

# Newfoundland Capital Corporation Limited

## Second Quarter 2016

Period Ended June 30 (unaudited)



Dartmouth, N.S. – August 11, 2016, Newfoundland Capital Corporation Limited (the “Company”) today announces its financial results for the second quarter ending June 30, 2016.

### Highlights

- **Revenue** for the second quarter of \$44.2 million was \$1.6 million or 4% higher than the same quarter last year and year-to-date revenue of \$81.1 million was \$3.0 million or 4% higher than 2015. The increase during the quarter and year-to-date was primarily due to growth in Toronto and Ottawa as a result of strong listener ratings in those markets.
- **Earnings before interest, taxes, depreciation and amortization (“EBITDA”<sup>(1)</sup>)** of \$13.8 million in the second quarter was \$1.3 million or 11% higher than the second quarter last year and year-to-date EBITDA of \$22.0 million was \$2.4 million or 12% higher than 2015. The improvements in EBITDA are a result of the revenue growth as well as the Company’s continued commitment to managing costs.
- **Profit** for the period of \$8.4 million was \$2.4 million or 39% higher than the same quarter last year. Year-to-date profit of \$13.0 million was \$4.4 million or 52% higher than last year due primarily to higher revenue and lower interest expense. In addition, the prior year provision for income taxes was higher due to changes in future corporate income tax rates which caused a one-time increase of \$0.6 million in deferred tax expense.

### Significant events

- During the second quarter, the Company repurchased 1.1 million of its outstanding Class A Subordinate Voting Shares for cash consideration of \$10.1 million.
- Subsequent to quarter end, the Board of Directors approved an increase in dividends to \$0.20 per share per annum, up from \$0.15 per share per annum. As a result, the Board of Directors declared a dividend of \$0.10 per share on each of the Company’s Class A Subordinate Voting Shares and Class B Common Shares on August 11, 2016, payable on September 15, 2016 to all shareholders of record as at August 31, 2016.

“The Company’s success in the second quarter was a result of strong listener ratings that allowed us to grow revenue and EBITDA,” commented Rob Steele, President and Chief Executive Officer. “We are pleased with the Company’s overall results as many of our stations outperformed their respective markets, helping to compensate for certain regions where we have faced challenges this year.”

### Financial Highlights - Second Quarter

<i>(thousands of Canadian dollars, except share information)</i>	<b>Three months ended June 30</b>	
	<b>2016</b>	<b>2015</b>
Revenue	\$ 44,225	42,598
EBITDA <sup>(1)</sup>	13,811	12,474
Profit	8,405	6,034
Earnings per share - basic	0.32	0.22
Earnings per share - diluted	0.30	0.21
Weighted average number of shares outstanding <i>(in thousands)</i>	26,448	27,915
	<b>June 30</b>	<b>December 31</b>
	<b>2016</b>	<b>2015</b>
Share price, NCC.A (closing)	\$ 9.02	11.00
Total assets	362,694	364,246
Long-term debt, including current portion	143,932	145,908
Shareholders' equity	148,872	145,991

<sup>(1)</sup> Refer to page 12 "Non-IFRS Accounting Measure"

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

*The purpose of the Management’s Discussion and Analysis (“MD&A”) is to provide readers with additional complementary information regarding the financial condition and results of operations for Newfoundland Capital Corporation Limited (the “Company”) and should be read in conjunction with the unaudited condensed interim consolidated financial statements (“interim financial statements”) and related notes for the periods ended June 30, 2016 and 2015, as well as the annual audited consolidated financial statements and related notes prepared in accordance with International Financial Reporting Standards (“IFRS”) and the MD&A contained in the Company’s 2015 Annual Report. The Company’s second quarter 2016 interim financial statements and the accompanying notes have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies described therein. These interim financial statements include the accounts of the Company and other entities in which the Company controls in accordance with IFRS 10, “Consolidated Financial Statements” and are reported in Canadian dollars. These documents along with the Company’s Annual Information Form, its Management Proxy Circular dated March 3, 2016 and other public information are filed electronically with various securities commissions in Canada through the System for Electronic Document Analysis and Retrieval and can be accessed at [www.sedar.com](http://www.sedar.com). This information is also available on the Company’s website at [www.ncc.ca](http://www.ncc.ca).*

*The Board of Directors, upon recommendation of the Audit and Governance Committee, approved the content of this MD&A on August 11, 2016. Disclosure contained in this document is current to this date, unless otherwise stated.*

*Management’s Discussion and Analysis of financial condition and results of operations contains forward-looking statements and forward-looking information within the meaning of Canadian provincial securities laws. These forward-looking statements are based on current expectations. The use of terminology such as “expect”, “intend”, “anticipate”, “believe”, “may”, “will”, “should”, “would”, “plan” and other similar terminology relate to, but are not limited to, objectives, goals, plans, strategies, intentions, outlook and estimates. By their very nature, these statements involve inherent risks and uncertainties, many of which are beyond the Company’s control, which could cause actual results to differ materially from those expressed in such forward-looking statements. As a result, there is no guarantee that any forward-looking statements will materialize and readers are cautioned not to place undue reliance on these statements. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Risks and Opportunities section of this MD&A. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

## **CORPORATE PROFILE**

Newfoundland Capital Corporation Limited owns and operates Newcap Radio, which is one of Canada's leading radio broadcasters with 95 licences across Canada. The Company reaches millions of listeners each week through a variety of formats and is a recognized industry leader in radio programming, sales and networking. It is Canada’s largest pure-play radio company, employing approximately 1,000 of the best radio professionals across the country. The Company’s portfolio of radio assets includes 80 FM and 15 AM licences which can be heard throughout Canada. Most of the Company’s stations are globally accessible via the internet and various mobile device applications, allowing listeners the flexibility to tune in at anytime from anywhere. The shares of the Company trade on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.

## **STRATEGY AND OBJECTIVES**

The Company’s long-term strategy is to maximize returns on existing operations and add new licences through business and licence acquisitions and through the Canadian Radio-television and Telecommunications Commission (“CRTC”) licence application process.

The Company’s day-to-day operating objective is to grow its existing operations by increasing advertising revenue and remaining focused on controlling costs to maximize EBITDA margins. Management will continue to explore acquisition and expansion opportunities that fit the Company’s objectives and it will make applications to the CRTC for new licences. The Company’s commitment to its talented employees, its customers, its listeners and to the communities it serves remains critical to its success.

## CORPORATE DEVELOPMENTS

The following is a review of the key corporate developments which should be considered when reviewing the “Consolidated Financial Performance Review” section. The results of the launched stations have been included in the interim financial statements since their launch dates.

### Recent Developments:

- August 2016 – the Company’s Board of Directors approved an increase in annual dividends to \$0.20 per share from \$0.15 per share previously and declared dividends of \$0.10 on each of its Class A Subordinate Voting and Class B Common shares
- May 2016 – launched a new FM licence in Clarenville, Newfoundland and Labrador
- May and June 2016 – the Company repurchased a total of 1,055,700 Class A subordinate voting shares for cash consideration of \$10.1 million
- March 2016 – rebranded CKDQ in Drumheller to 910 CFCW, an extension of the Company’s legendary CFCW brand, the voice of rural Alberta which is now available in nearly all of Alberta
- February 2016 – rebranded CFXJ-FM in Toronto to 93.5 The Move, a rhythmic hot adult contemporary station targeting adults 25 to 44
- February 2016 – rebranded CKUL-FM in Halifax to Mix 96.5, a hot adult contemporary station playing a variety of pop/rock hits from the 90s to now
- December 2015 – launched a new FM licence in Fox Creek, Alberta (a repeater of CFXW-FM Whitecourt, Alberta)
- August and December 2015 – the Company’s Board of Directors approved dividends totalling \$0.15 on each of its Class A Subordinate Voting and Class B Common shares
- May and July 2015 – The Company repurchased a total of 1,569,800 Class A Subordinate Voting shares for cash consideration of \$13.9 million
- May 2015 – The Company amended its credit facilities to reduce interest rates by approximately 0.5% and to extend the maturity date to May 31, 2018

