

Newfoundland Capital Corporation Limited

First Quarter 2011

Period Ended March 31 (unaudited)



Dartmouth, N.S. – June 13, 2011, Newfoundland Capital Corporation Limited (“Company”) today announces its financial results for the first quarter ending March 31, 2011, in accordance with International Financial Reporting Standards.

Highlights

- **Revenue** of \$26.9 million was \$1.2 million or 5% higher than last year. This increase was attributable to organic (same-station) revenue growth.
- **Earnings before interest, taxes, depreciation and amortization (“EBITDA”⁽¹⁾)** of \$4.9 million in the quarter were \$0.4 million or 8% higher than last year, primarily attributable to improved revenue and lower corporate expenses.
- **Profit for the period** of \$2.9 million was \$1.5 million or 103% better than the same quarter last year due to improved EBITDA as well as the increase in market value of marketable securities.

Significant events

- The Company launched its FM conversion in Brooks, Alberta in February 2011.
- Canadian Radio-television Telecommunications Commission (“CRTC”) approval was received for a new repeating signal in North West River, Newfoundland and Labrador.
- In February, the Company repurchased 1,388,072 Class A Subordinate Voting Shares for \$8.7 million pursuant to a Normal Course Issuer Bid.
- Subsequent to quarter end, the Company announced that it has entered into an agreement to sell CKJS AM and CHNK FM in Winnipeg, Manitoba for \$5.5 million, subject to CRTC approval.
- In May 2011 the Company’s Slave Lake, Alberta operation was destroyed by fire. The Company is currently broadcasting from temporary facilities until a new permanent location is built.

“Positive revenue growth has continued to drive our success. This quarter’s growth came from both local and national advertising revenue”, commented Rob Steele, President and Chief Executive Officer. “Our strategy to focus on maximizing existing operations has solidified our financial position and we are well positioned for future growth.”

Financial Highlights – First Quarter

(thousands of dollars except share information)

	2011	2010
Revenue	\$ 26,880	25,706
EBITDA ⁽¹⁾	4,933	4,578
Profit for the period	2,908	1,429
Earnings per share – basic	0.10	0.04
Earnings per share – diluted	0.09	0.04
Share price, NCC.A (closing)	7.20	6.90
Weighted average number of shares outstanding (in thousands)	30,611	32,972
Total assets	229,503	227,545
Long-term debt	62,714	56,000
Shareholders’ equity	101,754	110,503

(1) Refer to page 11 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 interim consolidated financial statements and related notes for the periods ended March 31, 2011 and 2010 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 Canadian generally accepted accounting principles and the MD&A contained in the Company's 2010 Annual Report. The Company's first quarter 2011 unaudited interim consolidated financial statements and the accompanying notes form part of the first annual audited consolidated financial statements to be prepared in accordance with IFRS for the year ended December 31, 2011 and 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 unaudited interim consolidated 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 21, 2011 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 June 13, 2011. 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 ("the Company") 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 63 FM and 18 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 will continue to grow its existing operations by increasing advertising revenue and remaining focused on controlling discretionary costs to drive EBITDA margins. It will 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 and additional AM to FM conversions. 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 consolidated financial statements since the respective acquisition and launch dates.

2011 Developments:

- February – received CRTC approval for a repeater in North West River, Newfoundland and Labrador.
- February – launched Brooks, Alberta AM to FM conversion. The Company is also expecting to launch the St. Paul FM conversion during 2011.

- Subsequent to quarter end, the Company announced that it has entered into an agreement to sell CKJS AM and CHNK FM in Winnipeg, Manitoba for \$5.5 million, subject to CRTC approval.

2010 Developments:

- February – launched the four repeater signals in Prince Edward Island.
- February – received CRTC approval to convert the AM station in Westlock, Alberta to FM. This station is expected to launch in 2011.
- March – CFRQ-FM, otherwise known as Q104, serving Halifax, Nova Scotia was named mid-market station of the year during Canada Music Week.
- September – received CRTC approval for a repeater in Springdale, Newfoundland and Labrador and approval to convert the AM station in Grande Cache, Alberta to FM. Both of these are expected to be launched in 2011.
- October – launched AM to FM conversions in High Prairie, Alberta and Wabush and Goose Bay, Newfoundland and Labrador.

Adoption of International Financial Reporting Standards (“IFRS”)

The Company has adopted IFRS for its year ended December 31, 2011, with restatement of 2010 comparative figures. The IFRS transition date was January 1, 2010. The first reporting period for the Company is the three months ended March 31, 2011. These unaudited interim consolidated financial statements, including the 2010 comparative figures, have been prepared in accordance with IFRS and IAS 34, “Interim Financial Reporting”. The accounting policies adopted by the Company are described in note 3 to the unaudited interim consolidated financial statements. The Company has finalized its unaudited opening balance sheet as well as the unaudited financial statements for each of the 2010 quarters based on these accounting policies.

While there were many changes in numbers relating to financial results and financial position, the adoption of IFRS did not result in material changes to EBITDA or profit. Shareholder’s Equity as at January 1, 2010 increased by \$5.1 million which is the net effect of all transitional adjustments as disclosed in note 15(j) of the unaudited interim consolidated financial statements. Some of the most note-worthy adjustments to Shareholders’ Equity arose from the changes in carrying value of broadcast licences and the related deferred tax balances. Complete details on the Company’s transition to IFRS are included in note 15 to the unaudited interim consolidated financial statements.

Financial information contained in the MD&A for 2010 and 2011 are comparative because the Company restated 2010 to be in accordance with IFRS. Financial information prior to January 1, 2010 was not restated as this was not required under the transition rules. Where historical information is presented in the MD&A that has not been restated to IFRS, it has clearly been noted as such.

The Company enhanced its information systems, primarily related to property and equipment, to ensure the transition to IFRS went smoothly. Management provided training and information sessions to the members of the Audit and Governance Committee as well as the Board of Directors. In addition, training was provided to those responsible for the day-to-day IFRS accounting. The adoption of IFRS did not impact the way in which Management measures internal financial performance and it did not impact any financial covenants because the Company’s credit facility covenants are calculated in accordance with Canadian generally accepted accounting principles (“GAAP”) and as such the facility includes a mechanism to adjust IFRS amounts back to GAAP amounts. The Company has also assessed the impact of the transition to IFRS on its internal controls over financial reporting and disclosure controls and procedures. No material change in internal controls over financial reporting or disclosure controls and procedures resulted from the adoption and implementation of IFRS.

CONSOLIDATED FINANCIAL REVIEW

Consolidated Financial Results of Operations

<i>(thousands of dollars, except percentages)</i>	March 31, 2011	March 31, 2010	% Change
Revenue	\$ 26,880	25,706	5%
Operating expenses	21,947	21,128	4%
EBITDA⁽¹⁾	4,933	4,578	8%
Depreciation and amortization	1,012	972	4%
Interest expense	1,160	764	52%
Accretion of other liabilities	132	190	(31%)
	2,629	2,652	(1%)
Other income (expense)	1,583	(545)	—
Profit before income taxes	4,212	2,107	100%
Provision for income taxes	1,304	678	92%
Profit for the period	\$ 2,908	1,429	103%

(1) EBITDA - Earnings before interest, taxes, depreciation and amortization – refer to page 11 for reconciliation to net income

Revenue

In the quarter, consolidated revenue of \$26.9 million was \$1.2 million higher than last year; this improvement came exclusively from the broadcasting segment.

Operating expenses

Consolidated operating expenses of \$21.9 million were \$0.8 million higher than the first quarter last year. The increase was primarily due to higher variable costs in the Broadcasting segment.

EBITDA

Consolidated EBITDA in the quarter of \$4.9 million was \$0.4 million higher than last year. The improved EBITDA was due to growth in the broadcasting segment as well as lower corporate expenses.

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, depreciation and amortization expense was just slightly higher than 2010.

