

# **INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **For the three and nine months ended September 30, 2008 and 2007**

**Dated: October 29, 2008**

The following review and analysis of Torstar Corporation's (the "Company" or "Torstar") operations and financial position for the three and nine months ended September 30, 2008 and 2007 is supplementary to, and should be read in conjunction with the audited consolidated financial statements of Torstar Corporation for the year ended December 31, 2007 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 18, 2008.

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 the 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 reporting unit or segment's operating profit before restructuring provisions, interest, taxes, depreciation and amortization. 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.

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, newsprint costs, labour disruptions, foreign exchange fluctuations, effects of changes in market conditions on the financial position of pension plans and investments, restrictions imposed on existing credit facilities, reliance on its printing operations, reliance on technology and information systems, litigation, 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. For more information, please see the discussion starting on page 24 of the Company's 2007 Annual Report concerning the effect certain risk factors could have on actual results, as well as the discussion in the Company's current Annual Information Form, which is incorporated herein by reference.

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 and digital properties including thestar.com, toronto.com, Wheels.ca, Workopolis, Olive Canada Network and eyeReturn; and Metroland Media Group, publishers of community and daily newspapers in Ontario. Its Book Publishing Segment represents Harlequin Enterprises Limited, 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 – Third quarter and year to date 2008**

### **Overall Performance**

Total revenue was \$372.1 million in the third quarter of 2008, up \$2.9 million from \$369.2 million in the third quarter of 2007. Newspapers and Digital revenue increased \$0.5 million to \$254.0 million with growth at Star Media Group's digital properties and jointly-owned newspapers and Metroland Media Group's distribution and Gold Book Directories offsetting the declines in advertising revenues at the newspapers. Book Publishing revenue was \$118.1 million in the third quarter, up \$2.4 million from \$115.7 million in the same period last year. Higher revenues in North America Retail were offset by declines in North America Direct-To-Consumer and Overseas. Approximately one-half of the increase came from the favourable impact of foreign exchange rates in the quarter.

Year to date total revenue was \$1,123.3 million, down \$20.3 million from \$1,143.6 million in the same period last year. Newspapers and Digital revenue was \$776.6 million year to date, down \$10.9 million from \$787.5 million last year.

Book Publishing revenue was \$346.7 million year to date, down \$9.4 million from last year as a \$13.0 million decline from the unfavourable impact of foreign exchange rates more than offset underlying growth of \$3.6 million.

Operating profit, before restructuring and other charges, was \$31.7 million in the third quarter, down \$1.8 million from \$33.5 million in 2007. Including the \$19.4 million of restructuring and other charges, operating profit was \$12.3 million in the third quarter of 2008. Newspapers and Digital Segment operating profit was \$20.6 million in the third quarter, down \$1.3 million from \$21.9 million in 2007. Book Publishing operating profit was \$15.6 million in the third quarter of 2008, down \$0.7 million from \$16.3 million in 2007. The decrease was due to the unfavourable impact of foreign exchange rates as underlying results were flat. Corporate costs were \$4.4 million in the third quarter of 2008, down \$0.2 million from the third quarter of 2007.

Year to date operating profit, before restructuring and other charges, was \$104.4 million, down \$8.2 million from \$112.6 million in the same period last year. Including the \$44.6 million restructuring and other charges, operating profit was \$59.7 million year to date. Newspapers and Digital Segment operating profit was \$67.2 million in the first nine months of 2008, down \$11.6 million from \$78.8 million last year. Year to date Book Publishing operating profit was \$50.3 million in 2008, up \$2.4 million from \$47.9 million in 2007. Corporate costs were \$13.1 million year to date in 2008 down \$1.0 million from \$14.1 million in 2007 from a combination of lower professional fees and executive compensation costs.

In the third quarter of 2008, Torstar recorded \$3.4 million (\$0.03 per share, after tax) for restructuring provisions in the Star Media Group and \$16.0 million (\$0.20 per share) for a write-down to reduce the carrying value of Transit TV's assets. Year to date, restructuring provisions of \$28.6 million (\$0.25 per share, after tax) have been recorded related to voluntary and non-voluntary staff reductions in the newspapers as those businesses respond to their revenue challenges. The restructurings will result in a net reduction of 270 employees with expected annual savings of \$18.0 million.

Earnings before restructuring and other charges, interest, taxes, depreciation and amortization ("EBITDA" – see Non-GAAP measures), was \$45.7 million in the third quarter of 2008, down \$1.6 million from \$47.3 million in 2007. Year to date, EBITDA was \$146.8 million, down \$7.7 million from \$154.5 million in 2007.

(in \$000's)	Third Quarter		Year to Date	
	2008	2007	2008	2007
Newspapers and Digital	\$33,293	\$34,458	\$105,844	\$116,997
Book Publishing	16,795	17,477	53,993	51,522
Corporate	(4,389)	(4,586)	(13,086)	(14,068)
EBITDA, excluding restructuring provisions	\$45,699	\$47,349	\$146,751	\$154,451

Interest expense was \$6.8 million in the third quarter of 2008, down \$2.0 million from \$8.8 million in the third quarter of 2007. Year to date interest expense was \$21.7 million, down \$4.4 million from \$26.1 million last year. The decrease reflected lower average debt levels and slightly lower effective interest rates in 2008. The average net debt (long-term debt and bank overdraft net of cash and cash equivalents) was \$628.9 million in the third quarter of 2008, down from \$654.1 million in the third quarter of 2007. Torstar's effective interest rate was 4.3% in the third quarter and 4.6% year to date in 2008 down from 5.4% and 5.2% in the same periods in 2007. Net debt was \$621.3 million at September 30, 2008, down \$15.1 million from \$636.4 million at June 30, 2008 and up \$1.0 million from \$620.3 million at December 31, 2007.

Torstar reported a non-cash foreign exchange loss of \$0.3 million in the third quarter of 2008 and a gain of \$0.6 million year to date. Non-cash foreign exchange losses of \$0.6 million and \$2.4 million were reported in the third quarter and year to date in 2007 respectively. These gains/losses arose from the translation of foreign-currency denominated assets and liabilities into Canadian dollars. The amount of the gain or loss in any period 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.

Torstar reported a loss from associated businesses of \$2.9 million in the third quarter of 2008 compared with a loss of \$8.2 million in the third quarter of 2007. Year to date, income from associated businesses was \$0.8 million in 2008 down \$2.0 million from \$2.8 million in 2007.

Torstar reported a loss of \$2.8 million from CTVgm in the third quarter of 2008, an improvement of \$5.8 million from a loss of \$8.6 million in the third quarter of 2007. Year to date Torstar's income from CTVgm was \$3.5 million, up \$3.4 million from \$0.1 million in the same period last year. The improvement in the quarter and year to date related to unusual and one-time items. In the third quarter of 2008, CTVgm's results included gains on the sale of properties compared with a write-down of the investment in TQS in the third quarter of 2007. Year to date that positive difference was partially reduced by the second quarter provision of 2007 and 2008 Part II fees. For the quarter and year to date, CTVgm's operating results were down as softness in conventional television and

higher amortization costs more than offset strength in specialty television advertising and reduced interest expense from lower debt levels.

