Newfoundland Capital Corporation Limited

Second Quarter 2012

Period Ended June 30 ***(unaudited)***

Dartmouth, N.S. – August 9, 2012, Newfoundland Capital Corporation Limited ("Company") today announces its financial results for the second quarter ending June 30, 2012.

Highlights

- **Revenue** for the second quarter of $34.3 million was $0.9 million or 3% higher than last year. Year-to-date revenue of $61.8 million was $1.8 million or 3% higher than 2011. The growth was due to a combination of organic increases as well as incremental revenue from the acquired stations in British Columbia.
- **Earnings before interest, taxes, depreciation and amortization ("EBITDA"[(1)])** of $9.2 million in the quarter were $1.9 million or 17% lower than last year and year-to-date EBITDA was $13.9 million; $2.2 million or 13% lower than 2011 due to higher operating expenses. Normalizing EBITDA to exclude stock-based compensation expense and the accounting for the Company's equity total return swap which reduced operating expenses in the prior year, EBITDA in the quarter would have been approximately 4% lower than 2011 while year-to-date EBITDA would have been on par with 2011.
- **Profit for the period** of $3.8 million was $2.1 million or 36% lower than the same quarter last year. Year-to-date profit of $4.5 million was $4.3 million or 48% lower than the same period in 2011. Impacting year-over-year comparisons were unrealized mark-to-market losses of $0.6 million in the quarter and $2.9 million year-to-date as well as the above-noted items impacting EBITDA.
- **The Board of Directors declared a dividend** of $0.06 per share on each of the Company's Class A Subordinate Voting Shares and Class B Common Shares on August 9, 2012, payable on September 14, 2012 to all shareholders of record as at August 31, 2012.

Significant events

- In May, the Canadian Radio-television and Telecommunications Commission ("CRTC") awarded the Company new FM licences in Fredericton and Miramichi, New Brunswick. These new services are expected to be launched within the next twelve months.
- The Company has repurchased a total of 270,634 shares for $2.2 million pursuant to its Normal Course Issuer Bid.

"While revenue growth isn't as robust as it has been in recent years, we continue to trend positively against last year. In the coming months we will be paying close attention to revenue and monitoring discretionary costs to achieve our EBITDA goals", commented Rob Steele, President and Chief Executive Officer. "Important additions to our asset base are the recently awarded FM licences in Fredericton and Miramichi, New Brunswick."

Financial Highlights – Second Quarter

(thousands of dollars except share information)		**2012**	2011
Revenue	$	**34,325**	33,448
EBITDA[(1)]		**9,177**	11,090
Profit for the period		**3,759**	5,895
Earnings per share – basic		**0.12**	0.19
Earnings per share – diluted		**0.12**	0.19
Share price, NCC.A (closing)		**7.75**	8.79
Weighted average number of shares outstanding *(in thousands)*		**30,072**	30,322
Total assets		**236,674**	236,545
Long-term debt		**48,807**	60,271
Shareholders' equity		**123,739**	107,629

(1) Refer to page 10 for the reconciliation of EBITDA to profit.

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, 2012 and 2011 prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the annual audited consolidated financial statements and related notes prepared in accordance with IFRS and the MD&A contained in the Company's 2011 Annual Report. The Company's second quarter 2012 interim financial statements and the accompanying notes have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" 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 IAS 27 "Consolidated and Separate Financial Statements" and are reported in Canadian dollars. These documents along with the Company's Annual Information Form, its Management Proxy Circular dated March 14, 2012 and other public information are filed electronically with various securities commissions in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed at www.sedar.com. This information is also available on the Company's website at www.ncc.ca.

The Board of Directors, upon recommendation of the Audit and Governance Committee, approved the content of this MD&A on August 9, 2012. 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 85 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 800 of the best radio professionals across the country. The Company's portfolio of radio assets includes 68 FM and 17 AM licences which can be heard throughout Canada. Most of our stations are globally accessible via the internet and various mobile device applications, allowing listeners the flexibility to tune in to our stations 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, convert AM stations to FM, and add new licences through business and licence acquisitions and through the Canadian Radio-television and Telecommunications Commission ("CRTC") licence application process.

This year the Company expects to continue to grow its existing operations by increasing advertising revenue and remaining focused on controlling discretionary costs to drive EBITDA margins. It will integrate the operations acquired in British Columbia, launch recently awarded AM to FM conversions and continue to explore acquisition and expansion opportunities that fit the Company's acquisition 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 Review" section. The results of the acquired or launched stations have been included in the interim financial statements since the respective acquisition and launch dates.

2012 Developments:

- January – launched the St. Paul, Alberta AM to FM conversion.
- February – completed the acquisition of broadcasting assets related to FM licences in Penticton and Kelowna, British Columbia for cash consideration approximating $7.0 million.
- February – received CRTC approval to convert the Stettler, Alberta AM station to FM. The Company expects to launch this FM conversion in late summer of 2012.
- May – the CRTC awarded the Company the two licences it had applied for in New Brunswick, one in Miramichi and the other in Fredericton. Management hopes to launch these new stations within the next twelve months.

2011 Developments:

- February – launched Brooks, Alberta AM to FM conversion.
- June – launched AM to FM conversion in Grand Cache, Alberta.
- July – the repeater in North West River, Newfoundland and Labrador was launched.
- September – launched Westlock, Alberta AM to FM conversion.
- November – the Company sold the broadcasting assets related to CKJS AM and CHNK FM in Winnipeg, Manitoba for $5.7 million.

CONSOLIDATED FINANCIAL REVIEW

Consolidated Financial Results of Operation

(thousands of dollars, except percentages and per share data)	Three months ended June 30			Six months ended June 30		
	2012	2011	**Growth**	**2012**	2011	**Growth**
Revenue	$ **34,325**	33,448	3%	**61,792**	60,001	3%
Operating expenses	**25,148**	22,358	12%	**47,899**	43,944	9%
EBITDA[(1)]	**9,177**	11,090	(17%)	**13,893**	16,057	(13%)
Depreciation and amortization	**1,038**	960	8%	**2,067**	1,950	6%
Interest expense	**1,034**	1,423	(27%)	**1,884**	2,583	(27%)
Accretion of other liabilities	**87**	130	(33%)	**167**	259	(36%)
	7,018	8,577	(18%)	**9,775**	11,265	(13%)
Other income (expense)	**(1,087)**	(7)	—	**(3,279)**	1,576	—
Profit from continuing operations before provision for income taxes	**5,931**	8,570	(31%)	**6,496**	12,841	(49%)
Provision for income taxes	**2,172**	2,660	(18%)	**1,956**	3,983	(51%)
Profit from continuing operations	**3,759**	5,910	(36%)	**4,540**	8,858	(49%)
Loss from discontinued operations	—	(15)	—	—	(55)	—
Profit for the period	$ **3,759**	5,895	(36%)	**4,540**	8,803	(48%)
Earnings per share – continuing operations						
– Basic	**0.12**	0.19	—	**0.15**	0.29	—
– Diluted	**0.12**	0.19	—	**0.14**	0.28	—
Earnings per share						
– Basic	**0.12**	0.19	—	**0.15**	0.29	—
– Diluted	**0.12**	0.19	—	**0.14**	0.28	—

(1) EBITDA – Earnings before interest, taxes, depreciation and amortization – refer to page 10 for reconciliation to profit.

