,234	119,827
Future income tax liabilities	68,969	72,090
<b>Shareholders' equity:</b>		
Share capital <i>(note 8)</i>	391,544	390,978
Contributed surplus	11,525	11,018
Retained earnings	248,584	288,934
Accumulated other comprehensive loss <i>(note 6)</i>	(21,460)	(25,896)
<b>Total shareholders' equity</b>	<b>630,193</b>	<b>665,034</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,664,985</b>	<b>\$1,778,733</b>

*(See accompanying notes)*

**Torstar Corporation**  
**Consolidated Statements of Income**

(Dollars in Thousands)

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
<b>Operating revenue</b>		<i>(note 1)</i>		<i>(note 1)</i>
Newspapers and digital	\$249,634	\$279,955	\$464,163	\$521,516
Book publishing	124,099	118,868	248,577	228,587
	<b>\$373,733</b>	<b>\$398,823</b>	<b>\$712,740</b>	<b>\$750,103</b>
<b>Operating profit</b>				
Newspapers and digital	\$25,162	\$37,421	\$20,326	\$49,841
Book publishing	19,664	17,274	40,281	34,535
Corporate	(3,308)	(4,175)	(7,461)	(8,730)
Restructuring and other charges <i>(note 12)</i>	(3,805)	(4,408)	(29,705)	(25,225)
	37,713	46,112	23,441	50,421
Interest	(5,256)	(7,069)	(10,814)	(14,879)
Foreign exchange	(11)	190	(261)	560
Income (loss) of associated businesses <i>(note 7)</i>	(27,708)	4,934	(34,713)	3,697
Gain on sale of land <i>(note 17)</i>		9,200		9,200
Investment write-down <i>(note 18)</i>		(2,419)		(2,419)
Income (loss) before taxes	4,738	50,948	(22,347)	46,580
Income and other taxes	(9,100)	(13,400)	(3,400)	(10,200)
Income (loss) from continuing operations	(4,362)	37,548	(25,747)	36,380
Discontinued operations <i>(note 15)</i>		(1,370)		(3,219)
<b>Net (loss) income</b>	<b>(\$4,362)</b>	<b>\$36,178</b>	<b>(\$25,747)</b>	<b>\$33,161</b>
Earnings (loss) per Class A and Class B share <i>(note 8(b))</i> :				
Net income (loss) from continuing operations - Basic and Diluted	(\$0.06)	\$0.48	(\$0.33)	\$0.46
Net income (loss) - Basic and Diluted	(\$0.06)	\$0.46	(\$0.33)	\$0.42

*(See accompanying notes)*

**Torstar Corporation**  
**Consolidated Statements of Comprehensive**  
**Income**

*(Dollars in Thousands)*

*(Unaudited)*

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2009	2008	2009	2008
		<i>(note 1)</i>		<i>(note 1)</i>
Net income (loss)	<b>(\$4,362)</b>	\$36,178	<b>(\$25,747)</b>	\$33,161
Other comprehensive income (loss), net of tax:				
Unrealized foreign currency translation adjustment	(827)	(978)	(2,794)	3,668
Reclassification adjustment for unrealized loss on available-for-sale financial assets included in net income		1,602		1,602
Unrealized income (loss) on available-for-sale financial assets	72		(375)	(1,602)
Realized loss (gain) on cash flow hedges transferred to net income	867	(173)	1,983	(1,196)
Unrealized change in fair value of cash flow hedges	8,832	3,614	8,964	(1,887)
Realized loss on cash flow hedges for associated businesses transferred to net income	2,083		1,766	
Unrealized change in fair value of cash flow hedges for associated businesses	(5,001)		(5,108)	
Other comprehensive income from continuing operations	6,026	4,065	4,436	585
Discontinued operations <i>(note 15)</i>		(655)		(125)
Other comprehensive income	6,026	3,410	4,436	460
Comprehensive income (loss)	<b>\$1,664</b>	\$39,588	<b>(\$21,311)</b>	\$33,621

*(See accompanying notes)*

**Torstar Corporation**  
**Consolidated Statements Of Changes In**  
**Shareholders' Equity**

(Dollars in Thousands)

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
<b>Share capital (note 8)</b>	<b>\$391,544</b>	\$390,340	<b>\$391,544</b>	\$390,340
<b>Contributed surplus</b>				
Balance, beginning of period	\$11,368	\$10,629	\$11,018	\$9,929
Stock-based compensation expense	157	690	507	1,390
Balance, end of period	\$11,525	\$11,319	\$11,525	\$11,319
<b>Retained earnings</b>				
Balance, beginning of period (note 1)	\$260,252	\$511,179	\$288,934	\$528,748
Net income (loss)	(4,362)	36,178	(25,747)	33,161
Dividends	(7,306)	(14,573)	(14,603)	(29,125)
Balance, end of period	\$248,584	\$532,784	\$248,584	\$532,784
<b>Accumulated other comprehensive loss</b>				
Balance, beginning of period	(\$27,486)	(\$18,396)	(\$25,896)	(\$15,446)
Other comprehensive income	6,026	3,410	4,436	460
Balance, end of period (note 6)	(\$21,460)	(\$14,986)	(\$21,460)	(\$14,986)
<b>Total shareholders' equity</b>	<b>\$630,193</b>	\$919,457	<b>\$630,193</b>	\$919,457