Interest expense

Interest expense in the first quarter was higher than the prior year due to higher average debt levels.

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

Other income generally consists of gains and losses, realized and unrealized, on the Company's marketable securities. *Other income* was higher in 2011 due to unrealized mark-to-market increases in the value of the Company's marketable securities while in 2010 there was a small realized loss.

Provision for income taxes

The provision for income taxes is higher than 2010 due to improved pre-tax profit. The effective income tax rate was 31% which is slightly lower than the statutory rate of 32.5% primarily due to the non-taxable portion of unrealized mark-to-market gains.

Profit for the period

First quarter profit of \$2.9 million was \$1.5 million higher than last year. The increase was due to improved financial results in the broadcasting segment as well as higher *other income*.

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 cash flow hedges include interest rate swaps and an equity total return swap. OCI is on par with the prior period due to the consistency of market interest rates.

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 12 of the Company's unaudited interim consolidated 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.

Broadcasting Financial Results of Operations

<i>(thousands of dollars, except percentages)</i>	March 31, 2011	March 31, 2010	% Change
Revenue	\$ 26,067	24,896	5%
Operating expenses	19,791	18,833	5%
EBITDA	\$ 6,276	6,063	4%
EBITDA margin	24%	24%	—

Revenue

Broadcasting revenue in the quarter of \$26.1 million was \$1.2 million or 5% better than last year. The increase came entirely from organic (same-station) revenue growth.

The central region radio properties (Ottawa, Sudbury and Winnipeg) led the way in revenue growth for the Company achieving an increase of 21% in the quarter. The overall industry growth was 3%.

The Company enjoyed some of its best ratings results in late 2010 and the effect of these results has contributed to revenue growth and is expected to continue to positively impact revenue bookings in 2011.

Operating expenses

For the quarter, broadcasting operating expenses were \$19.8 million, up \$1.0 million or 5% over last year. In 2010 the Copyright Board issued a ruling on certain tariffs which resulted in an increase in copyright fees which impacted this quarter by \$0.3 million. Other increases in operating expenses were due to increased variable costs and inflation.

EBITDA

First quarter broadcasting EBITDA of \$6.3 million was 4% better than 2010 due to improved revenues.

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 Operations

<i>(thousands of dollars, except percentages)</i>	March 31, 2011	March 31, 2010	% Change
Revenue	\$ 813	810	—
Operating expenses	2,156	2,295	(6%)
EBITDA	\$ (1,343)	(1,485)	10%

Revenue

Revenue in the first quarter of \$0.8 million was on par with last year.

Operating expenses

Operating expenses of \$2.2 million were 6% lower than the first quarter last year due to lower net corporate costs.

EBITDA

EBITDA was 10% better than the same quarter last year due to lower expenses.

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 2010 the Company recognized the increased copyright fees in the second quarter and a broadcast licence impairment charge in the fourth quarter. In 2009, a gain on the disposal of a broadcasting licence of \$5.6 million in the third quarter positively impacted profit.

(thousands of dollars except per share data)	2011 1 st	2010				2009 ⁽²⁾		
		4 th	3 rd	2 nd	1 st	4 th	3 rd	2 nd
Revenue	\$ 26,880	32,200	28,708	30,785	25,706	30,458	25,408	26,772
Profit for the period	2,908	3,834	3,033	3,333	1,429	5,461	6,209	3,144
Earnings per share								
– Basic	0.10	0.12	0.09	0.10	0.04	0.17	0.19	0.10
– Diluted	0.09	0.12	0.09	0.10	0.04	0.16	0.18	0.09

(2) The comparative figures for 2009 are based on Canadian generally accepted accounting principles.

Selected cash flow information – three months ended March 31, 2011

In the quarter, cash flows from operating activities of \$1.7 million combined with net borrowings of \$10.0 million were used to fund the repurchase of capital stock of \$8.7 million, pay dividends of \$1.9 million and to purchase property and equipment totaling \$0.9 million.

Selected cash flow information – three months ended March 31, 2010

Cash from operating activities were \$3.6 million. During the quarter, the Company paid dividends of \$3.3 million, purchased \$0.5 million of capital assets and paid \$0.4 million toward CCD commitments.

Capital expenditures and capital budget

The capital expenditures for 2011 are expected to be approximately \$7.0 million. The major planned expenditures include launching recently awarded AM to FM conversions as well as general improvements and upgrades. The Company continuously upgrades its broadcast equipment to improve operating efficiencies.

FINANCIAL CONDITION

Total assets

Assets of \$229.5 million were \$1.9 million lower than December 31, 2010. This was largely due to collection efforts to reduce trade receivables.

Liabilities, shareholders' equity and capital structure

As at March 31, 2011 the Company had \$1.9 million of current bank indebtedness outstanding and \$62.7 million of long-term debt. The capital structure consisted of 44% equity (\$101.8 million) and 56% liabilities (\$127.7 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

The Company's syndicated credit facility of \$76.5 million is a revolving credit facility. The Company chooses this type of credit facility because it provides flexibility with no scheduled repayment terms. The maturity date is June 2012. 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 \$76.5 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 \$76.5 million 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 March 31, 2011, the Company's working capital balance was \$2.2 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 substantial change in the Company's commitments and contractual obligations since the publication of the 2010 Annual Report with the exception of the increase in long-term debt.

SHARE CAPITAL

Outstanding share data

The weighted average number of shares outstanding at March 31, 2011 was 30,611,000 (2010 – 32,972,000). As of this date, there are 26,549,000 Class A Subordinate Voting Shares ("Class A Shares") and 3,772,000 Class B Common Shares ("Class B Shares") outstanding.

Dividends

Dividends of \$0.06 per share were declared in December to all shareholders of record as of December 31, 2010. The dividends were paid January 31, 2011.

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. In February 2011, pursuant to the Normal Course Issuer Bid which expires February 8, 2012, the Company repurchased for cancellation 1,388,072 of its outstanding Class A Shares for \$8.7 million. As a result of these share repurchases, capital stock was reduced by \$2.0 million and retained earnings by \$6.7 million. No shares were repurchased during the first quarter of 2010.

EXECUTIVE COMPENSATION

Executive stock option plan

During the quarter, the Company granted 60,000 options (2010 – 60,000) at a weighted average exercise price of \$6.75 (2010 – \$6.77). The options vest at a rate of twenty-five percent on the date of grant and twenty-five percent on each of the three succeeding anniversary dates and they expire March 3, 2016. During the quarter 30,000 options were exercised. The Company received \$0.1 million pursuant to the exercise of 15,000 of the options while the other 15,000 options were exercised under the cashless exercise option and as a result 6,000 shares were issued from treasury. Compensation expense related to executive stock options for the three months ended March 31, 2011 was less than \$0.1 million (2010 – less than \$0.1 million). Refer to note 8 of the unaudited interim consolidated financial statements for further details relating to the executive stock option plan.

Stock appreciation rights plan

For the quarter ended March 31, 2011, the compensation expense related to stock appreciation rights ("SARs") was less than \$0.1 million (2010 – recovery of less than \$0.1 million) and the total obligation at quarter end was \$0.4 million (2010 – \$1.6 million). Refer to note 8 of the unaudited interim consolidated 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 unaudited interim consolidated financial statements.

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. The swap agreements expire in 2013 and 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 notional amount of the swap agreements was \$55.0 million (2010 – \$55.0 million). The aggregate fair value payable of the swap agreements was \$2.6

million (2010 – \$3.1 million). Hedge accounting applies for a notional amount of \$50.0 million. The net change in OCI was \$0.3 million in the quarter (2010 – \$0.3 million)

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. Unrealized gains and losses, to the extent that the hedge is effective, are deferred and included in OCI until such time as the hedged item affects net income. If at any time, the hedge is deemed to be ineffective or the hedge is terminated or de-designated, gains or losses, including those previously recognized in OCI, will be recorded in profit immediately.