Revenue

In the quarter, consolidated revenue of $34.3 million was $0.9 million higher than last year; for the six month period ended June 30, 2012 revenue of $61.8 million was $1.8 million higher than 2011. This improvement came exclusively from the broadcasting segment.

Operating expenses

Consolidated operating expenses of $25.1 million were $2.8 million higher than the second quarter last year and year-to-date operating expenses of $47.9 million were $4.0 million higher than 2011. The increase was primarily due to higher stock-based compensation expense and equity total return swap hedge in the Corporate and Other segment. Stock-based compensation expense combined with the net effect of the Company's equity total return swap hedge caused a net increase in operating expenses in the quarter of $1.5 million compared to 2011 and a net increase of $2.2 million year-to-date. Higher broadcasting operating expenses also contributed to the overall increases in operating expenses.

EBITDA

Consolidated EBITDA in the quarter of $9.2 million was $1.9 million lower than last year. Year-to-date EBITDA was $13.9 million; $2.2 million lower than 2011. The decrease was due to the higher operating expenses described immediately above. Normalizing EBITDA to exclude stock-based compensation expense and the accounting for the Company's equity total return swap, EBITDA in the quarter would have been approximately 4% lower than 2011 while year-to-date EBITDA would have been on par with 2011.

A more detailed discussion on revenue, operating expenses and EBITDA are described in the section entitled "Financial Review by Segment".

Depreciation and amortization
In the quarter and year-to-date, depreciation and amortization expense was slightly higher than 2011 due to a higher depreciable asset base.

Interest expense
Interest expense in the second quarter was $0.4 million lower than the second quarter last year and $0.7 million lower year-to-date. Lower average debt levels and a reduced interest rate contributed to the decrease in interest expense in the quarter and year-to-date.

Accretion of other liabilities
Accretion of other liabilities arises from discounting Canadian Content Development ("CCD") commitments to reflect the fair value of the obligations. The expense decreases as CCD obligations are drawn down.

Other income (expense)
Other income generally consists of gains and losses, realized and unrealized, on the Company's marketable securities. In the second quarter of 2012, the Company recognized mark-to-market unrealized losses of $0.6 million compared to less than $0.1 million in the second quarter of 2011. For the period ended June 30, 2012, the mark-to-market unrealized losses were $2.9 million as compared to mark-to-market gains of $1.3 million in 2011. In addition, as part of the acquisitions in British Columbia, the Company recognized a transaction gain and acquisition-related CCD costs in Other income (expense) which net to just under $0.1 million. Refer to note 5 in the interim financial statements for additional details.

Provision for income taxes
In the quarter, the effective tax rate was 37% which was higher than the 31% statutory rate because of the mark-to-market value decline which is deductible at only one-half the statutory rate. On a year-to-date basis, excluding a $0.6 million recovery related to certain tax provisions, the effective tax rate is higher than the statutory rate of 31% for the same reason.

Loss from discontinued operations
In 2011, the Company disposed of its broadcasting assets in Winnipeg, Manitoba and therefore the comparative financial results of operations were treated as discontinued operations in the income statement.

Profit for the period
Profit for the period of $3.8 million was $2.1 million or 36% lower than the same quarter last year. Year-to-date profit of $4.5 million was $4.3 million or 48% lower than the same period in 2011. Impacting year-over-year comparisons were the unrealized mark-to-market losses of $0.6 million in the quarter and $2.9 million year-to-date as well as the above-noted items impacting EBITDA.

Other comprehensive income ("OCI")
OCI consists of the net change in the fair value of the Company's cash flow hedges and actuarial gains and losses arising on the Company's defined benefit pension plans. The changes in fair values of the interest rate swap cash flow hedges are recorded in OCI. The after-tax gains included in OCI in the second quarter of 2012 were $0.2 million compared to losses of less than $0.1 million in 2011. Year-to-date, the after-tax gains in OCI were $0.6 million, $0.3 million higher than last year.

FINANCIAL REVIEW BY SEGMENT

Consolidated financial figures include the results of operation of the Company's two separately reported segments – Broadcasting and Corporate and Other. The Company provides information about segment revenue, segment EBITDA and operating profit 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 13 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 ("CGU's") 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. The comparative figures exclude the results of discontinued operations more fully described in note 4 of the interim financial statements.

Broadcasting Financial Results of Operations

(thousands of dollars, except percentages)		Three months ended June 30			Six months ended June 30		
		2012	2011	**% Change**	**2012**	2011	**% Change**
Revenue	$	**33,441**	32,415	3%	**60,048**	58,155	3%
Operating expenses		**21,604**	20,090	8%	**41,449**	39,520	5%
EBITDA	$	**11,837**	12,325	(4%)	**18,599**	18,635	—
EBITDA margin		**35%**	38%	(3%)	**31%**	32%	(1%)

Revenue

Broadcasting revenue in the quarter of $33.4 million was $1.0 million or 3% better than last year. Year-to-date broadcasting revenue of $60.0 million was $1.9 million or 3% higher than 2011. The growth was due to a combination of organic increases as well as incremental revenue from the acquired stations in British Columbia. Year-to-date, the overall industry growth rate was flat.

The Central Canada radio properties led the way in revenue growth for the Company achieving an increase of 6% in the quarter and 5% year-to-date.

Operating expenses

For the quarter, broadcasting operating expenses were $21.6 million, up $1.5 million or 8% over last year. Year-to-date broadcasting operating expenses of $41.4 million were $1.9 million or 5% higher than 2011. The increases were due to the business acquisition as well as higher advertising expenses and increased variable costs in line with higher revenue and inflation.

EBITDA

Second quarter broadcasting EBITDA of $11.8 million was $0.5 million or 4% lower than 2011 while year-to-date broadcasting EBITDA of $18.6 million was flat compared to 2011. The increase in operating expenses in the quarter and year-to-date is the reason that EBITDA is lower or flat compared to the same periods in the prior year.

Corporate and Other Segment

The Corporate and Other segment derives its revenue from hotel operations. Corporate and Other expenses are related to head office functions and hotel operations.