(See accompanying notes)

**Torstar Corporation**  
**Consolidated Statements of Cash Flows**

(Dollars in Thousands)

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
		<i>(note 1)</i>		<i>(note 1)</i>
<b>Cash was provided by (used in)</b>				
Operating activities	\$1,048	\$29,459	\$24,575	\$40,643
Investing activities	(7,215)	(13,212)	(11,727)	(25,470)
Financing activities	6,102	(14,801)	(27,495)	(14,399)
Increase (decrease) in cash	(65)	1,446	(14,647)	774
Effect of exchange rate changes	(316)	(261)	(389)	2,275
Cash, beginning of period	26,707	32,344	41,362	30,480
<b>Cash, end of period</b>	<b>\$26,326</b>	<b>\$33,529</b>	<b>\$26,326</b>	<b>\$33,529</b>
<b>Operating activities:</b>				
Income (loss) from continuing operations	(\$4,362)	\$37,548	(\$25,747)	\$36,380
Depreciation and amortization	13,047	13,659	26,227	26,879
Future income taxes	(656)	1,153	926	(214)
Loss (income) of associated businesses <i>(note 7)</i>	27,708	(4,934)	34,713	(3,697)
Dividend received from associated business		1,161		1,161
Other <i>(note 13)</i>	60	(6,000)	4,485	(5,774)
	<b>35,797</b>	<b>42,587</b>	<b>40,604</b>	<b>54,735</b>
Increase in non-cash working capital	(34,749)	(12,440)	(16,029)	(12,079)
Discontinued operations <i>(note 15)</i>		(688)		(2,013)
<b>Cash provided by operating activities</b>	<b>\$1,048</b>	<b>\$29,459</b>	<b>\$24,575</b>	<b>\$40,643</b>
<b>Investing activities:</b>				
Additions to property, plant and equipment	(\$3,327)	(\$5,495)	(\$7,965)	(\$9,572)
Acquisitions and investments <i>(note 14)</i>	(4,344)	(10,908)	(4,344)	(18,681)
Proceeds on sale of land <i>(note 17)</i>		3,125		3,125
Other	456	79	582	(308)
Discontinued operations <i>(note 15)</i>		(13)		(34)
<b>Cash used in investing activities</b>	<b>(\$7,215)</b>	<b>(\$13,212)</b>	<b>(\$11,727)</b>	<b>(\$25,470)</b>
<b>Financing activities:</b>				
Issuance of bankers' acceptance	\$14,370		\$14,370	\$14,479
Repayment of bankers' acceptance		(\$87)	(26,501)	(87)
Dividends paid	(7,270)	(14,447)	(14,533)	(28,884)
Other	(998)	(267)	(831)	93
<b>Cash (used in) provided by financing activities</b>	<b>\$6,102</b>	<b>(\$14,801)</b>	<b>(\$27,495)</b>	<b>(\$14,399)</b>
<b>Cash represented by:</b>				
Cash and cash equivalents	\$35,465	\$44,415	\$35,465	\$44,415
Bank overdraft	(9,139)	(10,886)	(9,139)	(10,886)
	<b>\$26,326</b>	<b>\$33,529</b>	<b>\$26,326</b>	<b>\$33,529</b>

*(See accompanying notes)*



## 1. ACCOUNTING POLICIES

The accounting policies used in the preparation of these unaudited interim consolidated financial statements conform with those in Torstar Corporation's December 31, 2008 audited annual consolidated financial statements except as noted below. These interim financial statements do not include all of the disclosures included in the annual financial statements and accordingly should be read in conjunction with the annual consolidated financial statements.

On January 1, 2009, the Company adopted EIC-173 "Credit risk and the fair value of financial assets and financial liabilities" and the CICA Handbook Section 3064 "Goodwill and Intangible assets" as described in Note 1(r) of the annual consolidated financial statements.

### Credit risk and the fair value of financial assets and financial liabilities

EIC-173 requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This new guidance has been applied retrospectively without restatement of prior periods in accordance with the transitional provisions, and the Company has determined that there was no significant impact on the interim consolidated financial statements.

### Goodwill and Intangible Assets

Section 3064 replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs" and has been applied retrospectively with restatement of prior periods. The standard provides guidance on the criteria for recognition, measurement, presentation and disclosure of goodwill and intangible assets; and clarifies the accounting treatment for advertising and promotional activities. Direct-response advertising costs can no longer be capitalized and amortized against the related revenue, hence the Company will expense as incurred, customer acquisition and retention costs with respect to its direct-to-consumer businesses in its Book Publishing segment's operating results.