The 550,750 outstanding SARs under the SAR Plan being hedged were fully exercised during the first quarter. As a result, any gains or losses that arise on the equity total return swap, which expires in July 2011, are immediately transferred from OCI to net income. The before-tax gains for the first quarter were \$0.4 million and were immediately transferred from OCI to net income (2010 – before-tax loss of less than \$0.1 million). The estimated fair value of the equity total return swap receivable, classified as current other asset, based on the Class A shares' market price at March 31, 2011 was \$1.7 million (2010 - \$1.3 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 stocks in varying 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.

Future Accounting Standards

IFRS 7 Financial Instruments: Disclosures

Amendments to IFRS 7 will increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011 and therefore the Company will apply the amendment beginning in the first quarter of 2012. The amendment affects disclosure only and the Company expects there to be no impact on the Company's financial position or performance.

IFRS 9 Financial Instruments

IFRS 9 was issued to replace IAS 39, "Financial Instruments: Recognition and Measurement". This is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2013. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities (including 'special purpose entities,' or 'structured entities' as they are now referred to in the new standards). The changes will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This principle applies to all investees, including structured entities. IFRS 10 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, if any.

IFRS 11 Joint Arrangements

IFRS 11 uses some of the terms that were used by previous standards, but with different meanings. Whereas previous standards identified three forms of joint ventures (i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities), IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Because the new standard uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognizes its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, the previous standard focused on the legal form of the entity, whereas IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement. IFRS 11 is effective for annual periods commencing on or after January 1, 2013. The Company does not currently have any interest in joint ventures and therefore does not expect any implications of this new standard.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes a number of new disclosures that are required. One of the most significant changes is that an entity is now required to disclose the judgments made to determine whether it controls another entity. IFRS 12 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, which will be limited to disclosure requirements for the financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. While many of the concepts in this new standard are consistent with current practice, certain principles, such as the prohibition on blockage discounts for all fair value measurements, could have a significant effect. The disclosure requirements are substantial and could present additional challenges. IFRS 13 is effective for annual periods commencing on or after January 1, 2013 and will be applied prospectively. The Company is currently in the process of evaluating the implications of this new standard.

Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)

Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12) concerns the determination of deferred tax on investment property measured at fair value. The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40 Investment Property. IAS 12 has been updated to include:

- A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale; and
- A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

The amendments are mandatory for annual periods beginning on or after January 1, 2012, but earlier application is permitted. This amendment is not expected to have any impact on the Company.

CRITICAL ACCOUNTING ESTIMATES

There has been no substantial change in the Company's critical accounting estimates since the publication of the 2010 Annual Report except for the following items that required additional analysis pursuant to the Company's adoption of IFRS:

Property and Equipment

The Company has estimated the useful lives of the components of all of its property and equipment based on past experience and industry norms, and is depreciating these assets over their useful lives. Management assesses these estimates on a periodic basis and makes adjustments when appropriate.

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash-generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGU's, including a sensitivity analysis, are further explained in note 5 of the unaudited interim consolidated financial statements.

Employee Future Benefit Plans

The cost of defined benefit pension plans and the present value of the pension obligation and pension asset are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, future pension increases and the expected long-term rate of return on plan assets. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the pension obligation and pension asset are highly sensitive to changes in these assumptions.

In determining the appropriate discount rate, management considers the interest rates of high quality corporate bonds that have terms to maturity approximating the terms related to the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Further details about the assumptions used are given in note 15 (g) of the unaudited interim consolidated financial statements.

Share-based compensation

The Company's share-based compensation plans (SARS and executive stock option) are measured at fair value using the Black-Scholes option-pricing model. Management must determine the most appropriate inputs to the option-pricing model including the expected life, volatility and dividend yield and make assumptions about them.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Income Taxes

Deferred income tax assets and liabilities are measured using the substantively enacted tax rates and laws which are expected to be in effect when the differences are expected to be recovered, settled or reversed. The Company recognizes the benefits of capital and non-capital loss carryforwards as deferred tax assets to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised. To determine the provision for income taxes, certain assumptions are made, including filing positions on certain items and the ability to realize deferred tax assets. In the event the outcome differs from management's assumptions and estimates, the effective tax rate in future periods could be affected.

Non-Monetary Transactions

From time to time, the Company exchanges airtime for products and services. The Standing Interpretations Committee (SIC) issued SIC 31. Under SIC 31, the Company measures revenue at the fair value of the consideration received or receivable, or if this cannot be established, at the fair value of the airtime provided. Generally, the Company is able to fair value the airtime subject to contra arrangements as there are independent non contra transactions involving similar airtime amounts, thereby providing appropriate evidence of fair value of the consideration received or receivable. However, in some instances, this may not be the case and management will have to estimate the fair value of the consideration received.

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 2010 Annual Report.

SUBSEQUENT EVENTS

Subsequent to quarter end, the Company announced that it has entered into an agreement to sell CKJS AM and CHNK FM in Winnipeg, Manitoba for \$5.5 million, subject to CRTC approval. Since the Company had recognized both goodwill and broadcast licence impairment charges related to the Winnipeg operation in previous periods, if the sale is approved, the gain on disposal is estimated to approximate \$4.5 million. This sale will impact revenues by approximately \$1.4 million but profit will not be materially impacted.

In May 2011 the Company's Slave Lake, Alberta operation was destroyed by fire. The impact is not expected to be material to the Company from a financial perspective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in the Company's internal controls over financial reporting that occurred in the three months ending March 31, 2011 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

The Company has begun 2011 with positive revenue growth and is continuing its efforts to maintain that positive growth. Over the years, the Company has demonstrated steady growth in its asset base, its number of broadcast licences and its revenue. The success is attributed to the Company's long-standing successful operating strategy, with a clear focus on maximizing operating margins from existing stations and launching AM to FM conversions.

The Company continues to review all acquisition opportunities that would complement the Company's investment criteria and growth strategy and management continues to aggressively apply for licences in new communities, and seek approval from the CRTC wherever possible, to convert additional AM stations to FM which will generate immediate top line growth.

Non-IFRS Accounting Measure

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

(thousands of dollars)	Three months ended	
	March 31	
	2011	2010
Profit for the period	\$ 2,908	1,429
Provision for income taxes	1,304	678
Other (income) expense	(1,583)	545
Accretion of other liabilities	132	190
Interest expense	1,160	764
Depreciation and amortization expense	1,012	972
EBITDA	\$ 4,933	4,578

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 ended March 31, 2011 and 2010

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 interim consolidated financial statements of the Company for the three months ended March 31, 2011 and 2010 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 consolidated 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 13th day of June, 2011

Interim Consolidated Statement of Financial Position

(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	March 31 2011	December 31 2010	January 1 2010
ASSETS				
Current assets				
Marketable securities	10(a)	\$ 6,568	5,286	4,923
Receivables	10	22,141	25,589	23,831
Prepaid expenses		1,074	977	778
Other assets	10(c)	1,721	1,339	1,810
<i>Total current assets</i>		31,504	33,191	31,342
Non-current assets				
Property and equipment	4, 15(a)	34,571	34,686	35,863
Other assets	5,15(d),(g)	3,612	3,614	3,620
Broadcast licences	5,15(b)	148,801	148,766	149,752
Goodwill	5,15(c)	6,109	6,109	6,109
Deferred income tax assets	15(h)	4,906	5,022	5,293
Total assets		\$ 229,503	231,388	231,979
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		\$ 1,908	1,380	99
Accounts payable and accrued liabilities	8, 15(f)	15,870	20,909	17,213
Dividends payable		—	1,891	3,297
Income taxes payable		11,516	10,626	6,836
Current portion of long-term debt		—	—	57,100
<i>Total current liabilities</i>		29,294	34,806	84,545
Non-current liabilities				
Long-term debt	10	62,714	53,158	—
Other liabilities	8,10(b), 15(f),(g)	17,029	17,865	20,711
Deferred income tax liabilities	15(h)	18,712	18,376	17,906
Total liabilities		127,749	124,205	123,162
Shareholders' equity <i>(see Statement of Changes in Shareholders' Equity)</i>		101,754	107,183	108,817
Total liabilities and shareholders' equity		\$ 229,503	231,388	231,979