Torstar reported a loss from Black Press of \$0.2 million in the third quarter of 2008 compared with income of \$0.5 million in the third quarter of 2007. Year to date Torstar reported a loss from Black Press of \$3.1 million in 2008 compared with income of \$2.6 million in the same period last year. Results were down in the third quarter from a combination of lower U.S. revenues as the newspapers were negatively impacted by the U.S. economy, increased newsprint costs, higher amortization expense and higher effective tax rates. Year to date, results were also negatively impacted by the mark to market of its financial derivatives and a \$2.1 million second quarter adjustment related to Black Press's future tax assets.

Year to date Torstar has reported a net gain of \$6.8 million from unusual items. In the second quarter, Torstar recognized a gain of \$9.2 million on the disposition of excess land and a loss of \$2.4 million on its portfolio investment in U.S. based LiveDeal Inc. On an after-tax basis the unusual items contributed \$5.6 million of net income or \$0.07 per share.

Excluding the impact of the write-down related to the Transit TV capital assets, which was not tax-effected, Torstar's effective tax rate was 27.7% in the third quarter of 2008, compared with 47.4% in the third quarter of 2007. The lower effective tax rate in the third quarter of 2008 reflected the mix-of-income impact from items that were taxed at a capital gains rate and lower foreign losses that were not tax-effected. Year to date, Torstar's effective tax rate was 33.5% in 2008 compared with 37.6% in the same period last year. Year to date, the effective rate was impacted by these items as well as by one-time adjustments to tax expense recorded in the first quarter of both 2008 and 2007. The full year 2008 tax rate is expected to be approximately 30% excluding the impact of the Transit TV write-down and 35% including it.

Torstar reported a net loss of \$2.7 million, \$0.03 per share, in the third quarter of 2008. Excluding the restructuring charge and the write-down related to Transit TV's assets, Torstar had net income of \$15.6 million or \$0.20 per share in the quarter. In the third quarter of 2007, Torstar had net income of \$8.4 million or \$0.11 per share. The improvement in the quarter is primarily from the lower losses from associated businesses. Year to date Torstar reported net income of \$30.8 million, down \$23.4 million from \$54.2 million in the same period last year. Net income per share was \$0.39 in the first nine months of 2008, down \$0.30 from \$0.69 in the same period last year.

The average number of shares outstanding was 78.9 million in the third quarter and 78.8 million year to date 2008. In 2007, an average of 78.7 million shares was outstanding during the third quarter and 78.6 million during the first nine months.

The following chart provides a continuity of earnings per share from 2007 to 2008:

	Third Quarter	Year to Date
<b>Net income per share 2007</b>	\$0.11	\$0.69
<b>Changes</b>		
• <b>Operations</b>	0.01	0.01
• <b>Transit TV asset write-down</b>	(0.20)	(0.20)
• <b>Restructuring provisions</b>	(0.03)	(0.25)
• <b>Income from associated businesses</b>	0.06	(0.02)
• <b>Non-cash foreign exchange</b>	0.02	0.08
• <b>Unusual items</b>		0.07
• <b>One-time tax expense adjustments</b>		0.01
<b>Net income per share 2008</b>	(\$0.03)	\$0.39

### **SEGMENT OPERATING RESULTS - Newspapers and Digital Segment**

The Newspapers and Digital Segment includes the Star Media Group; Metroland Media Group; and Transit Television Network (“Transit TV”).

Star Media Group includes the Toronto Star, with the largest circulation and readership of any daily newspaper in Canada; Torstar’s interests in Sing Tao Daily and the Toronto, Ottawa, Vancouver, Edmonton, Calgary and Halifax editions of Metro; thestar.com; toronto.com; Wheels.ca, Yourhome.ca, Healthzone.ca, Parentcentral.ca and Torstar Media Group Television (“TMG TV”). Star Media Group also includes Workopolis, Olive Canada Network, eyeReturn and the Torstar Digital corporate group.

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, and operates several consumer shows throughout Ontario. Metroland Media Group has ten web press facilities which print the Metroland newspapers but also engage in commercial printing.

Transit TV is a U.S. based operation that delivers full motion, broadcast-quality information and entertainment to passengers on buses and rail transit on screens mounted in the vehicle.

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 September 30, 2008 and 2007.

	Operating Revenue		Operating Profit (Loss)		Profit Margin	
	2008	2007	2008	2007	2008	2007
Metroland Media	\$135,077	\$136,042	\$20,586	\$23,369	15.2%	17.2%
Star Media	118,098	116,945	1,283	1,038	1.1%	0.9%
Transit TV	816	546	(1,277)	(2,556)	n/a	n/a
<b>Segment Total</b>	<b>\$253,991</b>	<b>\$253,533</b>	<b>\$20,592</b>	<b>\$21,851</b>	<b>8.1%</b>	<b>8.6%</b>

	Depreciation and Amortization		EBITDA		EBITDA Margin	
	2008	2007	2008	2007	2008	2007
Metroland Media	\$3,914	\$3,836	\$24,500	\$27,205	18.1%	20.0%
Star Media	8,035	7,900	9,318	8,938	7.9%	7.6%
Transit TV	752	871	(525)	(1,685)	n/a	n/a
<b>Segment Total</b>	<b>\$12,701</b>	<b>\$12,607</b>	<b>\$33,293</b>	<b>\$34,458</b>	<b>13.1%</b>	<b>13.6%</b>

The following tables set out, in \$000's, the results for the reporting units within the Newspapers and Digital Segment for the nine months ended September 30, 2008 and 2007.

	Operating Revenue		Operating Profit (Loss)		Profit Margin	
	2008	2007	2008	2007	2008	2007
Metroland Media	\$415,036	\$420,961	\$68,723	\$74,630	16.6%	17.7%
Star Media	359,655	364,747	2,987	12,235	0.8%	3.4%
Transit TV	1,869	1,788	(4,496)	(8,051)	n/a	n/a
<b>Segment Total</b>	<b>\$776,560</b>	<b>\$787,496</b>	<b>\$67,214</b>	<b>\$78,814</b>	<b>8.7%</b>	<b>10.0%</b>

	Depreciation and Amortization		EBITDA		EBITDA Margin	
	2008	2007	2008	2007	2008	2007
Metroland Media	\$11,730	\$11,447	\$80,453	\$86,077	19.4%	20.4%
Star Media	24,600	23,984	27,587	36,219	7.7%	9.9%
Transit TV	2,300	2,752	(2,196)	(5,299)	n/a	n/a
<b>Segment Total</b>	<b>\$38,630</b>	<b>\$38,183</b>	<b>\$105,844</b>	<b>\$116,997</b>	<b>13.6%</b>	<b>14.9%</b>

Total revenue of the Newspapers and Digital Segment was \$254.0 million in the third quarter of 2008, up \$0.5 million from \$253.5 million in the third quarter of 2007. Year to date total revenue of the Newspapers and Digital Segment was \$776.6 million down \$10.9 million from \$787.5 million in the same period last

year. Digital revenues were 6.7% of the total in the third quarter of 2008 and 6.1% year to date, up from 5.2% and 4.5% in the same periods in 2007.

Rising newsprint prices started to have a negative impact on the newspapers' operating results this quarter. Newsprint prices were approximately 18% higher in the third quarter and flat year to date.

#### Metroland Media Group

Revenues were \$135.1 million in the third quarter of 2008, down \$0.9 million from \$136.0 million in the third quarter of 2007 with higher revenues from distributions and Gold Book Directories more than offset by lower advertising and printing revenues at the newspapers. National and classified advertising categories were both down in the quarter. The continued softening of the Ontario economy resulted in declines in employment advertising in the quarter. Year to date revenues were \$415.0 million in 2008, down \$6.0 million from \$421.0 million in the same period last year.