Corporate and Other Financial Results of Operation

(thousands of dollars, except percentages)		Three months ended June 30			Six months ended June 30		
		2012	2011	**% Change**	**2012**	2011	**% Change**
Revenue	$	**884**	1,033	(14%)	**1,744**	1,846	(6%)
Operating expenses		**3,544**	2,268	56%	**6,450**	4,424	46%
EBITDA	$	**(2,660)**	(1,235)	(115%)	**(4,706)**	(2,578)	(83%)

Revenue

Lower hotel revenue due to reduced occupancy was the reason revenue in the second quarter and year-to-date were lower than the same periods last year.

Operating expenses

Second quarter operating expenses of $3.5 million were $1.3 million or 56% higher than last year while year-to-date operating expenses of $6.5 million were $2.0 million or 46% higher than 2011. Stock-based compensation expense combined with the net effect of the equity total return swap hedge was $0.9 million in the quarter and $1.2 million year-to-date compared to the 2011 second quarter income of $0.7 million and 2011 year-to-date income of $0.9 million. Additional information on stock-based compensation is contained in note 8 of the interim financial statements and details on the equity total return swap are disclosed in note 10(c).

EBITDA

EBITDA was lower than the same quarter last year and the six month period ended June 30, 2011 due to higher expenses as explained above.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Company's revenue and operating results vary depending on the quarter. The first quarter is generally a period of lower retail spending and as a result, advertising revenue is generally lower. The fourth quarter tends to be a period of higher retail spending. In the first and second quarters of 2012, unrealized mark-to-market investment losses lowered profit as did the non-cash stock-based compensation expense related to extending stock option expiry dates. Positively impacting the 2011 fourth quarter were the reversal of previous broadcast licence impairment charges and the mark-to-market unrealized gains. In 2010

the Company recognized a broadcast licence impairment charge in the fourth quarter. The results from discontinued operations have been excluded from the comparative figures for revenue.

(thousands of Canadian dollars		**2012**		2011				2010	
except per share data)		**2nd**	**1st**	4th	3rd	2nd	1st	4th	3rd
Revenue	$	**34,325**	27,467	34,700	31,905	33,448	26,553	31,839	28,378
Profit for the period		**3,759**	781	12,975	4,334	5,895	2,908	3,910	2,933
Earnings per share									
– Basic		**0.12**	0.03	0.43	0.14	0.19	0.10	0.12	0.09
– Diluted		**0.12**	0.02	0.41	0.14	0.19	0.09	0.12	0.09

Selected cash flow information – six months ended June 30, 2012
Cash flows from operating activities of $6.7 million combined with net borrowings of $8.2 million were used to purchase broadcasting assets in British Columbia for $7.0 million, purchase property and equipment for $2.3 million, pay dividends of $2.7 million and repurchase capital stock for $2.2 million.

Selected cash flow information – six months ended June 30, 2011
Cash flows from operating activities of $5.7 million combined with net borrowings of $7.9 million were used to repurchase capital stock for $8.7 million, pay dividends of $1.9 million and to purchase property and equipment totaling $2.4 million.

Capital expenditures and capital budget
The capital expenditures for 2012 are expected to total approximately $6.0 million. The major planned expenditures include launching AM to FM conversions, capital expansion in British Columbia as well as general improvements and upgrades. The Company continuously upgrades its broadcast equipment to improve operating efficiencies.

FINANCIAL CONDITION

Total assets
Assets of $236.7 million were $2.7 million higher than December 31, 2011. This was due to the business acquisition completed in the first quarter of 2012.

Liabilities, shareholders' equity and capital structure
As at June 30, 2012, the Company had $1.3 million of current bank indebtedness outstanding and $48.8 million of long-term debt. The capital structure consisted of 52% equity ($123.7 million) and 48% liabilities ($112.9 million) at quarter end.

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 facility. 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 facility and covenants
In June 2012 the Company extended the expiry date of its $90.0 million syndicated revolving credit facility to June 30, 2014 and reduced its interest rates by as much as 75 basis points depending on the Company's total debt ratio. This renewal, combined with the recently extended interest rate swap described below, will reduce the effective rate on the majority of the Company's debt by approximately 250 basis points.

The Company chooses this type of credit facility because it provides flexibility with no scheduled repayment terms. The Company is subject to covenants on its credit facility. The Company's bank covenants include certain maximum or minimum ratios such as total debt to EBITDA ratio, interest coverage 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 credit facility have been the primary funding sources of working capital, capital expenditures, Canadian Content Development payments, dividend payments, 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 the vast majority of its positive cash balances to reduce debt and minimize interest expense. As a result, the Company nets its deposits in banks with bank indebtedness. 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, as part of its credit facility, it has a $5.0 million

current operating credit line to fund any current obligations and it can also access any unused capacity in its credit facility to fund obligations.

Working capital requirements
As at June 30, 2012, the Company's working capital deficiency was $1.5 million. The cash from current receivables will 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 debt 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 a $5.0 million operating credit line.

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

Based on the above discussion and internal analysis, management deems its liquidity risk to be low.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

There has been no significant change in the Company's commitments and contractual obligations since the publication of the 2011 Annual MD&A (dated March 9, 2012) with the exception of the increase in long-term debt and the following:

- In May 2012, the CRTC approved the Company's applications for new FM broadcast licences in Fredericton and Miramichi, New Brunswick. As a result, the Company is committed to fund CCD in the amount of $0.8 million, payable in equal instalments over a seven year period.

- In May 2012, the Company entered into an agreement for a business acquisition for $2,400,000 cash consideration, subject to CRTC approval.

SHARE CAPITAL

Outstanding share data
The weighted average number of shares outstanding at June 30, 2012 was 30,201,000 (2011 – 30,465,000). As of this date, there are 26,285,367 Class A Subordinate Voting Shares ("Class A Shares") and 3,771,702 Class B Common Shares ("Class B Shares") outstanding.

Dividends
Dividends of $0.09 per share were declared in December to all shareholders of record as of December 31, 2011. Dividends of $2.7 million were paid January 31, 2012. On August 9, 2012, the Board of Directors declared dividends of $0.06 per share to all shareholders of record on August 31, 2012, payable on September 15, 2012.

Share repurchases
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. The Company has approval under a Normal Course Issuer Bid to repurchase up to 1,327,922 Class A shares and 113,151 Class B shares. This bid expires February 12, 2013. During the second quarter and year-to-date, 270,634 shares were repurchased for $2.2 million. 1,388,072 shares were repurchased for $8.7 million for the six month period ended June 30, 2011.