Subsequent events (note 13)

See accompanying notes to the interim consolidated financial statements

Interim Consolidated Income Statement

(unaudited)

<i>(thousands of Canadian dollars except per share data)</i>	Notes	Three months ended March 31	
		2011	2010
Revenue		\$ 26,880	25,706
Operating expenses	15(f),(g)	21,947	21,128
Depreciation and amortization	15(a),(d)	<u>1,012</u>	<u>972</u>
Operating profit		3,921	3,606
Interest expense		1,160	764
Accretion of other liabilities	10	<u>132</u>	<u>190</u>
		2,629	2,652
Other income (expense)	10(a)	<u>1,583</u>	<u>(545)</u>
Profit before income taxes		4,212	2,107
Provision for income taxes			
Current		963	690
Deferred		<u>341</u>	<u>(12)</u>
	15(i)	<u>1,304</u>	<u>678</u>
Profit for the period		\$ 2,908	1,429
Earnings per share			
— basic	11, 15	\$ 0.10	0.04
— diluted	11, 15	0.09	0.04

See accompanying notes to the interim consolidated financial statements

Interim Consolidated Statement of Comprehensive Income

(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Three months ended March 31	
		2011	2010
Profit for the period		\$ 2,908	1,429
Other comprehensive income:			
Cash flow hedges:			
Net movement on interest rate swaps	10(b)	408	397
Income tax expense	10(b)	(109)	(106)
		<u>299</u>	<u>291</u>
Net movement on total equity return swap	10(c)	—	(110)
Income tax recovery	10(c)	—	37
		<u>—</u>	<u>(73)</u>
Other comprehensive income		299	218
Comprehensive income		\$ 3,207	1,647

See accompanying notes to the interim consolidated financial statements

Interim Consolidated Statement of Changes in Shareholders' Equity

(unaudited)

<i>(thousands of Canadian dollars)</i>	Issued share capital (note 6)	Contributed surplus (notes 7,15(f))	Accumulated other comprehensive loss	Retained earnings (note 15(j))	Total
Balance at January 1, 2011	\$ 40,813	2,176	(2,202)	66,396	107,183
Profit for the period	—	—	—	2,908	2,908
Other comprehensive income	—	—	299	—	299
Total comprehensive income					3,207
Repurchase of share capital	(2,002)	—	—	(6,742)	(8,744)
Issue of share capital	55	(55)	—	—	—
Exercise of options	84	—	—	—	84
Executive stock option compensation expense	—	24	—	—	24
Balance at March 31, 2011	\$ 38,950	2,145	(1,903)	62,562	101,754

See accompanying notes to the interim consolidated financial statements

<i>(thousands of Canadian dollars)</i>	Issued share capital (note 6)	Contributed surplus (notes 8,15(f))	Accumulated other comprehensive loss	Retained earnings (note 15(j))	Total
Balance at January 1, 2010	\$ 42,913	2,038	(1,897)	65,763	108,817
Profit for the period	—	—	—	1,429	1,429
Other comprehensive income	—	—	218	—	218
Total comprehensive income					1,647
Dividends	—	—	—	—	—
Repurchase of share capital	—	—	—	—	—
Issue of share capital	—	—	—	—	—
Exercise of options	—	—	—	—	—
Executive stock option compensation expense	—	39	—	—	39
Balance at March 31, 2010	\$ 42,913	2,077	(1,679)	67,192	110,503

See accompanying notes to the interim consolidated financial statements

Interim Consolidated Statement of Cash Flows

(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Three months ended March 31	
		2011	2010
Operating Activities			
Profit before provision for income taxes	15	\$ 4,212	2,107
Items not involving cash			
Depreciation and amortization	15(a),(d)	1,012	972
Share-based payment (recovery)	8,15(f)	65	(43)
Accretion of other liabilities	10	132	190
Unrealized gains on marketable securities	10(a)	(1,282)	(185)
Other		(265)	(61)
		<u>3,874</u>	<u>2,980</u>
Net change in non-cash working capital		<u>(870)</u>	<u>1,893</u>
		3,004	4,873
Interest paid		(1,189)	(1,123)
Income taxes paid		(73)	(191)
Net cash flows from operating activities		<u>1,742</u>	<u>3,559</u>
Financing Activities			
Change in bank indebtedness		528	1,573
Long-term debt borrowings (repayments)		9,500	(1,100)
Dividends paid	6	(1,891)	(3,297)
Repurchase of capital stock	6	(8,744)	—
Proceeds from exercise of stock options	6	84	—
		<u>(523)</u>	<u>(2,824)</u>
Investing Activities			
Property and equipment additions	4	(890)	(504)
Canadian Content Development commitment payments		(329)	(441)
Change in other assets		—	210
		<u>(1,219)</u>	<u>(735)</u>
Cash, beginning and end of period		\$ —	—

See accompanying notes to the interim consolidated 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 interim consolidated 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. The first quarter of the year is generally a period of lower retail spending. As a result, revenue and net income are generally lower than the other quarters.

These financial statements were authorized for issue in accordance with a resolution of the Board of Directors on June 13, 2011.

2. BASIS OF PREPARATION

Statement of compliance

The Company’s financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with International Financial Reporting Standards (“IFRS”). The Company’s transition date to IFRS was January 1, 2010 (“Transition date”). The Company prepared its opening IFRS balance sheet as at that date. The reporting date of these unaudited interim consolidated financial statements is as at, and for the three months ended, March 31, 2011. The Company’s IFRS adoption date is January 1, 2011 (“changeover date” or “adoption date”).

These unaudited interim consolidated financial statements have been prepared in accordance with International Accounting Standards 34 (“IAS”), Interim Financial Reporting, and are covered by IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”) because they are part of the period covered by the Company’s first IFRS financial statements for the year ending December 31, 2011. These unaudited 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 (June 13, 2011). The policies set out below have been consistently applied to all the periods presented.

The Company’s consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) until December 31, 2010. GAAP differs in some areas from IFRS. In preparing these unaudited interim consolidated financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS and the comparative figures in respect of 2010 were restated to reflect these adjustments. Reconciliations and descriptions of the effect of the transition from GAAP to IFRS on the Company’s equity and its profit and cash flows are provided in note 15, Transition to IFRS.

These unaudited interim consolidated financial statements do not include all of the information and disclosures required by IFRS for annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company’s 2010 audited consolidated financial statements and the accompanying notes prepared in accordance with GAAP. 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.

Basis of measurement

These unaudited interim consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- the defined benefit pension asset is recognized as the net total of the plan assets, plus unrecognized past service costs and the present value of the defined benefit obligation.

Significant accounting estimates and assumptions

Financial statements prepared in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could be different from these estimates.

The following estimates are considered to be those that have the most impact on the Company’s financial position, its results of operations and statement of cash flows.

2. BASIS OF PREPARATION (continued)

Significant accounting estimates and assumptions (continued)

Property and Equipment

The Company has estimated the useful lives of the components of all of its property and equipment based on past experience and industry norms, and is depreciating these assets over their useful lives. Management assesses these estimates on a periodic basis and makes adjustments when appropriate.

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash-generating unit (“CGU”) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset’s performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGU’s, including a sensitivity analysis, are further explained in note 5.

Employee Future Benefit Plans

The cost of defined benefit pension plans and the present value of the pension obligation and pension asset are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, future pension increases and the expected long-term rate of return on plan assets. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the pension obligation and pension asset are highly sensitive to changes in these assumptions.