Upon initial application, advertising and promotional costs previously capitalized were expensed and there were certain balance sheet reclassifications. The comparative figures have been restated as follows:

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
*(Dollar amounts in thousands unless otherwise stated)*



	Reported as at December 31, 2008	Impact of Section 3064	Restated as at December 31, 2008
<b>Assets</b>			
Inventory	\$39,141	\$1,934	\$41,075
Prepaid expenses	71,922	(12,108)	59,814
Future income tax assets	24,416	1,300	25,716
<b>Liabilities</b>			
Accounts payable and accrued liabilities	237,431	1,169	238,600
Current income taxes payable	12,557	(2,500)	10,057
Retained earnings	\$296,477	(\$7,543)	\$288,934

The impact of this change in accounting policy on prior periods is as follows:

	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	December 2008
Consolidated Statements of Income by quarter:					
Increase (decrease)					
Operating profit (loss)	\$1,064	(\$1,262)	\$3,096	(\$2,837)	\$61
Foreign exchange gain (loss)	(424)	78	(316)	(1,148)	(1,810)
Current tax recovery (expense)	2,000	300	(500)	600	2,400
Non-current tax recovery (expense)	(2,200)	100	(300)	700	(1,700)
Net income (loss)	\$440	(\$784)	\$1,980	(\$2,685)	(\$1,049)

	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	December 31, 2007
Consolidated Balance Sheets:					
Increase (decrease)					
Inventory	\$2,645	\$2,294	\$1,926	\$1,934	\$2,546
Prepaid expenses	(12,053)	(12,768)	(10,558)	(12,108)	(11,466)
Future income tax assets	800	900	600	1,300	3,000
Accounts payable and accrued liabilities	(454)	(336)	(1,274)	1,169	674
Current income taxes payable	(2,100)	(2,400)	(1,900)	(2,500)	(100)
Retained earnings	(\$6,054)	(\$6,838)	(\$4,858)	(\$7,543)	(\$6,494)

There was no impact on cash provided by operating activities.



## Future accounting changes

### International Financial Reporting Standards

The CICA has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. At this date, the Company will be required to prepare financial statements in accordance with IFRS. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The Company has completed an initial review of IFRS and has made a preliminary classification of the IFRS standards into those that could have a significant, moderate or no impact on its financial reporting. The Company is currently developing its IFRS conversion plan which will include a deeper analysis of the IFRS standards, with priority being placed on those that have been identified as possibly having a significant impact. The analysis of each IFRS standard will include identifying the differences between IFRS and the Company's accounting policies, assessing the impact of the difference, and where necessary, analyzing the various policies that it could elect to adopt.

### Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the AcSB released Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests", which replace Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, "Consolidated and Separate Financial Statements". For the Company, these sections will apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted but must be applied together with Section 1582 "Business Combinations".

### Business Combinations

In January 2009, the AcSB released Section 1582, which replaces Section 1581 "Business Combinations". It provides the Canadian equivalent to IFRS 3 (Revised) "Business Combinations". For the Company, this section applies prospectively to business combinations for which the acquisition is on or after January 1, 2011. Earlier adoption is permitted but must be applied together with Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests".



## 2. LONG-TERM DEBT

	As at June 30, 2009	As at December 31, 2008
Bankers' acceptance:		
Cdn. dollar denominated	<b>\$438,231</b>	\$441,745
U.S. dollar denominated	<b>109,020</b>	123,592
	<b>547,251</b>	565,337
Medium Term Notes:		
Cdn. dollar denominated	<b>100,000</b>	100,000
Fair value hedge	<b>2,672</b>	3,363
	<b>102,672</b>	103,363
	<b>\$649,923</b>	\$668,700

- a) The Company has long-term credit facilities with its bankers which consist of a \$425 million revolving loan that matures in January 2012 and a \$310 million revolving operating loan, which matures in January 2010 and can be extended with the consent of all parties for an additional 364-day period (and a second additional period not to extend beyond January 2012) or can be converted to a 364-day term loan at the Company's option. The credit facilities may be drawn in Canadian or U.S. dollars. The Company's credit facilities are subject to financial tests and covenants including not exceeding either a maximum level of debt compared to equity or a maximum level of debt compared to cash flow.

All bankers' acceptance with a term of less than one year have been classified as long-term debt as the Company has the ability to refinance these amounts under its long-term credit facilities. The interest rate spread above the bankers' acceptance rate if in Canadian dollars, or LIBOR rate if in U.S. dollars, varies based on the Company's long-term credit rating and was a blended rate of 0.85% at June 30, 2009. The carrying values of the bankers' acceptance approximate their fair value at June 30, 2009.

The Company is party to three interest rate swap agreements with major Canadian chartered banks that fix the interest rate on \$250 million of Canadian dollar borrowings for five years ending September 2011. As a result, the Company will pay quarterly a fixed rate of 4.3% per annum (plus the interest rate spread based on the Company's long term credit rating) and will receive quarterly floating rate payments based on 90 day bankers' acceptance rates. These swap contracts have been designated as hedges. The fair value of these swap agreements was \$15.9 million unfavourable at June 30, 2009 (December 31, 2008 - \$20.2 million unfavourable).