### Consolidated Financial Results of Operations

(thousands of Canadian dollars

except percentages and  
per share data)

	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
<b>Revenue</b>	\$ 44,225	42,598	4%	81,104	78,103	4%
Operating expenses	(30,414)	(30,124)	1%	(59,131)	(58,542)	1%
<b>EBITDA</b> <sup>(1)</sup>	<b>13,811</b>	12,474	11%	<b>21,973</b>	19,561	12%
Depreciation and amortization	(1,166)	(1,155)	1%	(2,348)	(2,349)	0%
Accretion of other liabilities	(87)	(116)	(25%)	(173)	(232)	(25%)
Interest expense	(1,237)	(1,478)	(16%)	(2,453)	(3,626)	(32%)
Other income (expense)	252	53	375%	486	(128)	-
<b>Profit before provision for income taxes</b>	<b>11,573</b>	9,778	18%	<b>17,485</b>	13,226	32%
Provision for income taxes	(3,168)	(3,744)	(15%)	(4,509)	(4,690)	(4%)
<b>Profit</b>	<b>\$ 8,405</b>	6,034	39%	<b>12,976</b>	8,536	52%
<b>Earnings per share</b>						
- Basic	\$ 0.32	0.22		0.49	0.30	
- Diluted	0.30	0.21		0.47	0.29	

<sup>(1)</sup> EBITDA - Earnings before interest, taxes, depreciation and amortization - refer to page 12 "Non-IFRS Accounting Measure"

## **ANALYSIS OF CONSOLIDATED FINANCIAL RESULTS**

A detailed analysis of the variations in revenue, operating expenses and EBITDA are included in the section entitled “Financial Review by Segment”.

### ***Revenue***

In the second quarter, consolidated revenue of \$44.2 million was \$1.6 million or 4% higher than the same quarter last year and year-to-date revenue of \$81.1 million was \$3.0 million or 4% higher than 2015. The quarter and year-to-date increases were primarily attributable to the higher revenue in the Broadcasting segment, particularly the Toronto and Ottawa operations, as a result of strong listener ratings in those markets.

### ***Operating expenses***

In the second quarter, consolidated operating expenses of \$30.4 million were \$0.3 million or 1% higher than the same period last year and year-to-date operating expenses of \$59.1 million were \$0.6 million or 1% higher than 2015. The increase in operating expenses was primarily a result of higher operating expenses in the Broadcasting segment as the Company incurred higher variable costs as a result of revenue growth and incurred higher marketing costs as the Company continued to invest in promoting its stations, including those recently re-branded during the year. This is partially offset by lower corporate expenses.

### ***EBITDA***

In the second quarter, consolidated EBITDA of \$13.8 million was \$1.3 million or 11% higher than the same period last year and year-to-date EBITDA of \$22.0 million was \$2.4 million or 12% higher than 2015. The increase was primarily due to the higher revenue and the Company’s continued commitment to managing costs.

### ***Accretion of other liabilities***

Accretion of *other liabilities* arises from discounting Canadian Content Development (“CCD”) commitments to reflect the fair value of the obligations. Accretion expense was lower in the second quarter and year-to-date than the same periods in 2015 because of the payments of CCD commitments during 2015 which reduced the balance on which accretion was recorded.

### ***Interest expense***

Interest expense in the second quarter of \$1.2 million was \$0.2 million or 16% lower than the same quarter last year because of lower effective interest rates. Year-to-date interest of \$2.5 million was \$1.2 million or 32% lower than last year primarily because of fluctuations in the value of the Company’s interest rate swap payable which contributed \$0.7 million of the variance, combined with lower interest rates as a result of the renegotiation of the Company’s credit facilities in May 2015.

### ***Other income (expense)***

*Other income (expense)* generally consists of gains and losses, realized and unrealized, on the Company’s marketable securities and items that are not indicative of the Company’s core operating results, and not used in the evaluation of the Company’s performance such as acquisition-related costs and impairment charges. *Other income* in the second quarter was \$0.3 million compared to \$0.1 million in 2015 while year-to-date *other income* was \$0.5 million compared to an expense of \$0.1 million the same time last year.

The Company recognized mark-to-market unrealized gains of \$0.2 million in the second quarter, consistent with the same period in 2015. Unrealized gains of \$0.5 million were recognized year-to-date compared to unrealized gains of less than \$0.1 million in 2015. The Company had no realized gains or losses on marketable securities in the second quarter or year-to-date 2016, compared to losses of \$0.1 million in the second quarter and year-to-date 2015. Refer to note 8(a) of the Company’s interim financial statements for additional details on mark-to-market gains and losses.

### ***Provision for income taxes***

In the second quarter, the effective tax rate was 27% and the year-to-date rate was 26% which were lower than the statutory tax rate of 31% primarily because of the subsidiary rate differential that arises from consolidated entities that are taxed in different jurisdictions with lower tax rates. In addition, certain tax estimates were updated during the quarter and year-to-date, resulting in a decrease in tax expense.

### **Profit**

Profit for the second quarter of \$8.4 million was \$2.4 million or 39% higher than the same quarter last year and year-to-date profit of \$13.0 million was \$4.4 million or 52% higher than the same period last year. The increases in both the quarter and year-to-date were a result of the higher revenue and lower interest expense. In addition, the prior year provision for income taxes was higher due to changes in future corporate income tax rates which caused a one-time increase of \$0.6 million in deferred tax expense.

### **FINANCIAL REVIEW BY SEGMENT**

Consolidated financial figures include the results of operations of the Company's two separately reported segments – Broadcasting and Corporate and Other. The Company provides information about segment revenue and segment EBITDA because these financial measures are used by its key decision makers in making operating decisions and evaluating performance. For additional information about the Company's segmented information, see note 9 of the Company's interim financial statements.

### **Broadcasting Segment**

The Broadcasting segment derives its revenue from the sale of broadcast advertising from its licences across the country. Advertising revenue can vary based on market and economic conditions, the audience share of a radio station, the quality of programming and the effectiveness of a company's team of sales professionals.

Cash-generating units within the Broadcasting segment are managed and evaluated based on their revenue and EBITDA. The following summarizes the key operating results of the Broadcasting segment.

#### **Broadcasting Financial Results of Operations**

<i>(thousands of Canadian dollars except percentages)</i>	<b>Three months ended June 30</b>			<b>Six months ended June 30</b>		
	<b>2016</b>	2015	% Change	<b>2016</b>	2015	% Change
Revenue	<b>\$ 43,126</b>	41,683	3%	<b>79,036</b>	76,329	4%
Operating expenses	<b>(27,013)</b>	(26,181)	3%	<b>(52,800)</b>	(51,808)	2%
EBITDA <sup>(1)</sup>	<b>16,113</b>	15,502	4%	<b>26,236</b>	24,521	7%
EBITDA margin	<b>37%</b>	37%	–	<b>33%</b>	32%	1%

<sup>(1)</sup> Refer to page 12 "Non-IFRS Accounting Measure"

### **Revenue**

Broadcasting revenue in the second quarter of \$43.1 million was \$1.4 million or 3% higher than the same period last year and year-to-date broadcasting revenue of \$79.0 million was \$2.7 million or 4% higher than 2015. The Company's growth during the quarter and year-to-date was led by the Toronto and Ottawa stations which outpaced the declines in certain Alberta and Newfoundland and Labrador stations which are experiencing a challenging economic environment. The Company continued to outpace the industry which declined 3% in the second quarter and 4% in the year-to-date period ended June 30, 2016.

### **Operating expenses**

For the second quarter, broadcasting operating expenses were \$27.0 million, \$0.8 million or 3% higher than the same quarter last year while year-to-date expenses of \$52.8 million were \$1.0 million or 2% higher than 2015. The increase in operating expenses during the quarter and year-to-date was a result of higher variable costs caused by the additional revenue earned. In addition, the Company incurred an increase in advertising costs of \$0.5 million during the quarter and \$0.9 million year-to-date as a result of the continued promotion of its stations. This includes rebranding campaigns in Toronto and Halifax as well as a significant advertising campaign in Vancouver. Offsetting these increases were lower expenditures as a result of the Company's continued efforts to operate efficiently.