SHARE-BASED COMPENSATION

Executive stock option plan
A total of 2,530,000 stock options were outstanding pursuant to the Company's executive stock option plan. In 2012, no options were granted or exercised by the Company during the second quarter or on a year-to-date basis. In 2011, no options were granted during the second quarter and year-to-date 60,000 options were granted at a weighted-average exercise price of $6.75. During the second quarter in 2011, 315,000 options were exercised using the cashless option resulting in 180,000 shares being issued from treasury. The 2011 year-to-date options exercised totalled 360,000; 345,000 using the cashless exercise option resulting in 186,000 shares being issued from treasury while 15,000 options were exercised for cash proceeds of $0.1 million.

Compensation expense related to the executive stock option plan in the quarter was $0.8 million (2011 – less than $0.1 million). Year-to-date compensation expense was $1.1 million (2011 – less than $0.1 million). The increase in the expense was a result of the Toronto Stock Exchange, shareholders and Board of Directors' approval to extend the expiry dates of 2,140,000 stock options by 5 years. In the second quarter, the non-cash accounting expense recognized as a result of these extensions was $0.7 million and the year-to-date impact was $1.0 million. Refer to note 8 of the interim financial statements for further details relating to the executive stock option plan.

Stock appreciation rights plan
During the second quarter, 15,000 stock appreciation rights ("SARs") (2011 – 15,000) were exercised for cash proceeds of less than $0.1 million (2011 – less than $0.1 million) while 70,000 SARS were exercised year-to-date (2011 – 565,750) for cash proceeds of $0.1 million (2011 – $0.7 million). For the quarter ended June 30, 2012, the compensation expense related to SARS was a recovery of less than $0.1 million (2011 – expense of $0.5 million). Year-to-date, the recovery was $0.1 million (2011 – expense of $0.5 million). The obligation at quarter end was $0.5 million (2011 – $0.9 million). Refer to note 8 of the interim financial statements for further details relating to SARs.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

For more detailed disclosures about derivative financial instruments and financial risk management, refer to note 10 of the interim financial statements.

Interest rate risk management
To hedge its exposure to fluctuating interest rates on its long-term debt, the Company has two interest rate swap agreements with Canadian chartered banks. The aggregate notional amount of the swap agreements was $55.0 million (2011 – $55.0 million). In the second quarter, the Company completed a blend and extend of its $45.0 million swap agreement to extend the expiry date of the agreement to May 2017 and to take advantage of lower interest rates. The interest rate on this swap has been reduced by approximately 200 basis points. Additional details on this are provided in note 10(b) of the interim financial statements. The $10.0 million swap expires in June 2013.

The swap agreements involve 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. The aggregate fair value payable of the swap agreements was $1.5 million (2011 – $2.7 million). Hedge accounting applies for a notional amount of $50.0 million. The net change in OCI for the quarter was a $0.2 million gain (2011 – less than $0.1 million loss) and year-to-date was a $0.6 million gain (2011 – $0.3 million gain).

Share price volatility management
In July 2006, the Company entered into an agreement to hedge its obligations under the stock appreciation rights plan using an equity total return swap agreement to reduce the volatility in cash flow and earnings due to possible future increases in the Company's share price. Gains or losses realized on the quarterly settlement dates are recognized in profit in the same period as the stock appreciation rights' compensation expense.

During 2011 the Company wound-up a portion of its equity total return swap and amended the terms of the swap agreement extending the expiry date to July 2013. This amended instrument, however, does not qualify for hedge accounting and as such, gains and losses are recorded immediately through profit. The recognition of gains and losses through OCI no longer applies.

Realized before-tax losses recorded in second quarter profit were less than $0.1 million and year-to-date before-tax losses were $0.1 million. In 2011, the Company wound-up 805,000 of the then 1,275,000 notional Class A shares under the swap and as a result gains were recognized in profit. The 2011 second quarter before-tax gains recognized in profit were $1.2 million and year-to-date the amount was $1.6 million. The estimated fair value of the equity total return swap receivable, classified as current other asset, at June 30, 2012 was $0.7 million (2011 – $1.2 million). The Company is gradually unwinding this hedge and as at June 30, 2012, 367,000 notional shares remained outstanding.

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
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 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.

Adoption of new Accounting Standards

IFRS 7 Financial Instruments: Disclosures
The Company adopted the amendments to IFRS 7 on January 1, 2012. The amendments served to increase the disclosure requirements for transactions involving transfers of financial assets. Since the Company has not had transactions involving transfers of financial assets there has been no impact on the Company's current disclosures.

Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)
Effective January 1, 2012, the Company adopted the amendments to IAS 12. Deferred Tax: Recovery of Underlying Assets (the amendments) concerned the determination of deferred tax on investment property measured at fair value. Because the Company has no investment property, the adoption of these amendments did not impact the financial results or disclosures.

CRITICAL ACCOUNTING ESTIMATES

There has been no substantial change in the Company's critical accounting estimates since the publication of the 2011 Annual MD&A dated March 9, 2012.

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.

RISKS AND OPPORTUNITIES

There has been no substantial change in the Company's risks and opportunities since the publication of the 2011 Annual MD&A dated March 9, 2012 except for the following:

- Subsequent to quarter end, the CRTC announced that it was phasing out the Local Programming Improvement Fund ("LPIF") effective August 31, 2014. This will impact the financial results of the Company's television stations operated in Lloydminster, Alberta. The Company first began receiving LPIF funds in 2009. Based on historical results, the removal of LPIF funding will gradually reduce annual EBITDA over the next three years by approximately $1.0 million.
- Bill C-11, the Copyright Modernization Act, passed in Parliament on June 8, 2012 and received Royal Assent on June 29, 2012. This Act oversees the tariffs levied by the Canadian Musical Reproduction Rights Agency and Society for Reproduction Rights of Authors, Composers and Publishers in Canada ("CSI") and the Audio-Video Licensing Agency ("AVLA"). In theory an exception for these tariffs exists for broadcasters, but in practise the exception can only be realized if a radio stations chooses to delete and reconstitute its entire playlist each 30 days. While Bill C-11 updated several copyright provisions, it left this 30-day destroy exception intact. In the interim, radio broadcasters will continue to pay these two tariffs while research is undertaken to determine whether a technical solution may be developed to eliminate these tariffs. The outcome of this matter is not determinable at this time.

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, 2012 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

Revenue growth has slowed during the second quarter and this trend is affecting the broadcasting industry as a whole. Management is focusing its efforts on continuing to deliver top line growth for the rest of the year and will be very closely monitoring costs in order to achieve EBITDA goals.

Integrating the British Columbia stations into existing operations has been successful so far. The Company will be working to launch the most recently awarded FM stations in New Brunswick which are expected to be accretive from the launch date.