Metroland Media Group's EBITDA was \$24.5 million in the third quarter, down \$2.7 million from \$27.2 million in the third quarter of 2007. Year to date EBITDA was \$80.5 million in 2008, down \$5.6 million from \$86.1 million last year. Labour cost savings continued to be realized from the restructuring efforts undertaken in 2007 and the first half of 2008 but were more than offset by higher newsprint and distribution costs in the third quarter.

Operating profit was \$20.6 million in the third quarter of 2008, down \$2.8 million from \$23.4 million in the third quarter of 2007. Year to date operating profit was \$68.7 million in 2008, down \$5.9 million from \$74.6 million in the same period last year.

#### Star Media Group

Star Media Group had revenues of \$118.1 million in the third quarter of 2008, an increase of \$1.2 million from \$116.9 million in the third quarter of 2007. Year to date revenues were \$359.7 million in 2008, down \$5.0 million from \$364.7 million in the same period last year.

Revenue grew over 28% at the Star Media Group digital properties in the third quarter and year to date with strong performance at Olive Canada Network, thestar.com and eyeReturn (which was acquired in the second quarter of 2008). The jointly-owned Sing Tao and Metro newspapers provided revenue growth in the third quarter and year to date from a combination of new products and market expansion. Toronto Star advertising revenues were down 8.5% in the third quarter of 2008 and 10.5% year to date with continued weakness in the Retail and Classified categories. Within Classified, employment advertising was particularly soft during the third quarter.

Star Media Group's EBITDA was \$9.3 million in the third quarter of 2008, up \$0.4 million from \$8.9 million in the third quarter of 2007. Year to date EBITDA was \$27.6 million in 2008, down \$8.6 million from \$36.2 million in the same period last year. Newsprint costs were higher in the third quarter for the Toronto Star as the impact of higher newsprint prices more than offset reduced newsprint consumption. Payroll costs were lower in the quarter from the restructuring efforts undertaken in 2007 and the first quarter of 2008, offset partially by higher pension and benefit costs. The Star Media Group digital properties and the jointly-owned newspapers had EBITDA growth in the quarter from their increased revenues.

The Star Media Group had an operating profit of \$1.3 million in the third quarter of 2008, up \$0.3 million from \$1.0 million in the third quarter of 2007. Year to date operating profit was \$3.0 million in 2008, down \$9.2 million from \$12.2 million in the same period last year.

#### Transit TV

Transit TV had an EBITDA loss of \$0.5 million in the third quarter of 2008, an improvement of \$1.2 million from a loss of \$1.7 million in the same period last year. Year to date the EBITDA loss was \$2.2 million in 2008, an improvement of \$3.1 million from a loss of \$5.3 million in 2007. The improvement reflected the continued focus on cost containment by Transit TV's management.

At the end of the third quarter, Torstar recorded a write-down of \$16.0 million to reduce the carrying value of Transit TV's assets. The write-down included \$4.6 million of foreign currency translation loss that had previously been included in accumulated other comprehensive loss. This write-down, which was included in "restructuring and other charges" on the consolidated statements of income, reduces Torstar's carrying value in Transit TV's net assets to approximately \$1.1 million at September 30, 2008. Torstar continues to operate Transit TV and to explore potential strategic opportunities.

#### **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 nine months ended September 30, 2008 and 2007.

	Third Quarter		Year to Date	
	2008	2007	2008	2007
Revenue	\$118,124	\$115,667	\$346,711	\$356,111
EBITDA	\$16,795	\$17,477	\$53,993	\$51,522
Depreciation & amortization	1,232	1,224	3,697	3,644
Operating profit	\$15,563	\$16,253	\$50,296	\$47,878
EBITDA margin	14.2%	15.1%	15.6%	14.5%
Operating profit margin	13.2%	14.1%	14.5%	13.4%

	Third Quarter	Year to Date
Reported revenue, prior year	\$115,667	\$356,111
Impact of currency movements and foreign exchange contracts	1,209	(13,017)
Change in underlying revenue	1,248	3,617
Reported revenue, current year	\$118,124	\$346,711
Reported operating profit, prior year	\$16,253	\$47,878
Impact of currency movements and foreign exchange contracts	(668)	(3,787)
Change in underlying operating profit	(22)	6,205
Reported operating profit, current year	\$15,563	\$50,296

Book Publishing revenues were up \$1.2 million in the third quarter of 2008 excluding the impact of foreign exchange. North America Retail was up \$4.5 million, North America Direct-To-Consumer was down \$2.2 million and Overseas was down \$1.1 million. Year to date, Book Publishing revenues were up \$3.6 million excluding the impact of foreign exchange. North America Retail was up \$7.8 million, North America Direct-To-Consumer was down \$4.8 million and Overseas was up \$0.6 million.

Book Publishing operating profits were flat in the third quarter of 2008 excluding the impact of foreign exchange. North America Retail was up \$0.4 million, North America Direct-To-Consumer was down \$0.7 million and Overseas was up \$0.3 million. Year to date Book Publishing operating profits were up \$6.2 million excluding the impact of foreign exchange. North America Retail was up \$5.6 million, North America Direct-To-Consumer was down \$0.1 million and Overseas was up \$0.7 million.

North America Retail operating profits were up \$0.4 million in the third quarter with the continuation of the improved net sales rates and positive adjustments to returns provisions. The revenue growth in the quarter was offset by higher product costs and increased promotional spending.

North America Direct-To-Consumer operating profits were down \$0.7 million in the third quarter from lower revenues. Revenue continued to be down in the quarter and year to date as the revenue growth from Internet book and digital sales was not sufficient to offset the decrease from fewer books sold in the traditional direct mail business. Lower costs, primarily reduced advertising and promotion spending in the traditional direct mail business offset some of the lower revenues in both the quarter and year to date.

Overseas operating profits were up \$0.3 million in the third quarter of 2008 with the contribution from the sales of digital manga (comics) content to SoftBank Creative Corp., (a division of Softbank Corp., one of the largest providers of cell phone services in Japan) more than offsetting lower sales in other overseas markets. The lower sales are in part due to the direct-to-consumer businesses in certain overseas markets facing the same revenue challenges as the North America Direct-To-Consumer division.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

Funds are generally used for capital expenditures, debt repayment and distributions to shareholders. Long-term debt is used to supplement funds from operations and as required for acquisitions. It is expected that future cash flows from operating activities, combined with the credit facilities available, will be adequate to cover forecasted financing requirements.

In the third quarter of 2008, \$44.5 million of cash was generated by operations, \$9.5 million was used for investing activities and \$35.4 million was used for financing activities. Year to date, \$85.2 million of cash was generated by operations, \$34.9 million was used for investing activities and \$49.8 million was used for financing activities.

### **Operating activities**

Operating activities provided cash of \$44.5 million in the third quarter of 2008, down from \$60.6 million in the third quarter of 2007. Year to date, operating activities provided cash of \$85.2 million, down \$9.6 million from \$94.8 million in the same period in 2007 primarily from the lower operating results.

Non-cash working capital decreased by \$16.3 million in the third quarter of 2008 as lower receivables (from the traditionally lower revenues in the third quarter) and higher payables (related to timing of payments) were offset by lower net current tax balances (timing of installments that are made evenly during the year compared with tax provisions recorded against lower earnings in the quarter) and higher prepaid expenses. These are normal trends in the third quarter and the most significant difference from the \$32.3 million decrease in non-cash working capital in the third quarter of 2007 was related to net current tax balances.