### **EBITDA**

Second quarter broadcasting EBITDA of \$16.1 million was \$0.6 million or 4% better than 2015 and year-to-date EBITDA of \$26.2 million was \$1.7 million or 7% higher than the same time last year, primarily as a result of the increased revenue and continued focus on managing costs.

## Corporate and Other Segment

The Corporate and Other segment derives its revenue from hotel operations as well as office space rental and related services revenue. Corporate and Other expenses are related to head office functions and hotel operations.

### Corporate and Other Financial Results of Operations

<i>(thousands of Canadian dollars except percentages)</i>	<b>Three months ended June 30</b>			<b>Six months ended June 30</b>		
	<b>2016</b>	2015	% Change	<b>2016</b>	2015	% Change
Revenue	\$ <b>1,099</b>	915	20%	<b>2,068</b>	1,774	17%
Operating expenses	<b>(3,401)</b>	(3,943)	(14%)	<b>(6,331)</b>	(6,734)	(6%)
EBITDA <sup>(1)</sup>	<b>(2,302)</b>	(3,028)	24%	<b>(4,263)</b>	(4,960)	14%

<sup>(1)</sup> Refer to page 12 "Non-IFRS Accounting Measure"

### Revenue

Revenue in the second quarter of \$1.1 million was \$0.2 million or 20% higher than the second quarter last year and year-to-date revenue of \$2.1 million was \$0.3 million or 17% higher than last year as the Company earned higher revenue from its hotel operation. The Company has also begun to rent out office space in its head office building effective January 1, 2016 and earned related services revenue during the current quarter and year-to-date period.

### Operating expenses

Operating expenses of \$3.4 million in the second quarter were \$0.5 million or 14% lower than the second quarter in 2015 and operating expenses of \$6.3 million year-to-date were \$0.4 million or 6% lower than the same time last year. The decrease in the quarter and year-to-date was attributable to executive changes at the Company's head office in 2015 which increased expenses in the prior year.

### EBITDA

EBITDA in the quarter was negative \$2.3 million which was \$0.7 million or 24% better than last year and year-to-date EBITDA was negative \$4.3 million which was \$0.7 million or 14% better than the same period last year. The improvements were due to lower operating expenses.

## SELECTED QUARTERLY FINANCIAL INFORMATION

The Company's revenue and operating results vary, depending on the quarter. The first quarter is a period of lower retail spending and as a result, advertising revenue is lower. The fourth quarter tends to be a period of higher retail spending. During the first two quarters of 2016 and throughout 2015, the Company's quarterly results were consistent with the expected seasonality. Profit in the fourth quarter of 2014 was negatively impacted by a \$5.7 million impairment charge and mark-to-market losses of \$0.8 million.

<i>(thousands of Canadian dollars except per share data)</i>	<b>2016</b>			<b>2015</b>			<b>2014</b>		
	<b>2nd</b>	<b>1st</b>	4th	3rd	2nd	1st	4th	3rd	
Revenue	\$ <b>44,225</b>	36,879	45,493	41,006	42,598	35,505	44,438	39,301	
Profit	<b>8,405</b>	4,571	8,016	6,683	6,034	2,502	2,593	4,265	
Earnings per share									
- Basic	<b>0.32</b>	0.17	0.30	0.25	0.22	0.09	0.09	0.15	
- Diluted	<b>0.30</b>	0.16	0.28	0.24	0.21	0.09	0.08	0.15	

### Selected cash flow information – six months ended June 30, 2016

Cash flows from operating activities of \$14.5 million were used to repurchase capital stock for \$10.1 million, repay debt of \$2.3 million, purchase property and equipment for \$1.6 million, and make CCD payments of \$0.5 million.

### ***Selected cash flow information – six months ended June 30, 2015***

Cash flows from operating activities of \$8.9 million combined with net debt borrowings of \$3.5 million were used primarily to purchase property and equipment totaling \$5.3 million, repurchase capital stock for \$3.6 million and pay dividends of \$2.5 million.

### ***Capital expenditures and capital budget***

Annual capital expenditures for 2016 are expected to be \$7.0 million, which includes the acquisition of a property adjacent to the Company's head office in Dartmouth, NS subsequent to June 30, 2016. The major completed and planned expenditures also include the launch of two FM stations, the continuation of investment in new broadcasting digital and automation equipment and capital costs associated with improving signals. The Company continuously upgrades its broadcast equipment to improve operating efficiencies.

## **FINANCIAL CONDITION**

### ***Total assets***

Assets of \$362.7 million were \$1.6 million lower than December 31, 2015 due primarily to the depreciation of property and equipment which was greater than capital purchases during the period.

### ***Liabilities, shareholders' equity and capital structure***

As at June 30, 2016, the Company had \$1.5 million of current bank indebtedness (December 31, 2015 – \$1.7 million) and \$143.9 million of long-term debt, of which \$11.3 million was current (December 31, 2015 – \$145.9 million of which \$11.3 million was current). The capital structure consisted of 41% equity (\$148.9 million) and 59% liabilities (\$213.8 million) at quarter end (December 31, 2015 – 40% equity or \$146.0 million and 60% liabilities or \$218.3 million).

## **LIQUIDITY**

### ***Liquidity risk***

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations and borrowings under the existing credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Management deems its liquidity risk to be low and this is explained in the paragraphs that follow.

### ***Credit facilities and covenants***

The Company has two syndicated credit facilities. The first one is a \$90.0 million revolving credit facility. This type of facility provides flexibility with no scheduled repayment terms. The Company also has a \$90.0 million non-revolving credit facility that was drawn on March 31, 2014 to finance the Toronto and Vancouver business acquisition. The non-revolving facility is being amortized over eight years and is repayable in quarterly instalments of \$2.8 million.

In May 2015, the Company amended its credit facilities to reduce interest rates by 0.5%, change certain covenants and to extend the maturity date for both credit facilities to May 31, 2018.

The Company is subject to covenants on its credit facilities. The Company's bank covenants include certain maximum or minimum ratios such as total debt to EBITDA ratio and fixed charge coverage ratio. Other covenants include seeking prior approval for acquisitions or disposals in excess of a quantitative threshold. The Company was in compliance with the covenants throughout the quarter and at quarter-end.

Cash flow from operations and funds available from the Company's \$90.0 million revolving credit facility have been the primary funding sources of working capital, capital expenditures, CCD payments, dividend payments, share repurchases, debt repayments, and other contractually required payments through the past several years.

### ***Positive cash balances***

The Company does not maintain any significant positive cash balances; instead it uses its cash balances to reduce debt and minimize interest expense. The fact that the Company does not have positive cash positions

on its balance sheet does not pose an increase to its liquidity risk because the Company generates cash from operations and included in the \$90 million revolving credit facility is \$5.0 million available to fund any current obligations, \$1.5 million of which the Company had drawn as at June 30, 2016. The Company can access this remaining available amount of \$3.5 million as well as the additional \$8.0 million undrawn amount on its revolving credit facility to fund obligations.

#### ***Working capital requirements***

As at June 30, 2016, the Company's net working capital was \$7.5 million. The cash from current receivables should be sufficient to cover the Company's current obligations to its suppliers and employees and in combination with ongoing cash from operations and the availability of cash from its revolving credit facility, the Company will be able to meet all other current cash requirements as they arise. If cash inflows from customers are not sufficient to cover current obligations, because of timing issues, the Company has access to the undrawn amount of its credit facilities.

#### ***Future cash requirements***

Other than for operations, the Company's cash requirements are mostly for interest payments, repayment of debt, capital expenditures, CCD payments, and other contractual obligations. Management anticipates that its cash flows from operations will provide sufficient funds to meet its cash requirements.

### **COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

Since the publication of the 2015 Annual MD&A (dated March 3, 2016), there has been no substantive change in the Company's commitments and contractual obligations.