The Company continues to review all acquisition opportunities that would meet the Company's investment criteria and complement its growth strategy, and management continues to apply for licences in new communities which will generate immediate top line growth.

Non-IFRS Accounting Measure

[(1)]***EBITDA*** *is defined as profit from continuing operations for the period excluding depreciation and amortization expense, interest expense, accretion of other liabilities, other expense (income) and provision for income taxes. A calculation of this measure is as follows:*

	Three months ended June 30		Six months ended June 30	
(thousands of Canadian dollars)	***2012***	*2011*	***2012***	*2011*
Profit from continuing operations for the period	***$ 3,759***	*5,910*	***4,540***	*8,858*
Provision for income taxes	***2,172***	*2,660*	***1,956***	*3,983*
Other expense (income)	***1,087***	*7*	***3,279***	*(1,576)*
Accretion of other liabilities	***87***	*130*	***167***	*259*
Interest expense	***1,034***	*1,423*	***1,884***	*2,583*
Depreciation and amortization expense	***1,038***	*960*	***2,067***	*1,950*
EBITDA	***$ 9,177***	*11,090*	***13,893***	*16,057*

This measure 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. The Company has included this measure because the Company's key decision makers believe certain investors use it as a measure of the Company's financial performance and for valuation purposes. The Company also uses this measure internally to evaluate the performance of management.

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, 2012 and 2011

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, 2012 and 2011 have been prepared in accordance with International Financial Reporting Standards 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 Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Dated this 9th day of August, 2012

Interim Consolidated Statements of Financial Position

(unaudited)

(thousands of Canadian dollars)	Notes		**June 30 2012**	December 31 2011
ASSETS				
Current assets				
Marketable securities	10(a)	**$**	**3,649**	6,588
Receivables	10		**22,956**	25,466
Prepaid expenses			**2,250**	865
Other assets	10(c)		**697**	889
Total current assets			**29,552**	33,808
Non-current assets				
Property and equipment	5		**35,926**	35,015
Other assets			**2,614**	2,546
Broadcast licences	5		**157,913**	151,712
Goodwill			**6,109**	6,109
Deferred income tax assets			**4,560**	4,750
Total assets		**$**	**236,674**	233,940
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		**$**	**1,288**	1,557
Accounts payable and accrued liabilities			**16,888**	17,640
Dividends payable	6		**—**	2,730
Income taxes payable			**12,891**	17,214
Total current liabilities			**31,067**	39,141
Non-current liabilities				
Long-term debt			**48,807**	40,211
Other liabilities	8,10(b)		**13,178**	14,990
Deferred income tax liabilities			**19,883**	19,932
Total liabilities			**112,935**	114,274
Shareholders' equity			**123,739**	119,666
Total liabilities and shareholders' equity		**$**	**236,674**	233,940

Commitments (note 12)
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	
			2012	2011	**2012**	2011
Revenue		$	**34,325**	33,448	**61,792**	60,001
Operating expenses			**25,148**	22,358	**47,899**	43,944
Depreciation and amortization			**1,038**	960	**2,067**	1,950
Operating profit			**8,139**	10,130	**11,826**	14,107
Interest expense			**1,034**	1,423	**1,884**	2,583
Accretion of other liabilities			**87**	130	**167**	259
			7,018	8,577	**9,775**	11,265
Other income (expense)	5, 10(a)		**(1,087)**	(7)	**(3,279)**	1,576
Profit from continuing operations before provision for income taxes			**5,931**	8,570	**6,496**	12,841
Provision for income taxes (recovery)						
Current			**1,823**	2,317	**2,075**	3,299
Deferred			**349**	343	**(119)**	684
			2,172	2,660	**1,956**	3,983
Profit from continuing operations			**3,759**	5,910	**4,540**	8,858
Loss from discontinued operations	4		**—**	(15)	**—**	(55)
Profit for the period		$	**3,759**	5,895	**4,540**	8,803
Earnings per share from continuing operations	11					
– basic		$	**0.12**	0.19	**0.15**	0.29
– diluted			**0.12**	0.19	**0.14**	0.28
Earnings per share	11					
– basic		$	**0.12**	0.19	**0.15**	0.29
– diluted			**0.12**	0.19	**0.14**	0.28

See accompanying notes to the interim financial statements

Interim Consolidated Statements of Comprehensive Income

(unaudited)

(thousands of Canadian dollars)	Notes		Three months ended June 30 **2012**	2011	Six months ended June 30 **2012**	2011
Profit for the period		$	**3,759**	5,895	**4,540**	8,803
Other comprehensive income (loss):						
Cash flow hedges:						
Net movement on interest rate swaps	10(b)		**327**	(57)	**786**	351
Income tax recovery (expense)	10(b)		**(89)**	15	**(212)**	(94)
Other comprehensive income (loss)			**238**	(42)	**574**	257
Comprehensive income		$	**3,997**	5,853	**5,114**	9,060

See accompanying notes to the interim financial statements

Interim Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

(thousands of Canadian dollars)		Issued share capital (note 6)	Contributed surplus (note 7)	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2012	$	39,779	1,400	(2,729)	81,216	119,666
Profit for the period		—	—	—	4,540	4,540
Other comprehensive income		—	—	574	—	574
Total comprehensive income						5,114
Repurchase of share capital		(396)	—	—	(1,774)	(2,170)
Executive stock option compensation expense		—	1,129	—	—	1,129
Balance at June 30, 2012	**$**	**39,383**	**2,529**	**(2,155)**	**83,982**	**123,739**

See accompanying notes to the interim financial statements

(thousands of Canadian dollars)		Issued share capital (note 6)	Contributed surplus (note 7)	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2011	$	40,813	2,176	(2,202)	66,396	107,183
Profit for the period		—	—	—	8,803	8,803
Other comprehensive income		—	—	257	—	257
Total comprehensive income						9,060
Repurchase of share capital		(2,002)	—	—	(6,742)	(8,744)
Exercise of executive stock options		933	(849)	—	—	84
Executive stock option compensation expense		—	46	—	—	46
Balance at June 30, 2011	**$**	**39,744**	**1,373**	**(1,945)**	**68,457**	**107,629**

See accompanying notes to the interim financial statements

Interim Consolidated Statements of Cash Flows

(unaudited)