Year to date non-cash working capital decreased by \$3.9 million with similar trends as in the third quarter as well as a net increase of \$15.7 million in restructuring provisions. During the same period in 2007, there was a net decrease in restructuring provisions of \$11.1 million.

### **Investing activities**

During the third quarter of 2008, \$9.5 million was used for investments, down from \$11.6 million in the third quarter of 2007. Year to date \$34.9 million was used for investments, up \$7.5 million from \$27.4 million in the same period last year.

Additions to property plant and equipment were \$6.2 million in the third quarter of 2008 and \$15.8 million year to date. This was down from \$11.7 million and \$24.4 million in the same periods last year. Total year additions to property plant and equipment are expected to be approximately \$30.0 million.

Investments of \$4.9 million were made in the third quarter including the acquisition of 50% of Save.ca. Year to date, investments of \$23.6 million were made including the acquisition of Central Ontario Web and eyeReturn Marketing and Torstar's share of Workopolis' acquisition of the specialist online employment board business of Brainhunter Inc.

Year to date, cash of \$3.1 million was received on the sale of excess land. The balance of the proceeds (\$6.2 million) was received in the form of a mortgage which matures December 12, 2009 but can be paid earlier at the option of the purchaser.

### **Financing activities**

Cash of \$35.4 million was used by financing activities during the third quarter of 2008 including \$21.4 million for the repayment of bankers' acceptance and \$14.5 million for the payment of dividends. In the third quarter of 2007, \$20.1 million for the repayment of bankers' acceptance and \$14.4 million was used for the payment of dividends.

Year to date Torstar has paid \$43.4 million of dividends and repaid \$7.0 million of bankers' acceptance. In the same period last year Torstar paid \$43.2 million of dividends and repaid \$29.1 million of bankers' acceptance.

### **Long-term debt**

At September 30, 2008, Torstar had long-term debt of \$653.5 million outstanding. The debt consisted of U.S. dollar bankers' acceptance of \$105.2 million, Canadian dollar bankers' acceptance of \$447.8 million and Canadian dollar medium term notes of \$100.0 million increased by \$0.5 million related to fair value hedge adjustments.

Torstar's long-term credit facility for \$800 million is designated as a standby line in support of its bankers' acceptance borrowing program and also for its letters of credit. This allows the bankers' acceptance to be classified as long-term debt on Torstar's balance sheet. At September 30, 2008, \$557.9 million was drawn under the facility and a \$27.5 million letter of credit was outstanding relating to the 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' acceptance or through its long-term credit facility. As of September, the long-term credit facility had \$214.6 million of available credit which is considered to be adequate to cover forecasted financing requirements including 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.

### **Contractual obligations**

There were no material changes in Torstar's significant contractual obligations during the third quarter of 2008.

### **Foreign Exchange**

Torstar's practice has been to hedge, one year in advance on a quarterly basis, U.S. dollar revenues equivalent to approximately 50% of its expected U.S. dollar operating profit. During the third quarter and early October of 2008, Torstar made the decision to hedge the balance of its fourth quarter 2008 exposure and to increase the 2009 hedge targets to approximately 70%.

In early October 2008, Torstar entered into a forward foreign exchange contract to sell \$7.5 million U.S. dollars in the fourth quarter of 2008 at a rate of \$1.19. As a result of this contract, Torstar has forward foreign exchange contracts to sell a total of \$15.0 million U.S. dollars during the fourth quarter of 2008 at an average rate of \$1.09.

As of October 20, 2008, Torstar has entered into forward foreign exchange contracts to sell \$47.1 million U.S. dollars in 2009 at an average rate of \$1.10.

### **KEY FACTORS AND RELATED RISKS**

There have been no material changes in any risks or uncertainties facing Torstar since the year ended December 31, 2007.

### **OUTLOOK**

The economic outlook and higher newsprint pricing are expected to have a negative impact on the Newspapers and Digital Segment in the fourth quarter. The restructuring efforts of the newspapers during the first nine months of 2008 will result in a net reduction of 270 positions with savings expected to be \$18.0

million annually. \$4.5 million of the savings is expected to be realized in the fourth quarter of 2008 mitigating the impact of the challenges referred to above.

Metroland Media Group has had a mixed year with modest growth in the second quarter but declines in the first and third. The newspaper advertising revenue declines in the third quarter reflected the weakening of the economy in Southern Ontario and we expect the economy to continue to have a negative impact during the fourth quarter.

During the third quarter the Star Media Group showed growth as improved revenues and EBITDA in the digital businesses and other publications more than offset the declines at the Toronto Star. We expect the revenue challenges for the Toronto Star to continue into the fourth quarter, coupled with the cost challenge of higher newsprint pricing. We expect the digital properties to continue to grow revenue and EBITDA although they may face some of the same revenue challenges as the newspapers.

Harlequin has had good results through the first nine months of 2008 with strong performance in North America Retail and digital manga sales in Japan. The fourth quarter should be in line with prior year resulting in good growth for the full-year. We remain concerned that the U.S. economy could have a negative impact on Harlequin's results, but to date there is no evidence of this. If the Canadian dollar remains at its current levels relative to the U.S. dollar and overseas currencies, we are anticipating a positive foreign exchange impact in the fourth quarter of approximately \$2.0 million.

The challenging economic conditions are likely to also have an impact on the results of our associated businesses. In addition, in comparing to the fourth quarter of 2007, Torstar's earnings from CTVgm in that quarter included a \$5.2 million positive adjustment as future tax liabilities related to intangible assets were reduced to reflect the reduction in future Canadian income tax rates.

Looking forward to 2009, we remain concerned about the economy and the impact it could have on our Newspapers and Digital results and our earnings from associated businesses. In addition, given year-to-date performance of global capital markets and current discount rates, we are currently anticipating higher pension expense in 2009 absent a market recovery before year end.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes in Torstar's internal controls over financial reporting that occurred during the third quarter of 2008, the most recent interim period, that have materially affected, or are reasonably likely to materially affect, Torstar's internal controls over financial reporting.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

During the fourth quarter, Torstar will follow its normal practice of assessing intangible assets and goodwill for impairment using its annual assessment date of October 1 based on the results realized through the third quarter and the September 30<sup>th</sup> net book values.

## **PENSION OBLIGATIONS**

The 2009 pension expense is sensitive to both investment performance and the discount rate as of December 31, 2008 and will be determined at that time. Given year-to-date performance of global capital markets, we are currently anticipating higher pension expense in 2009 absent a sharp market recovery or a significant increase in the discount rate before year end. Through the end of September, our pension plan assets experienced a negative 12.6% return, reflecting the general market performance. For every 1% short-fall against our return assumption of 7%, pension expense is estimated to increase by approximately \$1.2 million. For each 1% increase (decrease) in the discount rate, pension expense is estimated to decrease (increase) by approximately \$10.0 million. From a funding perspective, the next required actuarial valuation for the most significant plans, which will determine minimum pension contributions, will not be until December 31, 2009.

## **CHANGES IN ACCOUNTING POLICIES**

In January 2008, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064 “Goodwill and Intangible assets” which will replace Section 3062 “Goodwill and Other Intangible assets” and Section 3450 “Research Development Costs” and will apply to Torstar effective January 1, 2009. The standard provides guidance on the criteria for recognition of intangible assets and clarifies the application of the matching concept to revenues and expenses whether the assets are acquired or internally generated. Torstar is reviewing the impact of adopting this standard on the consolidated financial statements.