In determining the appropriate discount rate, management considers the interest rates of high quality corporate bonds that have terms to maturity approximating the terms related to the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. For the purpose of calculating the expected return on plan assets, the assets are valued at fair value. Further details about the assumptions used are given in note 15 (g).

Share-based compensation

The Company’s share-based compensation plans (SARS and executive stock option) are measured at fair value using the Black-Scholes option-pricing model. Management must determine the most appropriate inputs to the option-pricing model including the expected life, volatility and dividend yield and make assumptions about them.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Income Taxes

Deferred income tax assets and liabilities are measured using the substantively enacted tax rates and laws which are expected to be in effect when the differences are expected to be recovered, settled or reversed. The Company recognizes the benefits of capital and non-capital loss carryforwards as deferred tax assets to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised. To determine the provision for income taxes, certain assumptions are made, including filing positions on certain items and the ability to realize deferred tax assets. In the event the outcome differs from management’s assumptions and estimates, the effective tax rate in future periods could be affected.

2. BASIS OF PREPARATION (continued)

Significant accounting estimates and assumptions (continued)

Non-Monetary Transactions

From time to time, the Company exchanges airtime for products and services. The Standing Interpretations Committee (SIC) issued SIC 31. Under SIC 31, the Company measures revenue at the fair value of the consideration received or receivable, or if this cannot be established, at the fair value of the airtime provided. Generally, the Company is able to fair value the airtime subject to contra arrangements as there are independent non contra transactions involving similar airtime amounts, thereby providing appropriate evidence of fair value of the consideration received or receivable. However, in some instances, this may not be the case and management will have to estimate the fair value of the consideration received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these unaudited interim consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

Basis of consolidation

The unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions and balances are eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Cash and cash equivalents

The Company's cash and cash equivalents are deposits in banks. The Company nets its cash and cash equivalents with bank indebtedness.

Business combinations, broadcast licences and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value. Acquisition costs incurred are expensed and included in operating expenses. The cost of a business combination is allocated to the fair value of the related net identifiable tangible and intangible assets. The excess of the cost of the acquired businesses over the fair value of the related net identifiable tangible and intangible assets acquired is allocated to goodwill. If the consideration is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

To receive approval to launch a new broadcast licence pursuant to applications made by the Company to the Canadian Radio-television and Telecommunications Commission ("CRTC"), the CRTC may require the Company to commit to fund Canadian Content Development ("CCD") during the initial term of the licence over and above the prescribed annual requirements. These obligations are considered to be part of the costs related to the award of new broadcast licences and are recognized as a liability upon the launch of the new broadcast licence. Any other direct costs related to the award of new broadcast licences are also capitalized as broadcast licences.

After initial recognition, goodwill and broadcast licences are recorded at cost less any accumulated impairment losses.

Impairment testing of goodwill, other intangible assets and property and equipment

Goodwill and intangible assets with indefinite useful lives, like broadcast licences, are not amortized but are tested for impairment annually, either individually or at the CGU level. Intangible assets with finite lives and property and equipment are amortized over the useful economic life and assessed for impairment whenever there is an indication that the asset may be impaired.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units or "CGU's"). As a result, some assets are tested individually for impairment and some are tested at the CGU level when cash inflow interdependencies exist. Goodwill is allocated to those CGU's that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment testing of goodwill, other intangible assets and property and equipment (continued)

An impairment loss is recognized for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved five year budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each asset or CGU and reflect their respective risk profiles as assessed by management.

Impairment losses for CGU's first reduce the carrying amount of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro rata to the other assets in the CGU. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the asset or CGU's recoverable amount exceeds its carrying amount.

Investment in associate

The Company's investment in its associate is accounted for using the equity method. An associate is an entity in which the Company has significant influence. Under the equity method, the investment in the associate is carried in the balance sheet (as non-current "other assets") at cost plus post acquisition changes in the Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the Company's proportionate share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. The share of profit of an associate is included in *other income*.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the income statement during the period.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in income.

Property and equipment

Property and equipment is carried at cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on the derecognition of the asset are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within *other income* in profit or loss.

Depreciation is recognized on a straight-line basis over the estimated useful lives of each component part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

The estimated useful lives of the assets are as follows:

Building structure	60 years
Major building components	20 – 30 years
Computer hardware and software	4 – 6 years
Vehicles	5 years
Radio equipment and digital automation	10 years
Furniture, fixtures and office equipment	5 – 10 years
Towers and transmitters	8 – 25 years
Leasehold improvements	Over the term of the lease plus one renewal period

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively.

Deferred tenant inducements

In common with many lease agreements, the Company receives tenant inducements in exchange for making long-term commitments for leased premises. These inducements may be in the form of rent-free periods, reduced rent, or the provision of leasehold improvements. These inducements are being recognized as reduced rental expense on a straight-line basis over the term of the lease.

Income taxes

Current income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the provinces where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each balance sheet date. It is possible that additional liability could result. Where the final tax outcome of these matters is different from the amounts that were recorded, the tax provisions will be affected in the period in which the final outcome is determined.

Deferred income taxes

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income taxes (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

Operating segments

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. 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.

Revenue recognition

Revenue earned from the sale of advertising airtime is recognized in the accounts once the broadcasting of the advertisement has occurred. Revenue is recorded net of any agency commissions as these charges are paid directly to the agency by the advertiser. Revenue earned from the hotel operation is recognized as service is provided.

The Company, from time to time, exchanges airtime for products and services. These non-monetary transactions are measured at the more reliably measurable of the fair value of the asset or services surrendered and the fair value of the asset or services received, adjusted for any cash transferred.

Other income includes realized and unrealized gains and losses on marketable securities, interest, dividends and distributions from investments. Interest revenue is recognized on an accrual basis over the term of the interest-bearing instrument. Dividends and trust distributions are recognized as revenue on the declaration date of the respective amounts.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits related to the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. Upon initial recognition, financial instruments are measured at fair value and classified as either financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, available-for-sale assets, loans and receivables, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge. Financial instruments are included on the consolidated statement of financial position and measured on initial recognition at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities, which are measured at amortized cost. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible. Gains and losses on fair value through profit or loss financial assets and financial liabilities are recognized in income before income taxes in the period in which they are incurred. Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The Company's financial instruments have been classified as either assets and liabilities at fair value through profit or loss ("FVTPL"), loans and receivables or other liabilities. The following table illustrates the classification of the Company's financial instruments and the related measurement basis for accounting purposes:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Measurement</u>
Cash and bank indebtedness	FVTPL	Fair value
Marketable securities	FVTPL	Fair value
Receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Canadian content development commitments (grouped in Other liabilities)	Other liabilities	Amortized cost

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Cash and marketable securities are able to be settled in the near term; therefore, they meet the criteria required to classify them as FVTPL. Instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recorded immediately in net income. The fair value of marketable securities is based on the quoted share prices in active markets. Additional information is contained in note 10(a).

Loans, receivables and other liabilities

Loans, receivables and other liabilities are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Financial instruments classified as loans and receivables and other liabilities are measured using amortized cost using the effective interest rate method ("EIM") less any impairment. Under the EIM, interest income and expense are calculated and recorded using the effective interest rate which is the rate that exactly discounts estimated future cash receipts or payments throughout the expected life of the financial instrument to the fair value at initial recognition. Interest income and expense related to financial assets and financial liabilities are being recorded using the EIM.