### **SHARE CAPITAL**

#### ***Outstanding share data***

The weighted average number of shares outstanding for the three months ended June 30, 2016 was 26,448,000 (2015 – 27,915,000) and for the six months ended June 30, 2016 was 26,539,000 (2015 – 28,050,000). As of this date, there are 21,892,601 Class A Subordinate Voting Shares ("Class A Shares") and 3,769,322 Class B Common Shares ("Class B Shares") outstanding.

#### ***Dividends***

Subsequent to quarter end, the Board of Directors approved an increase in dividends to \$0.20 per share per annum, up from \$0.15 per share per annum. As a result, the Board of Directors declared a dividend of \$0.10 per share on each of the Company's Class A Shares and Class B Shares, payable on September 15, 2016 to all shareholders of record as at August 31, 2016.

Dividends of \$0.09 per share (\$2.4 million in total) declared in the fourth quarter of 2015 were paid in December 2015. Dividends of \$0.09 per share (\$2.5 million in total) declared in the fourth quarter of 2014 were paid January 2015.

#### ***Share repurchases***

The Company has approval under a Normal Course Issuer Bid ("NCIB") to repurchase up to 1,145,715 Class A shares and 75,386 Class B shares. This bid expires June 5, 2017. During the second quarter and year-to-date, 34,000 Class A shares were repurchased for cash consideration of \$0.3 million under the NCIB that was in effect until May 24, 2016 and 1,021,700 class A shares were purchased for cash consideration of \$9.8 million under the NCIB currently in effect, leaving a balance of 124,015 Class A shares and 75,386 Class B shares available to be repurchased under the current NCIB. In 2015, 405,000 shares were repurchased for \$3.6 million during the second quarter and year-to-date. As a result of the share repurchases, capital stock was reduced by \$1.6 million (2015 – \$0.6 million) and retained earnings by \$8.5 million (2015 – \$3.0 million).

### **SHARE-BASED COMPENSATION PLANS**

#### ***Executive stock option plan***

A total of 2,020,000 stock options are outstanding pursuant to the Company's executive stock option plan. During the quarter and year-to-date, no options were granted by the Company (2015 – nil). During the second

quarter of 2016, 232,500 options were exercised using the cashless exercise option resulting in 82,899 shares issued from treasury (2015 – 20,000 options exercised with 3,568 shares issued from treasury). Year-to-date, 252,500 options were exercised using the cashless exercise option resulting in 87,965 shares issued from treasury (2015 – 145,000 options exercised with 32,724 shares issued from treasury). Compensation expense related to the stock option plan in the second quarter was less than \$0.1 million and year-to-date was \$0.1 million (2015 – \$nil during the second quarter and year-to-date).

### ***Stock appreciation rights plan***

There are no stock appreciation rights outstanding as at June 30, 2016. During the first quarter of 2015, the remaining 50,000 rights were exercised for cash consideration of \$0.1 million.

## **FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

For more detailed disclosures about derivative financial instruments and financial risk management, refer to note 8 of the interim financial statements.

### ***Interest rate risk management***

The Company is exposed to interest rate risk on the long-term debt issued at floating rates under its credit facilities. The Company has in place an interest rate swap agreement with a Canadian chartered bank to hedge its exposure to fluctuating interest rates on its long-term debt. The swap has a notional amount of \$45 million and expires in May 2017.

The swap agreement involves the exchange of the three-month bankers' acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and is recorded as an increase or decrease to interest expense. A 0.5% change in the projected floating interest rates during the remaining term of the swap agreement would have impacted the fair value of the interest rate swap at June 30, 2016 by approximately \$0.2 million which would have flowed through profit.

As at June 30, 2016, the aggregate fair value payable of the swap agreement was \$0.6 million (December 31, 2015 – \$0.9 million).

### ***Market risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The fair value of the Company's marketable securities is affected by changes in the quoted share prices in active markets. Such prices can fluctuate and are affected by numerous factors beyond the Company's control. In order to minimize the risk associated with changes in the share price of any one particular investment, the Company diversifies its portfolio by investing in various industries and only invests a certain amount of funds in marketable securities. It also conducts regular financial reviews of publicly available information related to its investments to determine if any identified risks are within tolerable risk levels.

### ***Credit risk management***

Credit exposure on financial instruments arises from the possibility that a counterparty to an instrument in which the Company is entitled to receive payment fails to perform.

The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize the concentration of credit risk. Credit exposure is managed through credit approval and monitoring procedures. The Company does not require collateral or other security from clients for trade receivables; however the Company does perform credit checks on customers prior to extending credit. Based on the results of credit checks, the Company may require upfront deposits or full payments on account prior to providing service. The Company reviews its receivables for possible indicators of impairment on a regular basis and as such, it maintains a provision for potential credit losses. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Amounts would be written off directly against accounts receivable and against the allowance only if and when it was clear the amount would not be collected due to customer insolvency. Historically, the significance and incidence of amounts written off directly against receivables have been low. The Company believes its provision for potential credit losses is adequate at this time given the current economic circumstances.

Credit exposure on financial instruments arises from the possibility that a counterparty to an instrument in which the Company is entitled to receive payment fails to perform. Counterparty risk is managed by only dealing with Canadian chartered banks having high credit ratings.

### ***Capital Management***

The Company defines its capital as shareholders' equity. The Company's objective when managing capital is to pursue its strategy of growth through acquisitions and through organic operations so that it can continue to provide adequate returns for shareholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or repurchase shares. The Directors and senior management of the Company are of the opinion that from time to time the purchase of its shares at the prevailing market price would be a worthwhile investment and in the best interests of the Company and its shareholders. Material transactions and those considered to be outside the ordinary course of business, such as acquisitions and other major investments or disposals, are reviewed and approved by the Board of Directors.

## **NEW AND FUTURE ACCOUNTING STANDARDS**

### **Adoption of new accounting standards**

#### ***IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7") – Applicability of the offsetting disclosures to condensed interim financial statements***

On January 1, 2016, the Company adopted the amendments to IFRS 7, which include guidance on offsetting financial assets and financial liabilities. This amendment clarifies that the offsetting disclosure requirements do not apply to interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

#### ***IAS 19, "Employee Benefits" ("IAS 19") – Discount rate: regional market issue***

On January 1, 2016, the Company adopted the amendment to IAS 19 which clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

#### ***IAS 34 – Disclosure of information 'elsewhere in the interim financial report'***

On January 1, 2016, the Company adopted the amendment to IAS 34 which clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report.

The adoption of these updated accounting standards did not result in a material impact to the Company's interim financial statements.

### **Future accounting standards**

Standards issued but not yet effective until after December 31, 2016 are consistent with those disclosed in the Company's 2015 Annual MD&A dated March 3, 2016, in addition to the following:

#### ***IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15")***

In April 2016, the IASB issued amendments to its revenue standard, IFRS 15. The amendments clarify certain requirements of applying the new revenue standard and provide relief related to the cost and complexity of applying the new standard. The effective date of the amendments is January 1, 2018. The Company is assessing the impact this new standard, including amendments, will have on its consolidated financial statements.

#### ***IFRS 2, "Share-based Payment" ("IFRS 2")***

In June 2016, the IASB issued three amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions, which are intended to eliminate diversity in the application of this

standard. The effective date of the amendments is January 1, 2018. Entities are required to apply these amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company is assessing the impact these amendments will have on its consolidated financial statements.

### **CRITICAL ACCOUNTING ESTIMATES**

There has been no substantive change in the Company's critical accounting estimates since the publication of the 2015 Annual MD&A dated March 3, 2016.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company's off-balance sheet arrangements consist of operating leases. Other than these, which are considered in the ordinary course of business, the Company does not have any other off-balance sheet arrangements and does not expect to enter into any other such arrangement other than in the ordinary course of business.

### **RELATED PARTY TRANSACTIONS**

These interim financial statements include the financial statements of the following wholly-owned subsidiaries: Newcap Inc., the Glynmill Inn Incorporated, 8504580 Canada Inc., 8384827 Canada Inc., 8384860 Canada Inc., 8384886 Canada Inc. and 8384878 Canada Inc. All intra-group balances and transactions have been eliminated in full.