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 that date, Torstar will be required to prepare financial statements in accordance with IFRS. Torstar is currently reviewing the standards to determine the potential impact on its consolidated financial statements.

## SUMMARY OF QUARTERLY RESULTS

(In thousands of dollars except for per share amounts)

	Quarter Ended			
	Sept. 30/08	June 30/08	March 31/08	Dec. 31/07
Revenue	\$372,115	\$399,506	\$351,650	\$402,930
Net income (loss)	(\$2,728)	\$36,962	(\$3,457)	\$47,182
Net income (loss) per Class A voting and Class B non-voting share				
Basic	(\$0.03)	\$0.47	(\$0.04)	\$0.60
Diluted	(\$0.03)	\$0.47	(\$0.04)	\$0.60

	Quarter Ended			
	Sept. 30/07	June 30/07	March 31/07	Dec. 31/06
Revenue	\$369,200	\$396,965	\$377,442	\$414,610
Net income	\$8,419	\$30,053	\$15,737	\$36,068
Net income per Class A voting and Class B non-voting share				
Basic	\$0.11	\$0.38	\$0.20	\$0.46
Diluted	\$0.11	\$0.38	\$0.20	\$0.46

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.

Restructuring and other charges have impacted the level of net income in several quarters. Restructuring provisions were \$3.4 million in the third quarter of 2008, \$4.4 million in the second quarter of 2008, \$20.8 million in the first quarter of 2008, \$7.5 million in the fourth quarter of 2007 and \$11.7 million in the fourth quarter of 2006. In the third quarter of 2008, Torstar recorded a \$16.0 million write-down related to Transit TV's assets.

### OTHER

At September 30, 2008, Torstar had 9,892,667 Class A voting shares and 68,988,753 Class B non-voting shares outstanding. More information on Torstar share capital is provided in Note 8 of the interim consolidated financial statements.

At September 30, 2008, Torstar had 5,192,162 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.com](http://www.torstar.com).

**Torstar Corporation**  
**Consolidated Balance Sheets**  
*(Dollars in Thousands)*  
*(Unaudited)*

*September 30*  
2008

*December 31*  
2007

**Assets**

**Current:**

Cash and cash equivalents	\$49,709	\$34,096
Receivables	237,253	263,779
Inventories <i>(note 5)</i>	32,836	31,807
Prepaid expenses	65,784	61,325
Prepaid and recoverable income taxes	7,430	3,097
Future income tax assets	20,001	19,010

<b>Total current assets</b>	<b>413,013</b>	<b>413,114</b>
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Property, plant and equipment (net)	300,856	330,391
Investment in associated businesses <i>(note 7)</i>	434,794	434,294
Goodwill (net)	575,068	562,120
Other assets	194,765	182,948
Future income tax assets	40,855	37,970

<b>Total assets</b>	<b>\$1,959,351</b>	<b>\$1,960,837</b>
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**Liabilities and Shareholders' Equity**

**Current:**

Bank overdraft	\$17,574	\$3,616
Accounts payable and accrued liabilities	206,364	208,217
Income taxes payable	2,212	17,065

<b>Total current liabilities</b>	<b>226,150</b>	<b>228,898</b>
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Long-term debt <i>(note 2)</i>	653,470	650,798
Other liabilities	96,130	89,678
Future income tax liabilities	73,926	73,702

**Shareholders' equity:**

Share capital <i>(note 8)</i>	390,896	388,036
Contributed surplus	10,487	9,929
Retained earnings	522,303	535,242
Accumulated other comprehensive loss <i>(note 6)</i>	(14,011)	(15,446)

<b>Total shareholders' equity</b>	<b>909,675</b>	<b>917,761</b>
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<b>Total liabilities and shareholders' equity</b>	<b>\$1,959,351</b>	<b>\$1,960,837</b>
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*(See accompanying notes)*

## Torstar Corporation Consolidated Statements of Income

*(Dollars in Thousands)  
(Unaudited)*

	<i>Three months ended September 30</i>		<i>Nine months ended September 30</i>	
	2008	2007	2008	2007
<b>Operating revenue</b>				
Newspapers and digital	\$253,991	\$253,533	\$776,560	\$787,496
Book publishing	118,124	115,667	346,711	356,111
	<b>\$372,115</b>	<b>\$369,200</b>	<b>\$1,123,271</b>	<b>\$1,143,607</b>
<b>Operating profit</b>				
Newspapers and digital	\$20,592	\$21,851	\$67,214	\$78,814
Book publishing	15,563	16,253	50,296	47,878
Corporate	(4,405)	(4,601)	(13,135)	(14,111)
Restructuring and other charges <i>(note 12)</i>	(19,412)		(44,637)	
	12,338	33,503	59,738	112,581
Interest	(6,774)	(8,774)	(21,653)	(26,091)
Foreign exchange	(282)	(554)	624	(2,351)
Income (loss) of associated businesses	(2,901)	(8,156)	796	2,770
Unusual items <i>(note 15)</i>	(9)		6,772	
Income before taxes	2,372	16,019	46,277	86,909
Income and other taxes	(5,100)	(7,600)	(15,500)	(32,700)
<b>Net income (loss)</b>	<b>(\$2,728)</b>	<b>\$8,419</b>	<b>\$30,777</b>	<b>\$54,209</b>
Earnings (loss) per Class A and Class B share <i>(note 8(b))</i> :				
Net income (loss) - Basic	(\$0.03)	\$0.11	\$0.39	\$0.69
Net income (loss) - Diluted	(\$0.03)	\$0.11	\$0.39	\$0.69

*(See accompanying notes)*

**Torstar Corporation**  
**Consolidated Statements of Comprehensive Income**  
*(Dollars in Thousands)*  
*(Unaudited)*

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30</i>		<i>September 30</i>	
	2008	2007	2008	2007
Net income (loss)	(\$2,728)	\$8,419	\$30,777	\$54,209
Other comprehensive income (loss), net of tax:				
Reclassification adjustment for unrealized foreign currency translation loss included in net income	4,583		4,583	
Unrealized foreign currency translation adjustment	85	(1,170)	3,628	(7,405)
Reclassification adjustment for unrealized loss on available-for-sale financial assets included in net income			1,602	
Unrealized gain (loss) on available-for-sale financial assets	86	(377)	(1,516)	(898)
Unrealized change in fair value of cash flow hedges	(3,703)	(1,426)	(5,589)	5,089
Realized loss (gain) on cash flow hedges transferred to net income	(76)	(260)	(1,273)	332
Other comprehensive income (loss)	975	(3,233)	1,435	(2,882)
Comprehensive income (loss)	(\$1,753)	\$5,186	\$32,212	\$51,327