Impairment of financial instruments

An assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the future cash flows of the financial asset or group of assets occur after initial recognition of the financial asset and the loss can be reliably measured. This assessment is done on an individual financial asset basis or on a portfolio of financial assets basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial instruments original effective interest rate and is recorded as an allowance for losses. If, in a subsequent period, the impairment loss decreases, the previously recognized impairment is reversed to the extent of the impairment.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Hedges

The Company has derivative financial instruments designated as cash flow hedges which are recorded on the statement of financial position at fair value. The Company has designated interest rate swaps and a cash-settled equity total return swap as hedging instruments in cash flow hedge relationships. The interest rate swaps have been entered into to mitigate the Company's exposure to fluctuating interest rates in relation to its long-term debt. The cash-settled equity total return swap has been entered into to mitigate the Company's exposure to fluctuations in its share-based compensation costs related to the SARS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedges (continued)

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

All derivative financial instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognized in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognized immediately in the income statement.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified to the income statement and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Pension benefits

The Company maintains a defined contribution pension plan and defined benefit pension plans. The Company does not provide any non-pension post-retirement benefits to employees.

Defined contribution pension plan

The Company matches employee contributions under the defined contribution plan. In this plan, contributions are funded to a separate entity and the Company has no legal or constructive obligation to pay further amounts. The Company's portion is recorded as compensation expense as contributions are made which coincides with the periods during which services are rendered by employees.

Defined benefit pension plans

The cost of providing benefits under the defined benefit plans is determined on an annual basis by independent actuaries separately for each plan using the projected unit credit method. Actuarial gains and losses for both defined benefit plans are recognized immediately in full in the period in which they occur in other comprehensive income. Because actuarial gains and losses are recognized immediately, they are not reclassified to the statement of income in subsequent periods.

The past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If immediately following the introduction of or changes to a pension plan the benefits have already vested, past service costs are recognized immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds) less past service costs and less the fair value of plan assets out of which the obligations are to be settled. The fair value of plan assets is based on market price information and in the case of quoted securities it is the published bid price. The value of any defined benefit asset recognized is restricted to the sum of any past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. This measurement basis is consistent with IFRIC 14 IAS 19 – *The limit on a Defined Benefit Asset*.

The Company recognized all cumulative actuarial gains and losses and all cumulative vested past service costs at the date of transition to IFRS as disclosed in note 15.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payments

The Company has a cash-settled Share Purchase Plan for which the Company matches a portion of employees' payments toward the purchase of its Class A Subordinate Voting Shares ("Class A shares"). The Company's portion is recorded as compensation expense when contributions are made to the plan.

The Company has a cash-settled Stock Appreciation Rights Plan ("SARS"), a form of stock-based compensation. Compensation expense is accrued with a corresponding increase in liabilities in the amount which represents the fair value of the amount payable to employees in respect of SARS, over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as compensation expense in the income statement.

The Company has an equity-settled executive stock option plan. The grant date fair value of stock options granted to employees is recognized as employee compensation expense, with a corresponding increase in contributed surplus, over the period that the employees become unconditionally entitled to the options. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in operating expenses. Fair value is measured using the Black-Scholes option-pricing model. An estimate of the number of awards expected to vest is made on the measurement date. If subsequent information indicates that actual forfeiture is likely to differ from that estimate, an adjustment is made at that time. As stock options are exercised, the related contributed surplus amounts are removed from contributed surplus and credited to capital stock.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The Company has several operating lease commitments for which lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

New standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 7 Financial Instruments – Disclosures

Amendments to IFRS 7 will increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011 and therefore the Company will apply the amendment in the first quarter of 2012. The amendment affects disclosure only and the Company expects there to be no impact on the Company's financial position or performance.

IFRS 9 Financial Instruments

IFRS 9 was issued to replace IAS 39, "Financial Instruments: Recognition and Measurement". This is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2013. The Company is currently assessing the impact of the new standard on its consolidated financial statements. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011. The Company will quantify the impact on the Company of the adoption of future phases when they are issued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities (including ‘special purpose entities,’ or ‘structured entities’ as they are now referred to in the new standards). The changes will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This principle applies to all investees, including structured entities. IFRS 10 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, if any.

IFRS 11 Joint Arrangements

IFRS 11 uses some of the terms that were used by previous standards, but with different meanings. Whereas previous standards identified three forms of joint ventures (i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities), IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Because the new standard uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognizes its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, the previous standard focused on the legal form of the entity, whereas IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement. IFRS 11 is effective for annual periods commencing on or after January 1, 2013. The Company does not currently have any interest in joint ventures and therefore does not expect any implications of this new standard.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes a number of new disclosures that are required. One of the most significant changes is that an entity is now required to disclose the judgments made to determine whether it controls another entity. IFRS 12 is effective for annual periods commencing on or after January 1, 2013. The Company is currently in the process of evaluating the implications of this new standard, which will be limited to disclosure requirements for the financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. While many of the concepts in this new standard are consistent with current practice, certain principles, such as the prohibition on blockage discounts for all fair value measurements, could have a significant effect. The disclosure requirements are substantial and could present additional challenges. IFRS 13 is effective for annual periods commencing on or after January 1, 2013 and will be applied prospectively. The Company is currently in the process of evaluating the implications of this new standard.

Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)

Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12) concerns the determination of deferred tax on investment property measured at fair value. The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40 Investment Property. IAS 12 has been updated to include:

- A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale; and
- A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

The amendments are mandatory for annual periods beginning on or after January 1, 2012, but earlier application is permitted. This amendment is not expected to have any impact on the Company.

Notes to the Interim Consolidated Financial Statements – March 31, 2011 and 2010 (unaudited)

4. PROPERTY AND EQUIPMENT

	<i>(thousands of Canadian dollars)</i>									
	Land	Building structures	Major building components	Radio equipment	Towers and transmitters	Computer hardware, software and peripherals	Furniture and fixtures	Leasehold improvements	Vehicles	Total
Balance at January 1, 2010	\$ 2,344	3,195	4,145	15,740	21,716	4,625	5,576	8,354	919	66,614
Additions	—	87	150	699	1,228	465	178	104	38	2,949
Disposals	—	—	—	(617)	(935)	(508)	(371)	(655)	(331)	(3,417)
Impairment	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2010	2,344	3,282	4,295	15,822	22,009	4,582	5,383	7,803	626	66,146
Additions	—	21	—	342	277	81	63	15	91	890
Disposals	—	—	—	—	—	—	(14)	—	—	(14)
Balance at March 31, 2011	2,344	3,303	4,295	16,164	22,286	4,664	5,431	7,818	717	67,022
Accumulated depreciation										
Balance at January 1, 2010	—	(318)	(1,571)	(9,491)	(8,509)	(3,825)	(3,659)	(2,647)	(731)	(30,751)
Depreciation	—	(38)	(171)	(1,112)	(1,116)	(418)	(351)	(590)	(79)	(3,875)
Disposals	—	—	—	634	720	491	367	638	316	3,166
Balance at December 31, 2010	—	(356)	(1,742)	(9,969)	(8,905)	(3,752)	(3,643)	(2,599)	(494)	(31,460)
Depreciation	—	(10)	(43)	(284)	(328)	(103)	(86)	(137)	(13)	(1,004)
Disposals	—	—	—	—	—	—	13	—	—	13
Balance at March 31, 2011	\$ —	(366)	(1,785)	(10,253)	(9,233)	(3,855)	(3,716)	(2,736)	(507)	(32,451)
Net book value										
At January 1, 2010	\$ 2,344	2,877	2,574	6,249	13,207	800	1,917	5,707	188	35,863
At December 31, 2010	2,344	2,926	2,553	5,853	13,104	830	1,740	5,204	132	34,686
At March 31, 2011	2,344	2,937	2,510	5,911	13,053	809	1,715	5,082	210	34,571

Please refer to note 15 for additional information related to depreciation expense.

5. GOODWILL, BROADCAST LICENCES AND OTHER INTANGIBLE ASSETS

Goodwill and broadcast licences are tested for impairment annually on October 31 and when circumstances indicate the carrying value may be impaired. The Company's impairment test for goodwill and broadcast licences having indefinite useful lives was based on value-in-use calculations as of the IFRS transition date and as of the fiscal year end 2010. A discounted cash flow model is used to determine the Company's value-in-use. The key assumptions used to determine the recoverable amount for the different CGU's is discussed below with respect to the most recently completed impairment calculation as of the IFRS transition date and as of the 2010 fiscal year end.