(thousands of Canadian dollars)	Notes	Six months ended June 30 **2012**	2011
Operating Activities			
Profit from continuing operations before provision for income taxes		$ **6,496**	12,841
Items not involving cash			
Depreciation and amortization		**2,067**	1,950
Share-based compensation expense	8	**1,061**	568
Accretion of other liabilities		**167**	259
Unrealized losses (gains) on marketable securities	10(a)	**2,931**	(1,270)
Other		**242**	(204)
		12,964	14,144
Net change in non-cash working capital from continuing operations		**2,581**	(5,899)
		15,545	8,245
Interest paid		**(2,421)**	(2,379)
Income taxes paid		**(6,397)**	(121)
Net cash flows from continuing operations		**6,727**	5,745
Net cash flows from discontinued operations		**—**	(49)
Net cash flows from operating activities		**6,727**	5,696
Financing Activities			
Change in bank indebtedness		**(269)**	905
Long-term debt borrowings		**10,500**	7,000
Long-term debt repayments		**(2,000)**	
Dividends paid	6	**(2,730)**	(1,891)
Repurchase of capital stock	6	**(2,170)**	(8,744)
Proceeds from exercise of stock options	6	**—**	84
Other		**96**	113
		3,427	(2,533)
Investing Activities			
Acquisition of broadcasting assets	5	**(6,978)**	—
Property and equipment additions		**(2,321)**	(2,403)
Canadian Content Development commitment payments		**(791)**	(739)
Other		**(64)**	(21)
		(10,154)	(3,163)
Cash, beginning and end of period		$ **—**	—

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 745 Windmill Road, Dartmouth, Nova Scotia, B3B 1C2. The Company's primary activity is radio broadcasting. These unaudited condensed interim consolidated financial statements ("interim financial statements") comprise the financial position of the Company and its subsidiaries, together referred to as the "Company". The Company's revenue is derived primarily from the sale of advertising airtime which is subject to seasonal fluctuations.

These interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors on August 9, 2012.

2. BASIS OF PREPARATION

Statement of compliance

These interim financial statements have been prepared in accordance with International Accounting Standards 34 ("IAS"), Interim Financial Reporting, and accordingly, they do not include all of the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. 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, 2011. Accordingly, these interim financial statements should be read together with the annual financial statements for the year ended December 31, 2011 prepared in accordance with IFRS.

These interim financial statements have been prepared in accordance with those IFRS standards and IFRS Interpretations Committee ("IFRIC") interpretations issued and effective or issued and early adopted as at the date of these statements (August 9, 2012). 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.

3. NEW ACCOUNTING STANDARDS

Adoption of new accounting standards

IFRS 7 Financial Instruments: Disclosures
The Company adopted the amendments to IFRS 7 on January 1, 2012. The amendments served to increase the disclosure requirements for transactions involving transfers of financial assets. Since the Company has not had transactions involving transfers of financial assets there has been no impact on the Company's current disclosures.

Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)
Effective January 1, 2012, the Company adopted the amendments to IAS 12. Deferred Tax: Recovery of Underlying Assets (the amendments) concerned the determination of deferred tax on investment property measured at fair value. Because the Company has no investment property, the adoption of these amendments did not impact the financial results or disclosures.

4. DISCONTINUED OPERATIONS

In 2011, the Company disposed of its net assets associated with CKJS-AM and CHNK-FM in Winnipeg, Manitoba. The financial results of operations from these cash-generating units have been treated as discontinued operations in the income statements and cash flows for 2011. The results from these cash-generating units were also excluded from the comparative figures from the Broadcasting segments results in segmented information presented in note 13.

Selected financial information for the cash-generating units included in discontinued operations is presented below:

(thousands of Canadian dollars)		Three months ended June 30, 2011	Six months ended June 30, 2011
Revenue	$	346	673
Operating expenses		(344)	(705)
Depreciation and amortization		(22)	(44)
		(20)	(76)
Accretion of other liabilities		(2)	(5)
Loss before income taxes		(22)	(81)
Provision for income tax recovery		7	26
Loss from discontinued operations	$	(15)	(55)

5. Acquisition of Broadcasting Assets

Acquisition of broadcasting assets
On February 26, 2012 the Company acquired from Great Valleys Radio Ltd. broadcasting assets related to CIGV-FM in Penticton, British Columbia for cash consideration of $2,002,000. The assets acquired included the FM broadcast licence, property and equipment and a small amount of working capital. The accounting calculation related to the allocation of the purchase price resulted in the recognition of a transaction gain of $311,000 which was recognized in the period as Other income (expense). The purchase price allocation, as set out in the table below, has been finalized.

On the same date, the Company acquired from Sun Country Radio Ltd. the broadcasting assets, and assumed certain liabilities, related to CKKO-FM in Kelowna, British Columbia for $4,976,000, subject to minor working capital adjustments. The assets acquired included the FM broadcast licence, property and equipment and certain other working capital items while the liabilities assumed related to the remaining Canadian Content Development commitments ("CCD") attached to the licence. Included in working capital are trade accounts receivable having a gross contractual amount receivable of $240,000. The contractual cash flows not expected to be collected was estimated to be $36,000 and this has been factored in the determination of fair value.

The primary reason for these acquisitions is that the Company seeks growth and these two FM stations provided the opportunity to expand operations into British Columbia. The purchases were financed by the Company's credit facility.

The purchase price was allocated to the net assets acquired on the basis of the estimated fair values on the acquisition date using the acquisition method of accounting. The following table sets out the net assets acquired and their estimated acquisition date fair values:

(thousands of Canadian dollars)		CIGV-FM Penticton	CKKO-FM Kelowna	Total
Working capital	$	2	110	112
Property and equipment		300	840	1,140
Broadcast licences		2,059	4,142	6,201
Total assets acquired		2,361	5,092	7,453
Deferred tax liabilities		(48)	—	(48)
CCD commitments assumed		—	(116)	(116)
Net assets acquired	$	2,313	4,976	7,289
Transaction gain		(311)	—	(311)
Cash consideration	$	**2,002**	**4,976**	**6,978**

Earnings have been included in profit since the date of acquisition. Revenue and net losses recognized to-date in the income statements related to these acquisitions, including the gain and acquisition-related costs, were $565,000 and $170,000, respectively. Pro-forma revenue and net losses for the combined entity, as though the acquisition date for both transactions had been January 1, 2012 and including the gain and acquisition-related costs, would have been approximately $890,000 and $270,000, respectively due to the seasonally slow time of year for broadcasting assets as well as restructuring costs incurred to date.

Acquisition-related costs
In order for the CKKO-FM acquisition to be approved by the Canadian Radio-television and Telecommunications Commission ("CRTC"), the Company had to commit to additional CCD payments of $320,000, payable in equal instalments over seven years. This financial liability is an "other liability" and its fair value was determined based on discounting cash flows using the effective interest method ("EIM"). Under EIM, interest expense is calculated and recorded using the effective interest rate (5.2%) that exactly discounts estimated future cash payments throughout the seven year life of the CCD commitment to the fair value at initial recognition. On the acquisition date, the amount of CCD expensed in Other income (expense) in the income statement was $262,000.