The average rate on Canadian dollar bank borrowings outstanding at June 30, 2009 was 1.1%. Including the effect of the above noted swap arrangements, the effective rate was 3.3%.

In May 2008, the Company entered into two interest rate swap agreements that fix the interest rate on U.S. \$80 million of borrowings at approximately 4.2% (plus the interest rate spread) for seven years ending May 2015. These swap contracts have been designated as hedges. The fair value of these swap arrangements was \$5.4 million unfavourable at June 30, 2009 (December 31, 2008- \$11.2 million unfavourable).

At June 30, 2009 bank debt outstanding included U.S. borrowings of U.S. \$93.8 million at an average rate of 1.0%. Including the effect of the above noted swap arrangements, the effective rate was 4.5%.

- b) The Company issued in September 2005 \$75 million 3.85% medium term notes which mature on September 8, 2010. The Company has entered into interest rate swap agreements effectively converting this debt into floating rate debt based on 90-day bankers' acceptance rate plus 0.39%. The Company also issued in September 2005 \$25 million 3.7% medium term notes which mature on September 9, 2009. The Company has entered into an interest rate swap agreement effectively converting this debt into floating rate debt based on 90-day bankers' acceptance rates plus 0.36%. Interest on the medium term notes as well as the payments under the swap agreements is paid semi-annually. The swap agreements have been designated as hedges and mature on the due dates of the respective notes.

The medium term notes that mature on September 9, 2009 are classified as long-term debt as the Company has the ability and intent to refinance these amounts under its long-term credit facilities.

The effective interest rate on the medium term notes outstanding at June 30, 2009 was 0.9%. The fair value of the medium term notes was \$2.1 million favourable at June 30, 2009 (December 31, 2008 - \$4.1 million favourable). The fair value of the interest rate swap agreements related to the medium term debt issuance noted above were \$2.7 million favourable at June 30, 2009 (December 31, 2008 - \$3.4 million favourable). In accordance with the accounting policy for a fair value hedge, the debt has been increased by \$2.7 million to \$102.7 million. There was no impact on net income or other comprehensive income.



### 3. FINANCIAL INSTRUMENTS

#### Classification

	As at June 30, 2009	As at December 31, 2008 <i>(note 1)</i>
Financial assets:		
Held for trading, measured at fair value		
Cash and cash equivalents	<b>\$35,465</b>	\$45,787
Loans and receivables, measured at amortized cost		
Accounts receivable	<b>220,445</b>	253,014
Other receivables	<b>17,233</b>	20,644
	<b>237,678</b>	273,658
Available for sale, measured at cost		
Portfolio investments <sup>1</sup>	<b>2,400</b>	2,400
Available for sale, measured at fair value		
Portfolio investments <sup>1</sup>	<b>124</b>	515
Japanese Yen forward contracts <sup>2</sup>	<b>241</b>	(19)
Derivatives designated as effective hedges, measured at fair value		
Foreign currency forward contracts <sup>2</sup>	<b>823</b>	(5,155)
Interest rate swaps – cash flow hedges <sup>1</sup>	<b>(21,252)</b>	(31,395)
Interest rate swaps – fair value hedges <sup>1</sup>	<b>2,672</b>	3,363
Derivatives		
Other <sup>3</sup>	<b>1</b>	
Other <sup>3</sup>	<b>(1)</b>	
Financial liabilities, measured at fair value		
Bank overdraft	<b>9,139</b>	4,425
Financial liabilities, measured at amortized cost		
Long term debt	<b>649,923</b>	668,700
Accounts payable and accrued liabilities	<b>183,790</b>	238,600

<sup>1</sup> These amounts are included in Other assets or Other liabilities

<sup>2</sup> Included in Other receivables or Accounts payable and accrued liabilities

<sup>3</sup> See section below on CTVgm arrangements

#### Risk management

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



#### Credit risk

In the normal course of business, the Company is exposed to credit risk from its accounts receivable from customers. The carrying amounts for accounts receivable are net of applicable allowances for doubtful accounts and returns, which are estimated based on past experience, specific risks associated with the customer and other relevant information.

The Company is also exposed to credit-related losses in the event of non-performance by counterparties to derivative instruments. The Company manages its counterparty risk by only accepting major financial institutions with high credit ratings, as approved by the Board of Directors, as counterparties.

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

The following table sets out details of the age of receivables and allowance for doubtful accounts and returns:

	As at June 30, 2009	As at December 31, 2008
Gross accounts receivable:		
Current	<b>\$256,794</b>	\$272,241
Up to three months past due date	<b>68,235</b>	93,179
Three to twelve months past due date	<b>5,736</b>	8,480
Impaired	<b>8,344</b>	8,420
	<b>339,109</b>	382,320
Allowance for doubtful accounts	<b>(17,628)</b>	(18,939)
Returns provision	<b>(101,036)</b>	(110,367)
	<b>\$220,445</b>	\$253,014

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at a reasonable cost. The Company manages liquidity risk primarily by maintaining sufficient unused capacity within its long term debt facilities. The unused capacity at June 30, 2009 was approximately \$141 million, taking into account the \$25 million Medium Term Notes maturing in 2009. Further information with respect to the Company's long-term credit facilities is provided in Note 8 of the Company's December 31, 2008 audited annual consolidated financial statements.