<i>(thousands of Canadian dollars)</i>	Goodwill	Broadcast Licences	Other Intangible Assets
Cost			
Balance at January 1, 2010	\$ 7,045	156,456	205
Additions, internally-developed	—	175	—
Balance, December 31, 2010	\$ 7,045	156,631	205
Additions, internally-developed	—	35	—
Balance, March 31, 2011	\$ 7,045	156,666	205
Accumulated amortization and impairment			
Balance, January 1, 2010	\$ (936)	(6,704)	(153)
Amortization	—	—	(31)
Impairment charge	—	(2,435)	—
Reversal of impairment	—	1,274	—
Balance, December 31, 2010	\$ (936)	(7,865)	(184)
Amortization	—	—	(8)
Balance, March 31, 2011	\$ (936)	(7,865)	(192)
Net book value			
At January 1, 2010	\$ 6,109	149,752	52
At December 31, 2010	\$ 6,109	148,766	21
At March 31, 2011	\$ 6,109	148,801	13

Additions

The additions to internally-developed broadcast licences consisted of the direct costs attributed to launching four new repeater licences in 2010 and one conversion from AM to FM in 2011.

Impairment charge and reversal of impairment charge

For the purposes of assessing impairment, broadcast licences are grouped at the cash-generating unit ("CGU") level which is the lowest level for which there are largely independent cash inflows. As a result, some broadcast licences are tested individually for impairment and some are tested at the CGU level. For broadcast licence impairment testing purposes, the Company has identified twenty CGU's, based on geographical areas where interdependent cash inflows exist. Impairment charges and reversals are included as a separate line on the income statement.

As of the Company's annual impairment assessment date of October 31, 2010, the Company concluded that broadcast licences were impaired by \$2,435,000. Impairment charges arose because the recoverable amounts for two CGU's located in Alberta were less than the carrying amount. These two CGU's have experienced declines in earnings which were projected to continue thereby decreasing the CGU's recoverable amounts (which is value-in-use further explained below). As of October, the Company reversed \$1,274,000 of previously recognized impairment charges. The reversal was a result of financial performance improvements experienced in 2010, particularly in one CGU also located in Alberta. For the quarter ended March 31, 2011, there were no new circumstances that would indicate an impairment arose in any CGU.

Goodwill is allocated to those CGU's that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill. As of October 31, 2010 and March 31, 2011, there was no goodwill impairment.

5. GOODWILL, BROADCAST LICENCES AND OTHER INTANGIBLE ASSETS (continued)

Recoverable amount

The recoverable amounts of the CGU's have been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by the Board of Directors covering a five-year period. Cash flows beyond the five-year period were extrapolated using a 2.0% growth rate which is based upon historical inflation rates. The pre-tax discount rates applied to cash flow projections ranged from 10.4% to 11.5% as at January 1, 2010 and 10.3% to 10.9% as at October 31, 2010. Cash flow projections are extended beyond the five year budget period because broadcast licences and goodwill are indefinite life assets.

Key assumptions used in value-in-use calculations

The calculations of value-in-use for the CGU's are most sensitive to the following assumptions:

- Discount rates
- Growth rates and market share during the budget period, and
- Growth rate used to extrapolate cash flows beyond the budget period

Discount rates — Discount rates represent the current market assessment of the risks specific to each CGU, regarding the time value of money and individual risks of the underlying assets. The discount rate calculation is based on the specific circumstances of the Company and its CGU's and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest bearing borrowings the Company is obliged to service. CGU specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available marked data.

Growth rates and market share assumptions — Growth rates used over the five year budget period are largely based on historical growth rates achieved for two to three years preceding the start of the budget period. The rates are increased over the budget period for anticipated improvements. The growth rates depend also on whether the CGU is a mature market station versus a start-up (defined to be in its first 5 years of operations). Management assesses how the CGU's market position, relative to its competitors, might change over the budget period. Management expects the Company's share of the market to be stable over the budget period.

Long-term growth rate estimates — Cash flows beyond the five-year period were extrapolated using a 2.0% growth rate which is based upon historical inflation rates.

Sensitivity to changes in assumptions

The possibility of new market entrants can have an impact on growth rate assumptions, as can adverse ratings results which would impact market share. However, management does not believe these would have a significant adverse effect on the forecasts included in the budget and management's conclusions on impairment would not be materially different.

6. SHARE CAPITAL

	<i>(thousands of shares)</i>	<i>(thousands of Canadian dollars)</i>
Balance, January 1, 2010	32,972	\$ 42,913
Share repurchase	<u>(1,460)</u>	<u>(2,100)</u>
Balance, December 31, 2010	31,512	40,813
Share repurchase	(1,388)	(2,002)
Exercise of stock options	<u>24</u>	<u>139</u>
Balance, March 31, 2011	30,148	\$ 38,950

Share repurchases

The Company has approval under a Normal Course Issuer Bid to repurchase up to 1,388,072 Class A shares and 75,434 Class B shares. This bid expires February 8, 2012. On February 15, 2011 the Company repurchased 1,388,072 Class A shares pursuant to this Normal Course Issuer Bid for \$8,744,000. As a result of these share repurchases, capital stock was reduced by \$2,002,000 and retained earnings by \$6,742,000. The Company did not repurchase any of its outstanding Class A shares during the first quarter of 2010.

6. SHARE CAPITAL (continued)

Exercise of stock options

Pursuant to the Company's executive stock option plan disclosed in note 8, during the quarter 30,000 options were exercised (2010 – nil), 15,000 of which were exercised for cash proceeds of \$84,000 (2010 - \$nil) and 15,000 were exercised using the cashless exercise option and as a result 6,000 shares were issued from treasury. Due to the exercise of options, share capital was increased by \$139,000 (2010 – \$nil).

Dividends

In December 2010, the Company declared a dividend of \$0.06 per share on each of its Class A shares and Class B shares. \$1,891,000 was paid to shareholders during the first quarter (2010 - \$3,297,000).

7. CONTRIBUTED SURPLUS

(thousands of dollars)

Balance, January 1, 2010	\$	2,038
Executive stock option plan compensation expense		138
Balance, December 31, 2010		2,176
Exercise of stock options		(55)
Executive stock option plan compensation expense		24
Balance, March 31, 2011	\$	2,145

8. SHARE-BASED COMPENSATION PLANS

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

Stock appreciation rights

A total of 1,745,000 stock appreciation rights ("SARS" or "rights") have been granted since 2006 at a weighted-average reference price of \$5.75. The SARS' expiry dates range from March 2011 to February 2015. The rights vest at a rate of 50% at the end of year three, 25% at the end of year four and 25% at the end of year five and are exercisable as they vest. At the date of exercise, cash payments are made to the holders based on the difference between the market value of the Company's Class A shares and the reference price. All rights granted under this plan expire on the 60th day following the 5th anniversary of the grant date.

For the quarter ended March 31, 2011, 550,750 SARS (2010 – 30,000) were exercised for cash proceeds of \$686,000 (2010 – \$37,000). Compensation expense in the first quarter was \$41,000 (2010 – recovery of \$83,000). As at March 31, 2011, 470,000 rights remained outstanding. The total obligation for SARS compensation was \$405,000 of which \$231,000 was current and classified as accounts payable and accrued liabilities (2010 – compensation payable was \$1,557,000, of which \$1,470,000 was current).

Executive stock options

A total of 2,365,000 stock options are outstanding pursuant to the Company's executive stock option plan. The expiry dates range from April 2011 to March 2016. 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.