*(See accompanying notes)*

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

*(Dollars in Thousands)*

*(Unaudited)*

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30</i>		<i>September 30</i>	
	2008	2007	2008	2007
<b>Share capital (note 8)</b>	<b>\$390,896</b>	<b>\$387,774</b>	<b>\$390,896</b>	<b>\$387,774</b>
<b>Contributed surplus</b>				
Balance, beginning of period	\$11,319	\$8,665	\$9,929	\$7,466
Stock-based compensation expense	(832)	618	558	1,817
Balance, end of period	<b>\$10,487</b>	<b>\$9,283</b>	<b>\$10,487</b>	<b>\$9,283</b>
<b>Retained earnings</b>				
Balance, beginning of period	\$539,622	\$508,741	\$535,242	\$491,999
Net income (loss)	(2,728)	8,419	30,777	54,209
Dividends	(14,591)	(14,550)	(43,716)	(43,598)
Balance, end of period	<b>\$522,303</b>	<b>\$502,610</b>	<b>\$522,303</b>	<b>\$502,610</b>
<b>Accumulated other comprehensive loss</b>				
Balance, beginning of period as previously reported	(\$14,986)	(\$10,291)	(\$15,446)	
Unrealized foreign currency translation adjustment losses				(\$9,116)
Cumulative impact of accounting changes relating to financial instruments				(1,526)
Adjusted balance, beginning of period	(14,986)	(10,291)	(15,446)	(10,642)
Other comprehensive income (loss)	975	(3,233)	1,435	(2,882)
Balance, end of period (note 6)	<b>(\$14,011)</b>	<b>(\$13,524)</b>	<b>(\$14,011)</b>	<b>(\$13,524)</b>
<b>Total shareholders' equity</b>	<b>\$909,675</b>	<b>\$886,143</b>	<b>\$909,675</b>	<b>\$886,143</b>

*(See accompanying notes)*

**Torstar Corporation**  
**Consolidated Statements of Cash Flows**  
*(Dollars in Thousands)*  
*(Unaudited)*

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30</i>		<i>September 30</i>	
	2008	2007	2008	2007
<b>Cash was provided by (used in)</b>				
Operating activities	\$44,538	\$60,608	\$85,181	\$94,848
Investing activities	(9,451)	(11,642)	(34,921)	(27,405)
Financing activities	(35,383)	(33,735)	(49,782)	(68,787)
(Decrease) increase in cash	(296)	15,231	478	(1,344)
Effect of exchange rate changes	(1,098)	(1,599)	1,177	(3,479)
Cash, beginning of period	33,529	25,409	30,480	43,864
<b>Cash, end of period</b>	<b>\$32,135</b>	<b>\$39,041</b>	<b>\$32,135</b>	<b>\$39,041</b>
<b>Operating activities:</b>				
Net income (loss)	(\$2,728)	\$8,419	\$30,777	\$54,209
Depreciation	13,324	13,496	40,298	40,774
Amortization	626	349	2,078	1,095
Future income taxes	2,917	393	2,703	3,671
Loss (income) of associated businesses	2,901	8,156	(796)	(2,770)
Dividend received from associated business			1,161	
Other <i>(note 13)</i>	11,149	(2,371)	5,032	(4,989)
	28,189	28,442	81,253	91,990
Decrease in non-cash working capital	16,349	32,166	3,928	2,858
Cash provided by operating activities	\$44,538	\$60,608	\$85,181	\$94,848
<b>Investing activities:</b>				
Additions to property, plant and equipment	(\$6,203)	(\$11,704)	(\$15,809)	(\$24,371)
Acquisitions and investments <i>(note 14)</i>	(4,938)		(23,619)	(3,148)
Proceeds on sale of property <i>(note 15)</i>	(30)		3,095	
Other	1,720	62	1,412	114
Cash used in investing activities	(\$9,451)	(\$11,642)	(\$34,921)	(\$27,405)
<b>Financing activities:</b>				
Issuance of bankers' acceptance			\$14,479	\$13,541
Repayment of bankers' acceptance	(\$21,442)	(\$20,111)	(21,529)	(42,630)
Dividends paid	(14,471)	(14,422)	(43,355)	(43,221)
Exercise of stock options		102		2,586
Other	530	696	623	937
Cash used in financing activities	(\$35,383)	(\$33,735)	(\$49,782)	(\$68,787)
<b>Cash represented by:</b>				
Cash and cash equivalents	\$49,709	\$40,755	\$49,709	\$40,755
Bank overdraft	(17,574)	(1,714)	(17,574)	(1,714)
	\$32,135	\$39,041	\$32,135	\$39,041

*(See accompanying notes)*

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(Dollar amounts in thousands unless otherwise stated)*

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### 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, 2007 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, 2008, the Company adopted the CICA Handbook Section 1535 "Capital Disclosures", Section 3031 "Inventories", Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" as described in Note 1(s) of the annual consolidated financial statements, with no restatement of prior periods.

#### Capital Disclosures

Section 1535 establishes standards for disclosure of both qualitative and quantitative information that enables users to evaluate the entity's objectives, policies and processes for managing capital; the disclosure and compliance with any externally imposed capital requirements and the consequences of any non-compliance. The required disclosures are included in Note 4 to these interim financial statements.

#### Inventories

Section 3031 prescribes the measurement of inventories at the lower of cost and net realizable value, with guidance on cost determination including the allocation of overheads and other costs to inventory. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories.

The required disclosures are included in Note 5 to these interim financial statements. Inventories are stated at the lower of cost and net realizable value. The cost of finished goods and work in progress includes raw materials, translation and related printing and production costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made for slow moving and obsolete inventory.

#### Financial instruments

Sections 3862 and 3863 together replace Section 3861 "Financial Instruments – Disclosures and Presentation", revising and enhancing its disclosure requirements while carrying forward unchanged its presentation requirements. These new sections emphasize disclosures of the nature and extent of risks arising from financial instruments to which the entity is exposed and how those risks are managed. The

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar amounts in thousands unless otherwise stated)*

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Company has included the required disclosures in Note 3 to these interim financial statements.

The Company has classified its cash equivalents, short-term investments and derivative financial instruments that are not designated as hedges as held-for-trading. They are presented at their fair value and the gains or losses arising on the revaluation at the end of each period are included in net income. The carrying values of these instruments approximate their fair values.

Accounts receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. The long term debt instruments have been classified as other financial liabilities and are measured at amortized cost as the Company has the ability and intention to hold to maturity. Transaction costs related to the long term debt instruments are capitalized and amortized over the term of the instrument.

Portfolio investments are classified as available-for-sale and are measured at fair value except for securities that do not have a quoted market price in an active market which are carried at cost. Any changes in the fair value are recognized in other comprehensive income except for other than temporary impairment losses which are recognized in net income.

Derivative financial instruments that are designated as cash flow hedges, such as the floating to fixed interest rate swap agreements and forward exchange contracts, are presented at their fair value. The gains or losses arising from the revaluation at the end of each period are included in other comprehensive income to the extent of hedge effectiveness. For effective fair value hedges, such as the fixed to floating interest rate swap agreements, changes in the fair value of the hedging derivative are recorded in net income. The carrying value of the hedged item is adjusted for unrealized gains or losses attributable to the hedged risk and also recognized in net income.

There was no impact from these changes in accounting policies on net income for the three and nine months ended September 30, 2008.

#### Future accounting changes

##### Goodwill and Intangible assets

In January 2008, the CICA issued Section 3064 "Goodwill and Intangible assets" which will replace Section 3062 "Goodwill and Other Intangible assets" and Section 3450 "Research Development Costs" and will apply to the Company effective January 1, 2009. The standard provides guidance on the criteria for recognition of intangible assets and clarifies the application of the matching concept to revenues

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

and expenses whether the assets are acquired or internally generated. The Company is reviewing the impact of adopting this standard on the consolidated financial statements.

**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. The company is currently reviewing the standards to determine the potential impact on its consolidated financial statements.