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.



a) Foreign currency risk

The Company is exposed to foreign currency risk through Harlequin's international operations. The most significant foreign currency exposure is to movements in the U.S. dollar/Cdn. dollar exchange rate. To manage this exchange risk in its operating results, the Company's practice is to enter into forward foreign exchange contracts to hedge a portion of its U.S dollar revenues as detailed in Note 11.

From time to time, the Company may also enter into forward foreign exchange contracts to hedge other currencies (Yen, Euro, Pound Sterling) realized in Harlequin's overseas operations.

In order to offset the exchange risk on its balance sheet from net U.S. dollar denominated assets, the Company maintains a certain level of U.S. dollar denominated debt as indicated in Note 2(a). These net assets are primarily current in nature and to the extent that the amount of net U.S. dollar assets differs from the amount of the U.S. dollar debt, a non-cash foreign exchange gain or loss is recognized in earnings.

b) Interest rate risk

The Company's interest rate risk arises from borrowings issued at or swapped into variable rates which expose the Company to cash flow interest rate risk. The Company manages this risk through the use of interest rate swap contracts to fix the interest rate on a portion of the debt as detailed in Note 2.

An assumed 1% increase in short term interest rates during the six month period ended June 30, 2009 would have decreased net income by \$1.4 million (2008 - \$1.4 million), with an equal but opposite effect for an assumed 1% decrease in interest rates.

The Company does not engage in trading or other speculative activities with respect to derivative financial instruments.

Fair value of financial instruments

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

CTVgm arrangements

As part of the renegotiated CTVgm credit facility, the shareholders of CTVgm, including Torstar, could be required to purchase a portion of CTVgm's financial obligations to its lenders. Torstar's maximum exposure under the arrangement would be \$45 million. To



offset its exposure, Torstar has also entered into a separate arrangement with another CTVgm shareholder which allows Torstar to assign its purchase obligation. As a result of these two arrangements, Torstar anticipates no new net exposure. Torstar's lenders have recognized the two arrangements as being an effective offset and have agreed, with certain conditions attached, not to treat Torstar's arrangement with CTV's lenders as a guarantee under the terms of Torstar's credit facility.

Under Canadian GAAP, Torstar will value separately the two arrangements at their fair values, on inception and at each subsequent reporting period. On inception, Torstar management has determined that both arrangements have only a nominal value. At each subsequent reporting period, Torstar management will consider objective evidence of deterioration of CTVgm's and the other CTVgm shareholder's credit quality, which could impact the assigned carrying value of both arrangements.

#### 4. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility in order to preserve its capacity to meet its financial commitments, to pay dividends and to meet its potential obligations resulting from internal growth and acquisitions.

The Company defines capital as:

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

Total managed capital was as follows:

	As at June 30, 2009	As at December 31, 2008
Shareholders' equity	<b>\$630,193</b>	(note 1) \$665,034
Long term debt	<b>649,923</b>	668,700
Bank overdraft	<b>9,139</b>	4,425
Cash and cash equivalents	<b>(35,465)</b>	(45,787)
	<b>\$1,253,790</b>	\$1,292,372

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, subject to capital market conditions, the Company may elect to adjust the amount of debt outstanding, adjust the amount of dividends paid to shareholders, return capital to its shareholders, repurchase its shares in the marketplace or issue new shares.



The Company is currently meeting all its financial commitments. The Company's credit facilities are subject to financial tests and other covenants with which it was in compliance at June 30, 2009.

There have been no changes in the Company's approach to capital management during the period.

The Company is not subject to any external capital requirements.

## 5. INVENTORIES

	As at June 30, 2009	As at December 31, 2008
Finished goods	\$12,773	(note1) \$13,632
Work in progress	12,073	13,889
Raw materials	13,425	13,554
	\$38,271	\$41,075

The Company has expensed inventory costs of \$113.1 million for the six months ended June 30, 2009 (2008 - \$106.0 million) and \$56.7 million (2008 - \$55.9 million) for the quarter ended June 30, 2009.

The Company recorded a write-down of \$2.2 million for the six months ended June 30, 2009 (2008 - \$1.9 million) and \$0.9 million (2008 - \$1.1 million) for the quarter ended June 30, 2009.

## 6. ACCUMULATED OTHER COMPREHENSIVE LOSS (NET OF TAX)

	Foreign currency translation adjustment	Unrealized gains (losses) on cash flow hedges	Unrealized gains (losses) on available-for- sale securities	Unrealized loss on associated businesses' cash flow hedges	Total
As at December 31, 2008	\$1,846 <sup>1</sup>	(\$24,999) <sup>2</sup>	\$86 <sup>3</sup>	(\$2,829)	(\$25,896)
Other comprehensive income (loss)	(2,794)	10,947	(375)	(3,342)	4,436
As at June 30, 2009	(\$948) <sup>1</sup>	(\$14,052) <sup>2</sup>	(\$289) <sup>3</sup>	(\$6,171)	(\$21,460)

<sup>1</sup>Net of future income tax benefit of \$nil (2008 – nil).