6. Share Capital

Outstanding share capital
Outstanding share capital was 30,059,000 at June 30, 2012 (2011 – 30,325,000).

Share repurchases
The Company has approval under a Normal Course Issuer Bid to repurchase up to 1,327,922 Class A shares and 113,151 Class B shares. This bid expires February 12, 2013. During the second quarter and year-to-date, 270,634 shares were repurchased for $2,170,000. 1,388,072 shares were repurchased for $8,744,000 for the six month period ended June 30, 2011. As a result of the share repurchases, capital stock was reduced by $396,000 (2011 – $2,002,000) and retained earnings by $1,774,000 (2011 – $6,742,000).

6. SHARE CAPITAL *(continued)*

Executive stock options

A total of 2,530,000 stock options were outstanding pursuant to the Company's executive stock option plan. In 2012, no options were granted or exercised by the Company during the second quarter or on a year-to-date basis. In 2011, no options were granted during the second quarter and year-to-date 60,000 options were granted at a weighted-average exercise price of $6.75. During the second quarter in 2011, 315,000 options were exercised using the cashless option resulting in 180,000 shares being issued from treasury. The 2011 year-to-date options exercised totalled 360,000; 345,000 using the cashless exercise option resulting in 186,000 shares being issued from treasury while 15,000 options were exercised for cash proceeds of $84,000. As a result, in 2011 share capital was increased by $795,000 in the quarter and by $933,000 year-to-date.

Dividends

In December 2011, the Company declared a dividend of $0.09 per share on each of its Class A shares and Class B shares. $2,730,000 was paid to shareholders year-to-date (2011 – $1,891,000). Subsequent to quarter end, on August 9, 2012 the Company declared dividends of $0.06 per share payable September 14, 2012 to all shareholders of record as at August 31, 2012.

7. CONTRIBUTED SURPLUS

(thousands of Canadian dollars)		
Balance, January 1, 2012	**$**	**1,400**
Executive stock option plan compensation expense		**1,129**
Balance, June 30, 2012	**$**	**2,529**
Balance, January 1, 2011	$	2,176
Exercise of stock options		(849)
Executive stock option plan compensation expense		46
Balance, June 30, 2011	$	1,373

8. SHARE-BASED COMPENSATION

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

Stock appreciation rights

As at June 30, 2012, 355,000 stock appreciation rights ("SARS" or "rights") were outstanding. No SARS were granted to-date in 2012 or 2011. 15,000 SARS were exercised in the quarter for cash proceeds of $24,000 (2011 – 45,000 SARS exercised for $21,000). Year-to-date, 70,000 SARS were exercised for cash proceeds of $91,000 (2011 – 595,750 exercised for $707,000). Compensation expense in the second quarter was a recovery of $32,000 (2011 – expense of $476,000) and year-to-date, the recovery was $68,000 (2011 – expense of $522,000). The total obligation for SARS compensation was $465,000 of which $398,000 was current and classified as accounts payable and accrued liabilities (2011 – compensation payable was $860,000, of which $572,000 was current).

Executive stock options

Compensation expense related to the executive stock option plan in the quarter was $789,000 (2011 – $21,000). Year-to-date compensation expense was $1,129,000 (2011 – $46,000). The increase in the expense was a result of the Toronto Stock Exchange, shareholders and Board of Directors' approval to extend the expiry dates of 2,140,000 stock options by 5 years. In the second quarter, the non-cash accounting expense recognized as a result of these extensions was $750,000 and the year-to-date impact was $1,050,000.

9. EMPLOYEE BENEFIT PLANS

		Three months ended June 30		Six months ended June 30	
(thousands of Canadian dollars)		**2012**	2011	**2012**	2011
Defined contribution plan expense	**$**	**400**	387	**798**	760
Defined benefit plan expense		**84**	81	**168**	161

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Estimated fair value of financial instruments
Current assets and current liabilities' carrying values are representative of their fair values due to the relatively short period to maturity. 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 3-month Canadian banker's acceptance rates. The fair values of Canadian Content Development commitments approximated their carrying values as they were recorded at the net present values of their future cash flows, using discount rates ranging from 5.2% to 12.2%. Accretion expense arising on CCD obligations was $87,000 for the quarter (2011 – $130,000) and $167,000 year-to-date (2011 – $259,000).

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

(thousands of Canadian dollars) **Description**	**Total**	**Level 1** Quoted prices in active markets for identical assets	**Level 2** Significant other observable inputs	**Level 3** Significant unobservable inputs
Financial assets at fair value through profit or loss:				
Cash and bank indebtedness	**$ (1,288)**	(1,288)	—	—
Marketable securities	**3,649**	3,649	—	—
Loans and receivables:				
Accounts receivable	**22,956**	—	22,956	—
Equity total return swap receivable	**697**	—	697	—
Items accounted for as hedges:				
Interest rate swap payable	**(1,514)**	—	(1,514)	—
Other liabilities at amortized cost				
Accounts payable and accrued liabilities, net of current portion of CCD and interest swaps	**(13,890)**	—	(13,890)	—
Long-term debt	**(49,000)**	—	(49,000)	—
CCD commitments	**(4,575)**	—	(4,575)	—

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 $23,650,000 as at June 30, 2012, which included accounts receivable and the equity total return swap receivable. 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 $1,440,000 as at June 30, 2012. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Approximately 90% 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 $95,000, bringing the year-to-date total to $205,000, 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.

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

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, interest rates and the Company's quoted share price as it relates to the stock appreciation rights plan.

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, 2012, a 10% change in the share prices of each marketable security would result in an estimated $305,000 change in profit.

For the quarter ended June 30, 2012, the change in fair value of marketable securities, recorded in *other income (expense)*, was an unrealized loss of $627,000 (2011 – $12,000). Year-to-date, the loss was $2,931,000 (2011 – unrealized gain of $1,270,000).

b) *Interest rate risk management*

To hedge its exposure to fluctuating interest rates on its long-term debt, the Company has entered into two interest rate swap agreements with Canadian Chartered Banks. One has a notional value of $10,000,000 and expires in June 2013 and the other has a notional amount of $45,000,000 and was recently amended to expire in May 2017 (from May 2013). The swap agreements involve 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. The Company elected to apply hedge accounting and as such formally assesses effectiveness of the swaps at inception and on a regular basis and has concluded that the swaps are effective in offsetting changes in interest rates. Hedge accounting applies to $50,000,000 of the $55,000,000 notional value.