**2. LONG-TERM DEBT**

	As at September 30, 2008	As at December 31, 2007
Bankers' acceptance:		
Cdn. dollar denominated	\$447,834	\$444,632
U.S. dollar denominated	<u>105,177</u>	<u>108,001</u>
	<u>553,011</u>	<u>552,633</u>
Medium Term Notes:		
Cdn. dollar denominated	100,000	100,000
Fair value hedge	<u>459</u>	<u>(1,835)</u>
	<u>100,459</u>	<u>98,165</u>
	<u>\$653,470</u>	<u>\$650,798</u>

- a) 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, at September 30, 2008 was 0.6% and varies based on the Company's long-term credit rating. The carrying values of the bankers' acceptance approximate their fair value at September 30, 2008.

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, currently 0.6%) and will receive quarterly floating rate payments based on 90 day bankers' acceptance

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar amounts in thousands unless otherwise stated)*

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rates. These swap contracts have been designated as hedges. The fair value of these swap agreements was \$6.8 million unfavourable at September 30, 2008.

The average rate on Canadian dollar bank borrowings outstanding at September 30, 2008 was 3.8%. Including the effect of the above noted swap arrangements, the effective rate was 4.4%.

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 credit spread, currently 0.6%) for seven years ending May 2015. These swap contracts have been designated as hedges. The fair value of these swap arrangements was \$0.1 million unfavourable at September 30, 2008.

At September 30, 2008 bank debt outstanding included U.S. borrowings of U.S. \$99.2 million at an average rate of 3.5%. Including the effect of the above noted swap arrangements, the effective rate was 4.7%.

- 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 September 30, 2008 was 3.8%. The fair value of the medium term notes was \$2.9 million favourable at September 30, 2008. The fair value of the Canadian interest rate swap agreements related to the medium term debt issuance noted above were \$0.5 million favourable at September 30, 2008. In accordance with the accounting policy for a fair value hedge, the debt has been increased by \$0.5 million to \$100.5 million. There was no impact on net income or other comprehensive income.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS***(Dollar amounts in thousands unless otherwise stated)***3. FINANCIAL INSTRUMENTS**Classification

	As at September 30, 2008
Financial assets:	
Held for trading, measured at fair value	
Cash and cash equivalents	\$49,709
Loans and receivables, measured at amortized cost	
Accounts receivable	224,492
Other receivables	<u>12,761</u>
	<u>237,253</u>
Available for sale, measured at cost	
Portfolio investments <sup>1</sup>	4,070
Available for sale, measured at fair value	
Portfolio investments <sup>1</sup>	515
Derivatives designated as effective hedges, measured at fair value	
Foreign currency hedges <sup>1</sup>	(723)
Interest rate swaps – cash flow hedges <sup>1</sup>	(6,966)
Interest rate swaps – fair value hedges <sup>1</sup>	459
Financial liabilities, measured at fair value	
Bank overdraft	17,574
Financial liabilities, measured at amortized cost	
Long term debt	653,470
Accounts payable and accrued liabilities	206,364

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

Risk management

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS***(Dollar amounts in thousands unless otherwise stated)***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 September 30, 2008
Gross accounts receivable:	
Current	\$248,688
Up to three months past due date	72,188
Three to twelve months past due date	9,587
Impaired	<u>8,430</u>
	338,893
Allowance for doubtful accounts	(18,081)
Returns provision	<u>(96,320)</u>
	<u>\$224,492</u>

**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 reasonable cost. The Company manages liquidity risk primarily by maintaining sufficient unused capacity within its long term debt facilities. The unused capacity at September 30, 2008 was approximately \$215 million. Further information with respect to the Company's long-term credit facilities is provided in Note 6 of the Company's December 31, 2007 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar amounts in thousands unless otherwise stated)*

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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. The Company manages the U.S. dollar/Cdn. dollar exchange rate risk on its operating results through the use of derivative financial instruments as detailed in Note 11. The Company also manages the U.S. dollar/Cdn. dollar exchange rate risk on its balance sheet by maintaining U.S. dollar denominated debt, as detailed in Note 2, in order to provide a hedge against its net U.S. dollar denominated assets.

b) Interest rate risk

The Company is exposed to interest rate risk on the bankers' acceptance issued at floating rates under its bank loan facility. The Company manages this risk through the use of interest rate swap contracts to fix the interest rate as detailed in Note 2.

An assumed 1% increase in short term interest rates during the nine month period ended September 30, 2008 would have decreased net income by \$2.1 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.

#### **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

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

Total managed capital was as follows:

	As at September 30, 2008	As at December 31, 2007
Shareholders' equity	\$909,675	\$917,761
Long term debt	653,470	650,798
Bank overdraft	17,574	3,616
Cash and cash equivalents	<u>(49,709)</u>	<u>(34,096)</u>
	<u>\$1,531,010</u>	<u>\$1,538,079</u>

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, 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 September 30, 2008.

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 September 30, 2008	As at December 31, 2007
Finished goods	\$10,664	\$9,921
Work in progress	12,033	9,739
Raw materials	<u>10,139</u>	<u>12,147</u>
	<u>\$32,836</u>	<u>\$31,807</u>

The Company has expensed inventory costs of \$164.8 million (2007 - \$173.1 million) for the nine months ended September 30, 2008 and \$57.6 million (2007 - \$53.0 million) for the quarter ended September 30, 2008.

The Company recorded a writedown of \$3.2 million for the nine months ended September 30, 2008 (2007 - \$4.3 million) and \$1.3 million (2007 - \$1.1 million) for the quarter ended September 30, 2008.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS***(Dollar amounts in thousands unless otherwise stated)***6. ACCUMULATED OTHER COMPREHENSIVE LOSS (NET OF TAX)**

	As at January 1, 2008	Other Comprehensive Income (Loss)	As at September 30, 2008
Foreign currency translation adjustment	(\$17,096)	8,211	(\$8,885) <sup>1</sup>
Unrealized gains (losses) on cash flow hedges	1,650	(6,862)	(5,212) <sup>2</sup>
Unrealized gain on available- for-sale securities	--	86	86 <sup>3</sup>
	<u>(\$15,446)</u>	<u>\$1,435</u>	<u>(\$14,011)</u>

<sup>1</sup>Net of future income tax benefit of \$447.<sup>2</sup>Net of future income tax benefit of \$2,477.<sup>3</sup>Net of future income tax liability of \$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:

	2008	2007
Balance, beginning of year	\$434,294	\$416,320
Income of associated businesses	796	2,770
Dividends received	(1,161)	
Change in investee foreign currency translation adjustment	<u>865</u>	<u>(1,700)</u>
Balance, end of period	<u>\$434,794</u>	<u>\$417,390</u>

Outlined below is summarized financial information for 100% of CTVgm, including fair value adjustments, as at August 31, 2008 and November 30, 2007 and for the nine months ended August 31, 2008 and August 31, 2007.

	August 31, 2008	November 30, 2007
<b>Balance Sheet</b>		
Current assets	\$693,286	\$770,170
Property, plant and equipment	556,732	533,305
Goodwill and other intangible assets	3,440,040	3,515,033

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

Other assets	<u>238,631</u>	<u>194,240</u>
	<u>\$4,928,689</u>	<u>\$5,012,748</u>
Current Liabilities	\$477,739	\$448,254
Long-term debt	1,989,870	2,091,143
Other liabilities and non-controlling interests	403,619	433,610
Shareholders' equity	<u>2,057,461</u>	<u>2,039,741</u>
	<u>\$4,928,689</u>	<u>\$5,012,748</u>

	<b>Nine months ended</b>	
	<b>August 31, 2008</b>	<b>August 31, 2007</b>
<b>Statement of Income</b>		
Revenues <sup>1</sup>	\$1,570,355	\$1,290,105
Net income	\$17,719	\$565

<sup>1</sup>For the nine months ended August 31, 2007, CTVgm accounted for its investment in CHUM by the equity method until the end of June 2007 and accordingly the revenue for the nine month period only includes two months of CHUM's revenues.