<sup>2</sup>Net of future income tax benefit of \$6,377 (2008 – \$11,551).

<sup>3</sup>Net of future income tax liability of \$nil (2008 – \$17).



## 7. INVESTMENT IN ASSOCIATED BUSINESSES

The Company's Investment in associated businesses includes a 20% equity interest in CTVglobemedia Inc. ("CTVgm"), a 19.35% equity interest in Black Press Ltd. and a 30% equity interest in Q-ponz Inc. The Investment in associated businesses is comprised of the following:

	2009	2008
Balance, beginning of year	\$201,571	\$434,294
(Loss) income of associated businesses	(34,713)	3,697
Dividends Received		(1,161)
Change in investees' accumulated other comprehensive (loss) income	(3,342)	26
Balance, end of period	\$163,516	\$436,856

The 2009 Loss of associated businesses includes a first quarter intangible asset impairment loss for CTVgm of \$5.3 million related to several "A" channel conventional television licenses for which the fair value was less than their carrying value as CTVgm had decided not to renew the licenses. In the second quarter of 2009, a valuation allowance was recorded against certain CTVgm future income tax assets. As a consequence of the valuation allowance, Torstar's investment in CTVgm was reduced by \$30.8 million.

In April 2009, CTVgm completed the renegotiation of its credit facilities.

Outlined below is summarized financial information for 100% of CTVgm, including fair value adjustments, as at May 31, 2009 and November 30, 2008 and for the six months ended May 31, 2009 and May 31, 2008.

	May 31, 2009	November 30, 2008
<b>Balance Sheet</b>		
Current assets	\$701,700	\$737,396
Property, plant and equipment	554,327	550,649
Intangible assets	1,964,788	1,995,365
Goodwill	298,325	298,325
Other assets	164,653	255,493
	\$3,683,793	\$3,837,228
Current Liabilities	\$501,930	\$530,936
Long-term debt	1,973,742	1,934,627
Other liabilities and non-controlling interests	397,171	371,663
Shareholders' equity	810,950	1,000,002
	\$3,683,793	\$3,837,228



	Six months ended	
	May 31, 2009	May 31, 2008
<b>Statements of Income (Loss)</b>		
Revenues	\$1,070,405	\$1,108,860
Operating profit	\$64,515	\$140,960
Impairment loss on intangible assets	(\$30,800)	-
Net income (loss)	(\$172,340)	\$31,890
<b>Statements of Comprehensive Income (Loss)</b>		
Net income (loss)	(\$172,340)	\$31,890
Other comprehensive loss	(\$16,710)	
Comprehensive income (loss)	(\$189,050)	\$31,890

## 8. SHARE CAPITAL

a) A summary of changes to the Company's share capital is as follows:

Class A shares (voting)

At June 30, 2009 there were 9,882,587 Class A shares outstanding with a stated value of \$2,685. During the six months ended June 30, 2009, 10,080 Class A shares were converted to Class B shares.

Class B shares (non-voting)

	Shares	Amount
December 31, 2008	68,999,095	\$388,290
Converted from Class A	10,080	3
Dividend reinvestment plan	14,644	70
Issued under Employee Share Purchase Plan	86,180	494
Other	425	2
June 30, 2009	69,110,424	\$388,859
Total Class A and Class B shares	78,993,011	\$391,544

b) Earnings per share

Basic per share amounts have been determined by dividing net income by the weighted average number of Class A and Class B shares outstanding during the period. Diluted per share amounts have taken into consideration the dilutive effect of stock options and the employees share purchase plan. In 2008, the basic and diluted per share amounts took into consideration the unvested shares held by the RSU Trust, until it was wound up



during the third quarter of 2008. The weighted average number of Class A and Class B shares outstanding (in thousands) were:

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Basic	78,971	78,831	78,932	78,782
Diluted	78,971	78,845	78,932	78,796

## 9. STOCK-BASED COMPENSATION

The Company has five stock-based compensation plans: an executive share option plan, an employee share purchase plan, an executive restricted share unit (“RSU”) plan, a deferred share unit (“DSU”) plan for employees and a DSU plan for non-employee directors.

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

	Share options	Weighted average exercise price
December 31, 2008	5,177,900	\$21.88
Granted	539,656	8.18
Forfeited or expired	(1,994,676)	(21.12)
June 30, 2009	3,722,880	\$20.30

Options exercisable at June 30, 2009 are as follows:

Range of exercise price	Share options exercisable	Weighted average exercise price
\$15.75 – 19.61	278,782	\$18.57
\$20.30 – 22.20	1,772,516	\$21.63
\$25.50 – 29.01	698,837	\$27.37
\$15.75 – 29.01	2,750,135	\$22.78

The fair value of the executive share options granted in 2009 was estimated to be \$1.19 per option at the date of grant using the Black-Scholes option pricing model with the assumptions of a risk free interest rate of 2.2%, expected dividend yield of 4.4%, expected volatility of 24.3% and an expected time until exercise of 6 years.



b) RSU Plan

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

	Units
December 31, 2008	300,070
Vested and paid	(86,592)
Granted	355,057
Forfeited	(95,261)
June 30, 2009	473,274

As at June 30, 2009, 262,609 units have been accrued at a value of \$1.4 million (December 31, 2008 – 201,332 units accrued at a value of \$1.7 million).