In addition to transactions between the parent and subsidiaries, the Company has entered into transactions and agreements with certain other related parties. Transactions with these parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, having normal trade terms. Related party transactions are reviewed by the Company's Audit and Governance Committee which is comprised entirely of independent directors.

During the six months ended June 30, 2016, the Company entered into a ten-year lease agreement, having normal trade terms, to provide office space to a company controlled by the President and Chief Executive Officer. All other related party transactions during the quarter were consistent in nature to those described in the 2015 Annual MD&A dated March 3, 2016.

### **RISKS AND OPPORTUNITIES**

On April 21, 2016 the Copyright Board of Canada released its Commercial Radio Tariff Decision. The impact of the decision is expected to be positive for the Company as a result of reductions to rates related to Composers and Publishers in Canada and the Audio-Video Licensing Agency; however, the decision is currently under judicial review.

On June 15, 2016, the CRTC announced its funding decision following the policy framework review for local and community television. The impact of this decision is the eventual disbanding of the Small Market Local Programming Fund ("SMLPF"), which will be replaced by the Independent Local News Fund ("ILNF"), funded by both cable and direct-to-home television providers effective September 1, 2017. New criteria will be set at a public proceeding, which is yet to be announced, regarding the definition and reporting of local programming which must be met to receive ILNF funding. Effective September 1, 2016, certain stations will be removed from the SMLPF and their funding will be redistributed among other current recipients. Effective September 1, 2017 additional stations will be added to the list of ILNF recipients. The Company continues to review the impact of this decision, which is expected to be positive.

There has been no other substantive change in the Company's risks and opportunities since the publication of the 2015 Annual MD&A dated March 3, 2016.

## CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in the Company's internal controls over financial reporting that occurred in the six months ending June 30, 2016 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

## OUTLOOK

The Company achieved strong results in the second quarter and year-to-date 2016, significantly outpacing the Canadian radio industry which has faced declines in revenue during the same period. The Company's success was primarily a result of its focus to improve its on-air programming and maximize its sales efforts. The Company's management team is driven to succeed by focusing on all aspects of the business, large and small, in an effort maximize returns within an industry that is not growing, but has been steady for the last number of years.

The Company will continue to provide quality programming and promote its stations in an effort to maintain strong listener ratings and revenue. The Company will also continue to focus on identifying efficiencies to maintain consistent EBITDA margins in the challenging economic environment.

The Company expects to launch a new FM licence in Hinton, Alberta, by February 2017 and continues to seek out acquisitions which will provide a healthy return on investment for its shareholders.

### *Non-IFRS Accounting Measure*

<sup>(1)</sup>*EBITDA is calculated as revenue less operating expenses (which include direct cost of sales and general and administrative expenses) as reported in the Company's interim consolidated income statements. EBITDA may be calculated and presented by operating segment or for the consolidated results of the Company. The Company believes this is an important measure because the Company's key decision makers use this measure internally to evaluate the performance of management. The Company's key decision makers also believe certain investors use it as a measure of the Company's financial performance and for valuation purposes.*

*EBITDA is therefore calculated before (i) non-cash expenses such as depreciation, amortization and accretion of other liabilities, (ii) interest expense and (iii) items not indicative of the Company's core operating results, and not used in the evaluation of the operating segments or the consolidated Company's performance such as: acquisition-related costs, impairment charges and other income (expense). A calculation of this measure is as follows:*

	Three months ended		Six months ended	
	June 30		June 30	
<i>(thousands of Canadian dollars)</i>	<b>2016</b>	2015	<b>2016</b>	2015
<i>Profit</i>	\$ <b>8,405</b>	6,034	<b>12,976</b>	8,536
<i>Provision for income taxes</i>	<b>3,168</b>	3,744	<b>4,509</b>	4,690
<i>Other (income) expense</i>	<b>(252)</b>	(53)	<b>(486)</b>	128
<i>Interest expense</i>	<b>1,237</b>	1,478	<b>2,453</b>	3,626
<i>Depreciation and amortization</i>	<b>1,166</b>	1,155	<b>2,348</b>	2,349
<i>Accretion of other liabilities</i>	<b>87</b>	116	<b>173</b>	232
<b>EBITDA</b>	\$ <b>13,811</b>	12,474	<b>21,973</b>	19,561

*EBITDA is not defined by IFRS and is not standardized for public issuers. This measure may not be comparable to similar measures presented by other public enterprises.*

**Newfoundland Capital Corporation Limited**  
**Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the three months and six months ended June 30, 2016 and 2015**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor if an auditor has not performed a review of the interim financial statements.

The accompanying unaudited condensed interim consolidated financial statements (“interim financial statements”) of the Company for the three months and six months ended June 30, 2016 and 2015 have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” and are the responsibility of the Company’s management.

The Company’s independent auditors, Ernst & Young LLP, have not performed a review of these interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

Dated this 11<sup>th</sup> day of August, 2016

## Interim Consolidated Statements of Financial Position

(unaudited)

<i>(thousands of Canadian dollars)</i>	<i>Notes</i>	<b>June 30 2016</b>	December 31 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Marketable securities	8(a)	\$ 1,303	829
Receivables	8	38,419	38,960
Prepaid expenses		1,101	1,494
<i>Total current assets</i>		<b>40,823</b>	41,283
<b>Non-current assets</b>			
Property and equipment		42,221	43,098
Other assets		1,542	1,580
Broadcast licences		262,029	262,029
Goodwill		12,014	12,014
Deferred income tax assets		4,065	4,242
<i>Total non-current assets</i>		<b>321,871</b>	322,963
<b>Total assets</b>	<b>4</b>	<b>\$ 362,694</b>	364,246
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank indebtedness		\$ 1,546	1,748
Accounts payable and accrued liabilities		20,335	20,747
Income taxes payable		158	1,840
Current portion of long-term debt	4	11,250	11,250
<i>Total current liabilities</i>		<b>33,289</b>	35,585
<b>Non-current liabilities</b>			
Long-term debt	4	132,682	134,658
Other liabilities	8(b)	14,208	14,833
Deferred income tax liabilities		33,643	33,179
<i>Total non-current liabilities</i>		<b>180,533</b>	182,670
<b>Total liabilities</b>		<b>213,822</b>	218,255
<b>Shareholders' equity</b>		<b>148,872</b>	145,991
<b>Total liabilities and shareholders' equity</b>		<b>\$ 362,694</b>	364,246

See accompanying notes to the interim financial statements

## Interim Consolidated Income Statements

(unaudited)

(thousands of Canadian dollars, except per share data)	Notes	Three months ended June 30		Six months ended June 30	
		2016	2015	2016	2015
Revenue		\$ 44,225	42,598	81,104	78,103
Operating expenses		(30,414)	(30,124)	(59,131)	(58,542)
Depreciation and amortization		(1,166)	(1,155)	(2,348)	(2,349)
Accretion of other liabilities		(87)	(116)	(173)	(232)
Interest expense		(1,237)	(1,478)	(2,453)	(3,626)
Other income (expense)	8(a)	252	53	486	(128)
<b>Profit before provision for income taxes</b>		<b>11,573</b>	9,778	<b>17,485</b>	13,226
Provision for income taxes					
Current		(2,568)	(2,896)	(3,854)	(3,923)
Deferred		(600)	(848)	(655)	(767)
		<b>(3,168)</b>	(3,744)	<b>(4,509)</b>	(4,690)
<b>Profit</b>		<b>\$ 8,405</b>	6,034	<b>12,976</b>	8,536
<b>Earnings per share</b>					
- Basic		\$ 0.32	0.22	0.49	0.30
- Diluted		0.30	0.21	0.47	0.29
<b>Weighted average number of shares outstanding</b> (thousands)					
- Basic		26,448	27,915	26,539	28,050
- Diluted		27,666	29,130	27,842	29,266

See accompanying notes to the interim financial statements

## Interim Consolidated Statements of Comprehensive Income

(unaudited)