**8. SHARE CAPITAL**

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

Class A shares (voting)

At September 30, 2008 there were 9,892,667 Class A shares outstanding with a stated value of \$2,688. During the nine months ended September 30, 2008, 14,935 Class A shares were converted to Class B shares.

Class B shares (non-voting)

	<u>Shares</u>	<u>Amount</u>
December 31, 2007	68,838,975	\$386,054
Converted from Class A	14,935	4
Issued under Employee Share Purchase Plan	109,829	1,778
Dividend reinvestment plan	24,214	361
Other	800	11
September 30, 2008	<u>68,988,753</u>	<u>\$388,208</u>
Total Class A and Class B shares	<u>78,881,420</u>	<u>\$390,896</u>

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

## 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 after deducting the unvested shares held by the RSU Trust. Diluted per share amounts have taken into consideration the dilutive effect of stock options; the employees share purchase plan and the unvested shares held by the RSU Trust. The weighted average number of Class A and Class B shares outstanding (in thousands) were:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30</i>		<i>September 30</i>	
	2008	2007	2008	2007
Basic	78,873	78,696	78,822	78,583
Diluted	78,873	78,827	78,822	78,680

**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, 2007	5,112,654	\$22.57
Granted	586,552	\$18.78
Forfeited or expired	<u>(507,044)</u>	(\$25.27)
September 30, 2008	<u>5,192,162</u>	\$21.88

Options exercisable at September 30, 2008 are as follows:

Range of exercise price	Share options exercisable	Weighted average exercise price
\$15.75 – 19.61	786,264	\$18.39
\$20.30 – 22.20	2,000,614	\$21.65
\$25.50 – 29.01	<u>1,050,637</u>	\$27.35
\$15.75 – 29.01	<u>3,837,515</u>	\$22.54

The fair value of the executive share options granted in 2008 was estimated to be \$2.24 per option at the date of grant using the Black-Scholes option pricing model

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar amounts in thousands unless otherwise stated)*

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with the assumptions of a risk free interest rate of 4.1%, expected dividend yield of 3.9%, expected volatility of 15.1% and an expected time until exercise of 6 years.

b) RSU Plan

During the third quarter, the Company made a change to its RSU Plan such that the plan will pay out in cash rather than Torstar Class B non-voting shares. This change was made to all outstanding grants as well as for future grants. As a result of this change, the accounting for the plan changed from being an equity obligation to a cash obligation. Under the new accounting, the RSU's will be accrued over the three-year vesting period and the liability will be marked to market each quarter.

During the third quarter, the Company also wound up the RSU Trust that it had established to hold Torstar Class B non-voting shares.

The Company has entered into a derivative instrument in order to lock in the expense for 291,394 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.

As at September 30, 2008, 302,929 units were outstanding of which 166,861 units have been accrued in Other liabilities at a value of \$1.9 million.

- c) The Company has recognized in 2008 compensation expense totalling \$2.2 million (2007 - \$2.2 million) for the stock options granted in 2005 to 2008, RSUs granted in 2006 to 2008 and the employee share purchase plans originating in 2006 to 2008.
- d) The Company has a DSU Plan for executives and non-employee directors. As at September 30, 2008, 318,889 units were outstanding at a value of \$3.7 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar amounts in thousands unless otherwise stated)*

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**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 \$11.0 million for the nine months ended September 30, 2008 (2007 - \$8.3 million) and \$3.8 million for the quarter ended September 30, 2008 (2007 - \$2.4 million). With respect to post-employment benefits other than pensions, for the nine months and quarter ended September 30, 2008 the net benefit cost was \$2.8 million and \$1.0 million respectively (2007 - \$3.0 million and \$0.9 million respectively).

**11. FORWARD FOREIGN EXCHANGE CONTRACTS AND OPTIONS**

As described in Note 15 of the Company's December 31, 2007 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 \$1.08 for U.S. \$41.5 million in 2008 and \$1.10 for U.S. \$47.1 million in 2009. At September 30, 2008, the net fair value of the foreign exchange contracts was \$0.7 million unfavourable.

**12. RESTRUCTURING AND OTHER CHARGES**

The Company recorded restructuring provisions of \$28.6 million for the nine months ended September 30, 2008, including \$3.4 million during the quarter ended September 30, 2008, related to voluntary and non-voluntary staff reductions in the Newspapers and Digital Segment.

Accounts payable and accrued liabilities include \$26.4 million for restructuring provisions at September 30, 2008 (\$10.7 million at December 31, 2007). The change in the liability during 2008 includes payments of \$6.4 million related to provisions made in 2008, \$4.9 million related to provisions made in 2007 and \$1.6 million for provisions made prior to 2007.

At the end of the third quarter, the Company recorded a write-down of \$16.0 million to reduce the carrying value of Transit TV's assets to their estimated fair value. The write-down included \$4.6 million of foreign currency translation loss that had previously been included in accumulated other comprehensive loss. This non-cash write-down reduces the Company's carrying value in Transit TV's net assets to

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

approximately \$1.1 million at September 30, 2008. The Company continues to operate Transit TV and to explore potential strategic opportunities.

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

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30</i>		<i>September 30</i>	
	2008	2007	2008	2007
Foreign Exchange	\$282	\$554	(\$624)	\$2,351
Post employment benefits	(6,499)	(3,935)	(5,021)	(9,858)
Stock-based compensation expense	1,204	816	1,152	2,739
Unusual items	9		(6,772)	
Asset writedown charge	16,037		16,037	
Other	<u>116</u>	<u>194</u>	<u>260</u>	<u>(221)</u>
	<u>\$11,149</u>	<u>(\$2,371)</u>	<u>\$5,032</u>	<u>(\$4,989)</u>

**14. ACQUISITIONS**

During the nine month period ended September 2008, the Company completed a number of acquisitions in its Newspapers and Digital segment for cash of \$23.2 million, which were accounted for by the purchase method. The acquisitions include Central Ontario Web, eyeReturn Marketing, Save.ca and Torstar's share of Workopolis' acquisition of the specialist online employment board business of Brainhunter Inc. The purchase of eyeReturn Marketing includes future obligations of \$6.5 million, which are payable annually from June 2009 through 2011 in three equal instalments of approximately \$2.2 million. The total purchase price of these acquisitions (including the future obligations) has been allocated \$6.0 million to fixed assets, \$0.6 million to working capital, \$9.4 million to intangible assets, \$13.5 million to goodwill and \$0.2 million to other assets. The above allocations are preliminary. The Company also made a portfolio investment in Multimedia Nova of \$0.4 million, which is classified as available-for-sale.

**15. UNUSUAL ITEMS**

During the third quarter, the Company sold its investment in LiveDeal, Inc. for net proceeds of \$1.2 million, crystallizing the second quarter writedown of \$2.4 million.

In 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.

## **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollar amounts in thousands unless otherwise stated)*

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### **16. COMPARATIVE FINANCIAL STATEMENTS**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 financial statements.