The Company has entered into a derivative instrument in order to lock in the expense for 391,394 RSU's. Changes in the fair value of this instrument are recorded as compensation expense and offset the impact of changes in the value of the RSU's that have been accrued. As the RSU's are accrued over the three-year period until the RSU's vest, there will not be an exact offset each period.

- c) The Company has recognized in 2009 compensation expense totalling \$2.2 million (2008 - \$1.7 million) for the stock options granted in 2006 to 2009, RSUs granted in 2007 to 2009 and the employee share purchase plans originating in 2007 to 2009.
- d) The Company has a DSU Plan for executives and non-employee directors. As at June 30, 2009, 347,053 units were outstanding at a value of \$1.8 million (December 31, 2008 – 336,772 units at a value of \$2.8 million). The Company has entered into a derivative instrument in order to offset its exposure to 298,600 units. Changes in the fair value of this instrument are recorded as compensation expense and offset the impact of changes in the value of the outstanding deferred share units.

**10. EMPLOYEE FUTURE BENEFITS**

The Company maintains a number of defined benefit plans and defined contribution plans, which provide pension benefits to its employees in Canada and the United States. Post employment benefits other than pensions are also available to employees, primarily in the Canadian newspapers operations, which provide for various health and life insurance benefits.

The Company has expensed net pension benefit costs of \$22.9 million, including \$4.2 million recorded in restructuring and other charges, for the six months ended June 30, 2009 (2008 - \$7.2 million) and \$9.3 million for the quarter ended June 30, 2009 (2008 – \$3.7 million). With respect to post-employment benefits other than pensions, for the six months



and quarter ended June 30, 2009 the net benefit cost was \$2.1 million and \$1.0 million respectively (2008 - \$1.9 million and \$0.9 million respectively).

## 11. FORWARD FOREIGN EXCHANGE CONTRACTS AND OPTIONS

As described in Note 19 of the Company's December 31, 2008 annual financial statements, the Company has entered into various forward foreign exchange contracts. The Company has entered into forward foreign exchange contracts which establish a rate of exchange of Canadian dollar per U.S. dollar of \$1.12 for U.S. \$50.1 million in 2009, \$1.22 for U.S. \$30.8 million in 2010 and \$1.11 for U.S. \$5.0 million in 2011 (December 31, 2008 - \$1.12 for U.S. \$50.1 million in 2009 and \$1.22 for U.S. \$21.0 million in 2010). These U.S. dollar contracts have been designated as hedges. At June 30, 2009, the net fair value of the foreign exchange contracts was \$0.8 million favourable (December 31, 2008 - \$5.2 million unfavourable).

The Company has also entered into forward foreign exchange contracts to allow it to convert a portion of its expected future Japanese Yen (¥) earnings into Canadian dollars, which establish a rate of exchange of ¥75 per Canadian dollar for ¥200 million in 2009. These contracts have not been designated as hedges and are recorded at their fair value of \$0.2 million favourable.

## 12. RESTRUCTURING AND OTHER CHARGES

For the six months ended June 30, 2009, the Company recorded restructuring provisions of \$15.5 million (2008 - \$25.2 million) related to staff reductions in the Newspapers and Digital Segment and \$1.4 million (2008 - nil) in the Book Publishing Segment for the closure of a distribution centre in the U.K. A provision of \$12.8 million was recorded during the first quarter related to the leadership transition at Corporate.

The following table indicates the change in the amount of restructuring provisions included in Accounts payable and accrued liabilities:

	<i>Three months ended June 30</i>		<i>Six months ended June 30</i>	
	2009	2008	2009	2008
Balance, beginning of period	<b>\$44,415</b>	\$27,678	<b>\$29,390</b>	\$10,718
Provision during the period	<b>3,805</b>	4,408	<b>29,705</b>	25,225
Payments during the period:				
Prior years' provision	<b>(5,771)</b>	(1,760)	<b>(15,924)</b>	(5,448)
Current year provision	<b>(16,874)</b>	(2,016)	<b>(17,596)</b>	(2,185)
Balance, end of period	<b>\$25,575</b>	\$28,310	<b>\$25,575</b>	\$28,310



### 13. OTHER CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Employee future benefits	<b>(\$849)</b>	(note 1) \$1,239	<b>\$2,450</b>	(note 1) \$1,478
Stock-based compensation plans	<b>365</b>	(423)	<b>(565)</b>	(52)
Foreign exchange	<b>11</b>	(190)	<b>261</b>	(560)
Gain on sale of land		(9,200)		(9,200)
Investment write-down		2,419		2,419
Lease inducement	<b>677</b>		<b>2,264</b>	
Other	<b>(144)</b>	155	<b>75</b>	141
	<b>\$60</b>	(\$6,000)	<b>\$4,485</b>	(\$5,774)