(thousands of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<b>Profit</b>	<b>\$ 8,405</b>	6,034	<b>12,976</b>	8,536
<b>Other comprehensive loss</b>				
Cash flow hedges:				
Net movement on interest rate swaps	(45)	(21)	(90)	(71)
Income tax recovery	13	7	26	20
<b>Amounts reclassified to profit</b>	<b>(32)</b>	(14)	<b>(64)</b>	(51)
<b>Comprehensive income</b>	<b>\$ 8,373</b>	6,020	<b>12,912</b>	8,485

See accompanying notes to the interim financial statements

## Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

<i>(thousand of Canadian dollars)</i>	Issued share capital (note 5)	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2016	\$ 34,488	2,483	(143)	109,163	145,991
Profit	-	-	-	12,976	12,976
Other comprehensive loss	-	-	(64)	-	(64)
Total comprehensive income (loss)	-	-	(64)	12,976	12,912
Repurchase of share capital	(1,555)	-	-	(8,529)	(10,084)
Exercise of executive stock options	204	(204)	-	-	-
Executive stock option compensation expense	-	53	-	-	53
<b>Balance at June 30, 2016</b>	<b>\$ 33,137</b>	<b>2,332</b>	<b>(207)</b>	<b>113,610</b>	<b>148,872</b>

See accompanying notes to the interim financial statements

<i>(thousand of Canadian dollars)</i>	Issued share capital (note 5)	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2015	\$ 36,596	2,602	(144)	101,475	140,529
Profit	-	-	-	8,536	8,536
Other comprehensive loss	-	-	(51)	-	(51)
Total comprehensive income (loss)	-	-	(51)	8,536	8,485
Repurchase of share capital	(595)	-	-	(2,981)	(3,576)
Exercise of executive stock options	151	(151)	-	-	-
<b>Balance at June 30, 2015</b>	<b>\$ 36,152</b>	<b>2,451</b>	<b>(195)</b>	<b>107,030</b>	<b>145,438</b>

See accompanying notes to the interim financial statements

## Interim Consolidated Statements of Cash Flows

(Unaudited)

<i>(thousands of Canadian dollars)</i>	<i>Notes</i>	Six months ended June 30	
		<b>2016</b>	2015
<b>Operating activities</b>			
Profit before provision for income taxes		\$ 17,485	13,226
Items not involving cash			
Depreciation, amortization and accretion of other liabilities		2,521	2,581
Interest expense		2,453	3,626
Share-based compensation expense	6	53	-
Realized and unrealized (gains) losses on marketable securities	8	(474)	125
Other		261	(43)
		<b>22,299</b>	19,515
Net change in non-cash working capital balances related to operations		<b>430</b>	(131)
Cash generated from operations		<b>22,729</b>	19,384
Interest paid		(2,732)	(3,312)
Income taxes paid		(5,523)	(7,221)
Net cash flow from operating activities		<b>14,474</b>	8,851
<b>Financing activities</b>			
Change in bank indebtedness		(202)	297
Long-term borrowings		10,500	7,500
Long-term debt repayments		(12,625)	(4,125)
Dividends paid		-	(2,534)
Repurchase of capital stock	5	(10,084)	(3,576)
Other		-	(197)
Net cash flows used in financing activities		<b>(12,411)</b>	(2,635)
<b>Investing activities</b>			
Property and equipment additions		(1,648)	(5,312)
Canadian Content Development commitment payments		(451)	(509)
Proceeds from disposal of marketable securities		-	105
Other		36	(500)
Net cash flow used in investing activities		<b>(2,063)</b>	(6,216)
<b>Cash, beginning and end of period</b>		<b>\$ -</b>	-

See accompanying notes to the interim financial statements

## 1. REPORTING ENTITY

Newfoundland Capital Corporation Limited (the “Company”) is incorporated in Nova Scotia, Canada. The address of the Company’s registered office of business is 8 Basinview Drive, Dartmouth, Nova Scotia, B3B 1G4. The Company’s primary activity is radio broadcasting. These unaudited condensed interim consolidated financial statements (“interim financial statements”) comprise the financial statements of the Company and its subsidiaries. The Company’s revenue is derived primarily from the sale of advertising airtime which is subject to seasonal fluctuations. The first quarter of the year is generally a period of lower retail spending. As a result, revenue and profit are generally lower than the other quarters.

These interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors on August 11, 2016.

## 2. BASIS OF PREPARATION

### a) Statement of Compliance

These interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” (“IAS 34”). Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed. The same accounting policies and methods of computation were followed in the preparation of these interim financial statements as were followed in the preparation of the annual financial statements for the year ended December 31, 2015. Accordingly, these interim financial statements should be read together with the annual financial statements for the year ended December 31, 2015 prepared in accordance with IFRS.

These interim financial statements have been prepared in accordance with those IFRS standards and IFRS Interpretations Committee interpretations issued and effective or issued and early adopted as at the date of these statements. All amounts are expressed in Canadian dollars, rounded to the nearest thousand (unless otherwise specified). The functional currency of the Company and each of its subsidiaries is the Canadian dollar.

### b) Critical Accounting Estimates

There has been no substantive change in the Company’s critical accounting estimates and assumptions since the publication of the annual financial statements for the year ended December 31, 2015.

## 3. NEW AND FUTURE ACCOUNTING STANDARDS

### Adoption of new accounting standards

#### *IFRS 7, “Financial Instruments: Disclosures” (“IFRS 7”) – Applicability of the offsetting disclosures to condensed interim financial statements*

On January 1, 2016, the Company adopted the amendments to IFRS 7, which include guidance on offsetting financial assets and financial liabilities. This amendment clarifies that the offsetting disclosure requirements do not apply to interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

#### *IAS 19, “Employee Benefits” (“IAS 19”) – Discount rate: regional market issue*

On January 1, 2016, the Company adopted the amendment to IAS 19 which clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

**3. NEW AND FUTURE ACCOUNTING STANDARDS** (continued)**Adoption of new accounting standards** (continued)**IAS 34 – Disclosure of information ‘elsewhere in the interim financial report’**

On January 1, 2016, the Company adopted the amendment to IAS 34 which clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report.

The adoption of these updated accounting standards did not result in a material impact to the Company’s interim financial statements.

**Future Accounting Standards**

Standards issued but not yet effective until after December 31, 2016 are consistent with those disclosed in the Company’s annual financial statements for the year ended December 31, 2015, in addition to the following:

**IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”)**

In April 2016, the IASB issued amendments to its revenue standard, IFRS 15. The amendments clarify certain requirements of applying the new revenue standard and provide relief related to the cost and complexity of applying the standard. The effective date of the amendments is January 1, 2018. The Company is assessing the impact this new standard, including amendments, will have on its consolidated financial statements.

**IFRS 2, “Share-based Payment” (“IFRS 2”)**

In June 2016, the IASB issued three amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions, which are intended to eliminate diversity in in the application of this standard. The effective date of the amendments is January 1, 2018. Entities are required to apply these amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company is assessing the impact these amendments will have on its consolidated financial statements.

**4. LONG-TERM DEBT**

<i>(thousands of Canadian dollars)</i>	<b>June 30 2016</b>	December 31 2015
Revolving term credit facility of \$90 million, renewable, expires in May 2018	<b>\$ 77,000</b>	73,500
Non-revolving term credit facility of \$90 million, repayable in quarterly instalments, expires in May 2018	<b>67,500</b>	73,125
	<b>144,500</b>	146,625
Less: current portion of non-revolving credit facility	<b>(11,250)</b>	(11,250)
Less: debt transaction costs	<b>(568)</b>	(717)
	<b>\$ 132,682</b>	134,658

The \$90,000,000 revolving term credit facility has no set terms of repayment. The \$11,454,000 undrawn amount may be used to fund future operations, capital requirements and investing activities, subject to the debt covenants which are disclosed in note 8. The Company’s \$90,000,000 non-revolving term credit facility is being amortized over eight years and is repayable in quarterly instalments of \$2,813,000.