In the second quarter, the Company amended the terms of its $45,000,000 swap agreement to extend the expiry date and to take advantage of lower interest rates. The interest rate on this swap has been reduced by approximately 200 basis points. The aggregate fair value payable of the swap agreement at the time of extension was $1,375,000 and this was blended into the new fixed rate of interest of the swap. This amount will be transferred from OCI to interest expense over the term of the original agreement which was set to expire in May 2013. The amount transferred to profit for the second quarter and year-to-date was $115,000.

As at June 30, 2012, the $45,000,000 swap was deemed ineffective for accounting purposes. As a result the change in fair value of the swap, from the time the swap was deemed ineffective, $100,000 was transferred from OCI to profit. At quarter end, the aggregate fair value payable of the swap agreements was $1,514,000, of which $278,000 was classified as a current liability (2011 – $2,659,000; $nil classified as current). The before-tax change in fair value of the swaps included in OCI for the second quarter was a gain of $421,000 (2011 – loss of $73,000) and year-to-date the before-tax gain was $926,000 (2011 – $371,000). For the quarter, the total before-tax net interest recovery transferred from OCI to profit was $94,000 (2011 – interest expense of $16,000) while the year-to-date interest recovery transferred was $140,000 (2011 – $20,000).

A 0.5% change in the projected floating interest rates during the remaining term of the hedge agreements would have impacted the fair value of the interest rate swaps by approximately $580,000. $60,000 of this would have been recorded in OCI with the remaining flowing through profit due to the fact that the $45,000,000 swap was ineffective for accounting purposes as at June 30, 2012.

c) *Share price volatility risk management*

In July 2006, the Company entered into a cash-settled equity total return swap agreement to manage its exposure to fluctuations in its stock-based compensation costs related to the SAR Plan. Compensation costs associated with the SAR Plan fluctuate as a result of changes in the market price of the Company's Class A shares. The Corporation entered into this swap for a total of 1,275,000 notional Class A shares with a hedged price of $5.85.

The swap includes an interest and dividend component. Interest is accrued and payable by the Company on quarterly settlement dates. Any dividends paid on the Class A shares are reimbursed to the Company on the quarterly settlement dates.

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

Market risk *(continued)*

c) *Share price volatility risk management (continued)*

In 2011, the Company wound up a large portion of the equity total return swap and amended its terms, extending the expiry date from 2011 to 2013. The amended swap no longer qualifies for hedge accounting and therefore all gains or losses are recorded immediately in profit. The recognition of gains and losses through OCI no longer applies.

The estimated fair value of the equity total return swap current receivable balance at June 30, 2012 was $697,000 (2011 – $1,250,000). Realized before-tax losses recorded in second quarter profit were $39,000 and year-to-date before-tax losses were $94,000. In 2011, the Company wound-up 805,000 of the then 1,275,000 notional Class A shares under the swap and as a result significant gains were recognized in profit. The 2011 second quarter before-tax gains recognized in profit were $1,259,000 and year-to-date the amount was $1,641,000. The Company is gradually unwinding this swap and as at June 30, 2012, 367,000 notional shares remain outstanding.

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 facility. 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 payments, dividends and other contractual obligations that are disclosed below.

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

Obligation *(thousands of Canadian dollars)*		**12 months**	**2013 - 2016**	**Thereafter**
Long-term debt	$	—	49,000	—
Bank indebtedness		**1,288**	—	—
Accounts payable and accrued liabilities, net of current portion of undiscounted CCD commitments		**14,143**	—	—
Income taxes payable		**12,891**	—	—
CCD commitments, undiscounted		**2,745**	2,242	667
	$	**31,067**	51,242	667

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.

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.

The Company is subject to covenants on its credit facility. The Company's bank covenants include certain maximum or minimum ratios such as total debt to EBITDA ratio, interest coverage 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.

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 as at June 30, 2012.

11. Earnings Per Share

(thousands)	Three months ended June 30 **2012**	2011	Six months ended June 30 **2012**	2011
Weighted average common shares used in calculation of basic earnings per share	**30,072**	30,322	**30,201**	30,465
Effect of dilution related to executive stock options	**1,105**	1,177	**1,116**	1,165
Weighted average common shares used in calculation of diluted earnings per share	**31,177**	31,499	**31,317**	31,630

12. Commitments

In May 2012, the CRTC approved the Company's applications for new FM broadcast licences in Fredericton and Miramichi, New Brunswick. When these stations are launched, the Company will have annual CCD commitments of $100,000 and $15,000, respectively, payable over a seven year period for a total of $805,000.

In May 2012, the Company entered into an agreement for a business acquisition for $2,400,000 cash consideration, subject to CRTC approval.

13. 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. This reportable segment is a strategic business unit that offers different services and is managed separately. The Company evaluates performance based on earnings before interest, taxes, depreciation and amortization. Corporate and Other consists of a hotel and the head office functions. Its revenue relates to hotel operations. Details of segment operations are set out below. Results from discontinued operations (note 4) have been excluded from the Broadcasting segment 2011 comparative figures.

(thousands of Canadian dollars)	**Broadcasting**	**Corporate & Other**	**Total**	**Broadcasting**	**Corporate & Other**	**Total**
	Three months ended June 30			Six months ended June 30		
2012						
Revenue	**$ 33,441**	**884**	**34,325**	**60,048**	**1,744**	**61,792**
Operating expenses	**21,604**	**3,544**	**25,148**	**41,449**	**6,450**	**47,899**
Depreciation and amortization	**970**	**68**	**1,038**	**1,929**	**138**	**2,067**
Operating profit (loss)	**$ 10,867**	**(2,728)**	**8,139**	**16,670**	**(4,844)**	**11,826**
Total assets				**$ 219,633**	**17,041**	**236,674**
Total liabilities				**77,798**	**35,137**	**112,935**
Other disclosures						
Broadcast licences				**157,913**	**—**	**157,913**
Goodwill				**6,109**	**—**	**6,109**
Capital expenditures	**$ 1,279**	**66**	**1,345**	**2,240**	**81**	**2,321**
2011						
Revenue	$ 32,415	1,033	33,448	58,155	1,846	60,001
Operating expenses	20,090	2,268	22,358	39,520	4,424	43,944
Depreciation and amortization	896	64	960	1,819	131	1,950
Operating profit (loss)	$ 11,429	(1,299)	10,130	16,816	(2,709)	14,107
Total assets				$ 216,148	20,397	236,545
Total liabilities				74,993	53,923	128,916
Other disclosures						
Broadcast licences				148,801	—	148,801
Goodwill				6,109	—	6,109
Capital expenditures	$ 1,445	68	1,513	2,308	95	2,403

Transfer agent and registrar
The transfer agent and registrar for the shares of the Company is Canadian Stock Transfer Company Inc. as agent for CIBC Mellon Trust Company at its offices in Halifax and Toronto.

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Investor relations contact
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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.

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