### 14. ACQUISITIONS

During the six month period ended June 30, 2009, the Company completed a number of acquisitions in its Newspapers and Digital segment for cash of \$2.2 million and deferred payments of \$2.0 million, which included Gottarent.com and Rosebud Media. The deferred payments of \$2.0 million are due in the period May 2010 through May 2012. These acquisitions also contain potential performance payments, based on future revenues, which will be treated as additional purchase price if paid. The potential performance payments are capped at \$3.0 million for one acquiree and open-ended for the other. These acquisitions were accounted for by the purchase method. The preliminary allocation of the \$4.2 million purchase price of these acquisitions (including the deferred payments), was \$0.1 million to working capital, \$2.3 million to intangible assets, \$2.2 million to goodwill and \$0.4 million to future tax liabilities. In addition, the \$2.2 million first instalment for the eyeReturn Marketing purchase made in the prior year was paid during the second quarter.

During the six month period ended June 30, 2008, the Company completed a number of acquisitions in its Newspapers and Digital segment for cash of \$18.4 million, which included Central Ontario Web, eyeReturn Marketing and Torstar's share of Workopolis' acquisition of the specialist online employment board business of Brainhunter Inc. These acquisitions were accounted for by the purchase method. The purchase of eyeReturn Marketing included future obligations of \$6.5 million, which are payable annually from June 2009 through June 2011 in three equal instalments of approximately \$2.2 million. The total purchase price of these acquisitions (including the future obligations) has been allocated \$5.8 million to fixed assets, \$1.1 million to working capital, \$7.3 million to intangible assets, \$11.8 million to goodwill and \$1.1 million to future income tax liabilities.



## 15. DISCONTINUED OPERATIONS

In early 2009, Transit Television Network (“Transit TV”) ceased operations and the two Transit TV subsidiaries filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code. The Company’s consolidated balance sheet as at December 31, 2008 did not include any amounts for Transit TV since a charge of \$17.5 million was recorded during 2008 to write off the carrying value of Transit TV’s assets. This amount included \$4.6 million of foreign currency translation loss that had previously been included in accumulated other comprehensive loss. The Company’s 2008 interim consolidated financial statements included the following amounts for Transit TV:

	Mar. 31, 2008	Jun. 30, 2008	Sep. 30, 2008	Dec. 31, 2008	2008
<b>Statements of Income by quarter:</b>					
Operating revenue	\$370	\$683	\$816	\$412	\$2,281
Operating loss	(\$1,849)	(\$1,370)	(\$1,277)	(\$802)	(\$5,298)
Restructuring and other charges			(16,037)	(1,454)	(17,491)
Net loss	(\$1,849)	(\$1,370)	(\$17,314)	(\$2,256)	(\$22,789)
Loss per Class A and Class B share (note 8(b)):	(\$0.02)	(\$0.02)	(\$0.22)	(\$0.03)	(\$0.29)
<b>Statements of Comprehensive Loss by quarter:</b>					
Net loss	(\$1,849)	(\$1,370)	(\$17,314)	(\$2,256)	(\$22,789)
Other comprehensive income (loss)	530	(655)	5,213		5,088
Comprehensive loss	(\$1,319)	(\$2,025)	(\$12,101)	(\$2,256)	(\$17,701)
<b>Statements of Cash Flow by quarter:</b>					
Cash was provided by (used in):					
Operating activities	(\$1,325)	(\$688)	(\$498)	(\$1,079)	(\$3,590)
Investing activities	(21)	(13)	27	(41)	(48)
	(\$1,346)	(\$701)	(\$471)	(\$1,120)	(\$3,638)

## 16. COMMITMENTS

As part of the renegotiated CTVgm credit facility, the shareholders of CTVgm, including Torstar, could be required to purchase a portion of CTVgm’s financial obligations to its lenders. Torstar’s maximum exposure under the arrangement would be \$45 million. Torstar has also entered into a separate arrangement with another CTVgm shareholder which allows Torstar to assign its purchase obligation, and as a result anticipates no new net exposure.



### **17. GAIN ON SALE OF LAND**

During the second quarter of 2008, the Company recognized a gain of \$9.2 million from the sale of excess land in Vaughan. The net proceeds from this sale were \$9.3 million of which \$6.2 million is a mortgage which matures in December 2009. The mortgage includes interest at a rate of 6.0% per annum until March 2009 and 9.5% per annum thereafter until maturity. The purchaser may prepay the whole or part of the principal at any time.

### **18. INVESTMENT WRITE-DOWN**

During the second quarter of 2008, the Company recorded a writedown of \$2.4 million to reflect an other-than-temporary decline in fair value on its investment in LiveDeal, Inc. (which is classified as available-for-sale).

### **19. COMPARATIVE FINANCIAL STATEMENTS**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 consolidated financial statements.