In May 2015, the Company amended the credit facilities to extend the maturity date to May 31, 2018, to reduce interest rates by approximately 0.5% and to change certain covenants.

#### 4. LONG-TERM DEBT (continued)

The Company has provided a general assignment of book debts and a first ranking fixed charge demand debenture over all freehold and leasehold real property and all equipment and a security interest and floating charge over all other property as collateral for the bank indebtedness and the credit facilities.

#### 5. SHARE CAPITAL

##### Outstanding share capital

Outstanding share capital was 25,661,923 as at June 30, 2016 (December 31, 2015 – 26,629,658).

##### Share repurchases

The Company has approval under a Normal Course Issuer Bid (“NCIB”) to repurchase up to 1,145,715 Class A Subordinate Voting Shares (“Class A shares”) and 75,386 Class B Common Shares (“Class B shares”). This bid expires June 5, 2017. During the second quarter and year-to-date, 34,000 Class A shares were repurchased for cash consideration of \$325,000 under the NCIB that was in effect until May 24, 2016 and 1,021,700 Class A shares were purchased for cash consideration of \$9,759,000 under the NCIB currently in effect, leaving a balance of 124,015 Class A shares and 75,386 Class B shares available to be repurchased under the current NCIB. In 2015, 405,000 Class A shares were repurchased for \$3,576,000 during the second quarter and year-to-date. As a result of the share repurchases, capital stock was reduced by \$1,555,000 (2015 – \$595,000) and retained earnings by \$8,529,000 (2015 – \$2,981,000).

##### Exercise of stock options

Pursuant to the Company’s executive stock option plan disclosed in note 6, 232,500 options were exercised in the second quarter (2015 – 20,000) and 252,500 options were exercised year-to-date (2015 – 145,000) using the cashless exercise option resulting in 82,899 shares issued from treasury in the second quarter (2015 – 3,568) and 87,965 shares issued from treasury year to date (2015 – 32,724). Share capital was increased and contributed surplus was decreased by \$204,000 (2015 – \$151,000) as a result of the options being exercised during the year.

##### Dividends

Subsequent to quarter end, the Board of Directors declared a dividend of \$0.10 per share to all shareholders of record as at August 31, 2016, payable on September 15, 2016.

#### 6. SHARE-BASED COMPENSATION PLANS

The following is a summary of the Company’s compensation expense related to share-based compensation plans:

##### Stock appreciation rights

There are no stock appreciation rights outstanding as at June 30, 2016. During the first quarter of 2015, the remaining 50,000 rights were exercised for cash consideration of \$85,000.

##### Executive stock options

A total of 2,020,000 stock options are outstanding pursuant to the Company’s executive stock option plan. The options generally vest as follows: twenty-five percent on the date of grant and twenty-five percent on each of the three succeeding anniversary dates. Option holders may elect to exercise their options on a cashless basis in which case capital shares are issued from treasury based on a formula that takes into account the market value of the Company’s Class A shares and the option’s strike price.

No options were granted during the second quarter and year-to-date (2015 – nil). In the quarter, 232,500 options were exercised (2015 – 20,000) and year-to-date, 252,500 options were exercised (2015 – 145,000). Compensation expense related to the stock option plan in the quarter was \$26,000 and year-to-date was \$53,000 (2015 – \$nil in the second quarter and year-to-date).

**7. EMPLOYEE BENEFIT PLANS**

<i>(thousands of Canadian dollars)</i>	Three months ended		Six months ended	
	June 30		June 30	
	2016	2015	2016	2015
Defined contribution plan expense	\$ 479	472	937	921
Defined benefit plan expense	96	93	193	186

**8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

**Estimated fair value of financial instruments**

The fair value of long-term debt approximates the carrying value because the interest charges under the terms of the long-term debt are based on the three-month Canadian bankers' acceptance rates. The premium to bankers' acceptance rates is based on certain financial ratios and is consistent with market value. The fair values of financial instruments in other liabilities approximate their carrying values as they are recorded at the net present value of their future cash flows, using an appropriate discount rate.

The following table outlines the hierarchy of inputs used in the calculation of fair value for each financial instrument:

<i>(thousands of Canadian dollars)</i>	Total	Level 1	Level 2	Level 3
		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
<b>Financial assets at fair value through profit or loss</b>				
Marketable securities	\$ 1,303	1,303	-	-
<b>Items accounted for as hedges</b>				
Interest rate swap payable	(559)	-	(559)	-
<b>Other liabilities at amortized cost, with fair values disclosed</b>				
Long-term debt, excluding unamortized credit facility fees	(133,250)	-	(133,250)	-
Other liabilities	(7,528)	-	(7,528)	-

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities
- Level 2: other techniques for which all inputs that have a significant effect on the recorded value are observable, either directly or indirectly
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following sections discuss the Company's risk management objectives and procedures as they relate to credit risk, market risk, liquidity risk and capital risk.

**Credit risk**

The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize the concentration of credit risk. Credit exposure is managed through credit approval and monitoring procedures. The Company does not require collateral or other security from clients for trade receivables; however the Company does perform credit checks on customers prior to extending credit. Based on the results of credit checks, the Company may require upfront deposits or full payments on account prior to providing service. The maximum credit exposure approximated \$39,348,000 as at June 30, 2016 (December 31, 2015 – \$39,839,000), which included accounts receivable.

8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

**Credit risk** (continued)

The Company reviews its receivables for possible indicators of impairment on a regular basis and as such, it maintains a provision for potential credit losses which totaled \$929,000 as at June 30, 2016 (December 31, 2015 – \$879,000). The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables.

Approximately 87% of trade receivables are outstanding for less than 90 days. Amounts would be written off directly against accounts receivable and against the allowance only if and when it was clear the amount would not be collected due to customer insolvency. Historically, the significance and incidence of amounts written off directly against receivables have been low. The total amount written off in the second quarter was \$58,000 and year-to-date was \$145,000 which represents a very small portion of accounts receivable and revenue. The Company believes its provision for potential credit losses is adequate at this time given the current economic circumstances.

Credit exposure on financial instruments arises from the possibility that a counterparty to an instrument in which the Company is entitled to receive payment fails to perform. With regard to the Company's derivative instruments, the counterparty risk is managed by only dealing with Canadian chartered banks having high credit ratings.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, which includes quoted share prices in active markets and interest rates.

a) *Managing risk associated with fluctuations in quoted share prices of marketable securities*

The fair value of the Company's marketable securities is affected by changes in the quoted share prices in active markets. Such prices can fluctuate and are affected by numerous factors beyond the Company's control. In order to minimize the risk associated with changes in the share price of any one particular investment, the Company diversifies its portfolio by investing in various industries. It also conducts regular financial reviews of publicly available information related to its investments to determine if any identified risks are within tolerable risk levels. As at June 30, 2016, a 10% change in the share prices of the Company's marketable securities would result in an estimated \$110,000 change in profit.

The change in fair value of marketable securities recorded in *other income (expense)* was an unrealized gain of \$236,000 for the quarter ended June 30, 2016 (2015 – \$187,000) and an unrealized gain of \$474,000 year-to-date (2015 – \$11,000).

b) *Interest rate risk management*

The Company is exposed to interest rate risk on the long-term debt issued at floating rates under its credit facilities. A 0.5% change in the annual floating interest rates would have had an \$84,000 impact on profit for the quarter ended June 30, 2016 and a \$174,000 impact on year-to-date profit.

The Company has in place an interest rate swap agreement with a Canadian chartered bank to hedge its exposure to fluctuating interest rates on its long-term debt. The swap has a notional amount of \$45,000,000 and expires in May 2017. The swap agreement involves the exchange of the three-month bankers' acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and recorded as an increase or decrease to interest expense. Changes in fair value of the swap are recorded in profit.

**8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT** (continued)**Market risk** (continued)*b) Interest rate risk management (continued)*

At quarter-end, the aggregate fair value of the swap agreement was a \$559,000 liability, of which \$51,000 was classified as a current liability (December 31, 2015 – \$891,000; \$52,000 classified as current).

A 0.5% change in the projected floating interest rates during the remaining term of the hedge agreement would have impacted the fair value of the interest rate swap by approximately \$164,000 which would have flowed through profit.

**Liquidity risk**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations and borrowings under the existing credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Other than for operations, the Company's cash requirements are mostly for interest payments, repayment of debt, capital expenditures, Canadian Content Development ("CCD") payments, and other contractual obligations that are disclosed below.

The Company's liabilities have contractual maturities which are summarized below:

<b>Obligation</b> (thousands of Canadian dollars)	<b>12 months</b>	<b>Years 2 to 5</b>	<b>Thereafter</b>
Long-term debt, excluding debt transaction costs (note 4)	\$ 11,250	122,000	-
Bank indebtedness	1,546	-	-
Accounts payable and accrued liabilities, net of current portion of undiscounted CCD commitments	18,071	-	-
Income taxes payable	158	-	-
CCD commitments, undiscounted	2,264	5,888	-
	<u>\$ 33,289</u>	<u>127,888</u>	<u>-</u>

Assuming the long-term debt is renewed in 2018, which is consistent with past practice, the payments would be \$45,000,000 for the years 2 to 5 and \$77,000,000 thereafter.

**Capital risk**

The Company defines its capital as shareholders' equity. The Company's objective when managing capital is to pursue its strategy of growth through acquisitions and through organic operations so that it can continue to provide adequate returns for shareholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or repurchase shares. The Directors and senior management of the Company are of the opinion that from time to time the purchase of its shares at the prevailing market price would be a worthwhile investment and in the best interests of the Company and its shareholders. Material transactions and those considered to be outside the ordinary course of business, such as acquisitions and other major investments or disposals, are reviewed and approved by the Board of Directors.

**8. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT** (continued)

**Capital risk** (continued)

To comply with Federal Government directions, the Broadcasting Act and regulations governing radio stations (the “Regulations”), the Company has imposed restrictions respecting the issuance, transfer and, if applicable, voting of the Company's shares. Restrictions include limitations over foreign ownership of the issued and outstanding voting shares. Pursuant to such restrictions, the Company can prohibit the issuance of shares or refuse to register the transfer of shares or, if applicable, prohibit the voting of shares in circumstances that would or could adversely affect the ability of the Company, pursuant to the provisions of the Regulations, to obtain, maintain, renew or amend any licence required to carry on any business of the Company, including a licence to carry on a broadcasting undertaking, or to comply with such provisions or with those of any such licence.

Financial projections are updated and reviewed regularly to reasonably ensure that financial debt covenants will not be breached in future periods. The Company monitors the covenants and foreign ownership status of the issued and outstanding voting shares and presents this information to the Board of Directors quarterly. The Company was in compliance with all the above throughout the year-to-date period and as at June 30, 2016.

**9. OPERATING SEGMENT INFORMATION**

The Company has two reportable segments – Broadcasting and Corporate and Other. The Broadcasting segment consists of the operations of the Company's radio and television licences. This segment derives its revenue from the sale of broadcast advertising and is a strategic business unit that offers different services and is managed separately. Corporate and Other consists of a hotel and the head office functions. Its revenue relates to hotel operations as well as office space rental and related services revenue. The Company evaluates performance based on earnings before interest, taxes, depreciation and amortization.

Included within the Broadcasting segment are distinct operating segments that have been aggregated as they operate within the same regulatory environment and use similar processes to provide advertising services to customers. Operating segments are evaluated by the Company based on specific geographic locations within Canada. The Company considered the economic characteristics of the various operating segments, including earnings before interest, taxes, depreciation and amortization, in determining that these segments are appropriate to aggregate.

9. OPERATING SEGMENT INFORMATION (continued)

<i>(thousands of Canadian dollars)</i>	<b>Broadcasting</b>	<b>Corporate and Other</b>	<b>Total</b>	<b>Broadcasting</b>	<b>Corporate and Other</b>	<b>Total</b>
	<b>Three months ended June 30, 2016</b>			<b>Six months ended June 30, 2016</b>		
<b>Revenue</b>	\$ 43,126	1,099	44,225	\$ 79,036	2,068	81,104
<b>Operating expenses</b>	(27,013)	(3,401)	(30,414)	(52,800)	(6,331)	(59,131)
<b>Segment profit (loss)</b>	16,113	(2,302)	13,811	26,236	(4,263)	21,973
<b>Depreciation, amortization and accretion of other liabilities</b>	(1,130)	(123)	(1,253)	(2,281)	(240)	(2,521)
<b>Interest expense</b>	-	(1,237)	(1,237)	-	(2,453)	(2,453)
<b>Other income</b>	11	241	252	11	475	486
<b>Profit (loss) before provision for income taxes</b>	\$ 14,994	(3,421)	11,573	\$ 23,966	(6,481)	17,485
<b>Other disclosures</b>						
<b>Capital expenditures</b>	\$ (523)	(285)	(808)	\$ (1,093)	(555)	(1,648)
	<b>Three months ended June 30, 2015</b>			<b>Six months ended June 30, 2015</b>		
<b>Revenue</b>	\$ 41,683	915	42,598	\$ 76,329	1,774	78,103
<b>Operating expenses</b>	(26,181)	(3,943)	(30,124)	(51,808)	(6,734)	(58,542)
<b>Segment profit (loss)</b>	15,502	(3,028)	12,474	24,521	(4,960)	19,561
<b>Depreciation, amortization and accretion of other liabilities</b>	(1,171)	(100)	(1,271)	(2,384)	(197)	(2,581)
<b>Interest expense</b>	-	(1,478)	(1,478)	-	(3,626)	(3,626)
<b>Other income (expense)</b>	6	47	53	11	(139)	(128)
<b>Profit (loss) before provision for income taxes</b>	\$ 14,337	(4,559)	9,778	22,148	(8,922)	13,226
<b>Other disclosures</b>						
<b>Capital expenditures</b>	\$ (3,361)	(11)	(3,372)	\$ 5,290	(22)	(5,312)

<i>(thousands of Canadian dollars)</i>	<b>Broadcasting</b>	<b>Corporate and Other</b>	<b>Total</b>
	<b>As at June 30, 2016</b>		
<b>Total assets</b>	\$ 348,295	14,399	362,694
<b>Total liabilities</b>	(23,302)	(190,520)	(213,822)
<b>Other disclosures</b>			
<b>Broadcast licences</b>	262,029	-	262,029
<b>Goodwill</b>	12,014	-	12,014
	<b>As at December 31, 2015</b>		
<b>Total assets</b>	\$ 350,398	13,848	364,246
<b>Total liabilities</b>	(29,505)	(188,750)	(218,255)
<b>Other disclosures</b>			
<b>Broadcast licences</b>	262,029	-	262,029
<b>Goodwill</b>	12,014	-	12,014

**Transfer agent and registrar**

The transfer agent and registrar for the shares of the Company is the CST Trust Company at its offices in Halifax and Toronto.

**For shareholder account inquiries:**

Telephone: 1-800-387-0825 (toll free in North America)

e-mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

or write to: Newfoundland Capital Corporation Limited

c/o CST Trust Company

P.O. Box 700, Station B

Montreal, QC H3B 3K3

**Investor relations contact**

Institutional and individual investors seeking financial information about the Company are invited to contact Scott G. M. Weatherby, Chief Financial Officer and Corporate Secretary (902) 468-7557

E-mail: [investorrelations@ncc.ca](mailto:investorrelations@ncc.ca)

web: [www.ncc.ca](http://www.ncc.ca)

**Stock exchange listing and symbols**

The Company's Class A Subordinate Voting Shares and Class B Common Shares are listed on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.



Newfoundland Capital Corporation Limited  
8 Basinview Drive, Dartmouth, Nova Scotia  
Canada B3B 1G4

Tel: (902) 468-7557

Fax: (902) 468-7558

E-mail: [ncc@ncc.ca](mailto:ncc@ncc.ca)

Web address: [www.ncc.ca](http://www.ncc.ca)