During the first quarter, 60,000 options (2010 – 60,000) were granted at a weighted average exercise price of \$6.75 (2010 – \$6.77) and 30,000 options were exercised (2010 – nil). Compensation expense related to stock options for the three months ended March 31, 2011 was \$24,000 (2010 – \$40,000).

9. EMPLOYEE BENEFIT PLANS

(thousands of Canadian dollars)	Note	Three months ended March 31	
		2011	2010
Defined contribution plan expense		\$ 373	357
Defined benefit plan expense	15(g)	80	90

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 8.0% to 14.3%. Accretion expense arising on CCD obligations was \$132,000 for the quarter (2010 - \$190,000).

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> 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	\$ (1,908)	(1,908)	—	—
Marketable securities	6,568	6,568	—	—
Loans and receivables:				
Accounts receivable	22,141	—	22,141	—
Items accounted for as hedges:				
Equity total return swap receivable	1,721	—	1,721	—
Interest rate swap payable	(2,586)	—	(2,586)	—
Other liabilities at amortized cost				
Accounts payable and accrued liabilities, net of current portion of other liabilities	(13,217)	—	(13,217)	—
Long-term debt	(62,714)	—	(62,714)	—
CCD commitments	(6,903)	—	(6,903)	—

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 \$24,000,000 as at March 31, 2011, 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 \$1,300,000 as at March 31, 2011. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Approximately 85% 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 first quarter was \$118,000 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 stocks in varying 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 March 31, 2011, a 10% change in the share prices of each marketable security would result in a \$530,000 change in profit.

For the quarter ended March 31, 2011, the change in fair value of marketable securities, recorded in *other income*, was an unrealized gain of \$1,282,000 (2010 – \$185,000).

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 expires in 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.

Interest rate fluctuations would have an impact on the Company's profit to the extent that long-term debt is not hedged. The hedged portion of long-term debt would be impacted as well; however, the impact on the hedged portion of debt would be recorded in OCI. A 0.5% change in the floating interest rates would have impacted OCI due to changes in fair value of the interest rate swaps by approximately \$90,000 in the quarter. The same change in floating interest rates would have minimal impact on profit in the quarter.

At quarter end, the aggregate fair value payable of the swap agreements was \$2,586,000 and is included in other liabilities on the statement of financial position (2010 - \$3,066,000). The before-tax change in fair value of the swaps included in OCI was a gain of \$444,000 (2010 - \$455,000). The before-tax interest recovery transferred from OCI to profit was \$36,000 (2010 - \$58,000). Included in the \$36,000 interest recovery transferred to profit was \$6,000 related to the Company's own credit risk (2010 - \$25,000).

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 expires in July 2011.

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.

The Company elected to apply hedge accounting and in order to qualify for hedge accounting, there must be reasonable assurance that the instrument is and will continue to be an effective hedge. At the inception of the hedge and on an ongoing basis, the Company formally assesses and documents whether the hedging relationship is effective in offsetting changes in cash flows of the hedged item. Gains or losses realized on the quarterly settlement dates are recognized in net income in the same period as the SAR Plan compensation expense. Unrealized gains and losses, to the extent that the hedge is effective, are deferred and included in OCI until such time as the hedged item affects net income. If at any time, the hedge is deemed to be ineffective or the hedge is terminated or de-designated, gains or losses, including those previously recognized in OCI, will be recorded in net income immediately.

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

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

The 550,750 outstanding SARS under the SAR Plan being hedged were fully exercised during the first quarter. As a result, any gains or losses that arise on the equity total return swap, which expires in July 2011, are immediately transferred from OCI to profit. The before-tax gains for the first quarter were \$383,000 and were immediately transferred from OCI to profit (2010 – before-tax loss of \$17,000). The estimated fair value of the equity total return swap receivable, classified as current other asset, based on the Class A share market price at March 31, 2011 was \$1,721,000 (2010 - \$1,339,000).

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	2012 - 2015	Thereafter
Long-term debt	\$ —	62,714	—
Bank indebtedness	1,908	—	—
Accounts payable and accrued liabilities, net of current portion of CCD commitments	13,122	—	—
Income taxes payable	11,516	—	—
CCD commitments, undiscounted	2,748	5,090	138
	\$ 29,294	67,804	138

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 March 31, 2011.

11. EARNINGS PER SHARE

<i>(thousands)</i>	Three months ended March 31	
	2011	2010
Weighted average common shares used in calculation of basic earnings per share	30,611	32,972
Incremental common shares calculated in accordance with the treasury stock method	1,119	1,143
Weighted average common shares used in calculation of diluted earnings per share	31,730	34,115

12. 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.

<i>(thousands of Canadian dollars)</i>	Broadcasting	Corporate and Other	Total
2011			
Revenue	\$ 26,067	813	26,880
Operating expenses	19,791	2,156	21,947
Depreciation and amortization	945	67	1,012
Operating profit (loss)	\$ 5,331	(1,410)	3,921
Total assets	\$ 208,242	21,261	229,503
Broadcast licences	148,801	—	148,801
Goodwill	6,109	—	6,109
Capital expenditures	863	27	890
2010*			
Revenue	\$ 24,896	810	25,706
Operating expenses	18,833	2,295	21,128
Depreciation and amortization	912	60	972
Operating profit (loss)	\$ 5,151	(1,545)	3,606
Assets employed	\$ 208,459	19,086	227,545
Broadcast licences	149,752	—	149,752
Goodwill	6,109	—	6,109
Capital expenditures	441	63	504

13. SUBSEQUENT EVENTS

Subsequent to quarter end, the Company announced that it has entered into an agreement to sell CKJS AM and CHNK FM in Winnipeg, Manitoba for \$5.5 million, subject to CRTC approval. Since the Company had recognized both goodwill and broadcast licence impairment charges related to the Winnipeg operation in previous periods, if the sale is approved, the gain on disposal is estimated to be \$4.5 million. This sale will impact revenues by approximately \$1.4 million but profit will not be materially impacted.

In May 2011 the Company’s Slave Lake, Alberta operation was destroyed by fire. The impact is not expected to be material to the Company from a financial perspective.

14. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

The key management personnel of the Company are the Chairman, President and Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. In accordance with IFRS, the Company is required to disclose certain information for the most recently completed fiscal year. Key management personnel remuneration for the year ended December 31, 2010 includes:

<i>(thousands of Canadian dollars)</i>	December 31 2010
Short-term benefits	
Salaries including bonuses	\$ 2,543
Other	279
Post-employment benefits	
Defined benefit pension plan	256
Defined contribution pension plan	51
Share-based payments	<u>32</u>
Total remuneration	<u>\$ 3,161</u>

The amounts disclosed in this table are the amounts recognized as expenses for accounting purposes during the period and do not represent cash payments.

The Company's executive compensation program is based on attracting, motivating and retaining high-quality executives by providing a competitive level of compensation that rewards individual performance. The major elements of the Company's executive compensation program are base salary, performance based compensation and long-term compensation in the form of granting executive stock options, stock appreciation rights, and retirement benefits. Personal benefits and other perquisite benefits provided to senior management relate to employer contributions toward the Company's Employee Share Purchase Plan and to life insurance policies.

Directors of the Company control 64% of the Class A Shares and 97% of the Class B shares of the Company. The wholly-owned subsidiaries of the Company include Newcap Inc. and Glynmill Inn Incorporated. Any balances owing or receivable between these entities are eliminated on consolidation. The Company has transacted with Directors and key personnel during the reporting period. The terms and conditions of the transactions with key management personnel and related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel or related entities on an arm's length basis. From time to time directors of the Company, or their related entities, may purchase or sell goods and services from/to the Company. These transactions are on the same terms and conditions as those entered into by other Company employees or customers. No transactions with key personnel or related parties, either individually or as a group, were material in the period.

15. TRANSITION TO IFRS

These are the Company's first unaudited interim consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's date of transition to IFRS was January 1, 2010. For periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

The Company's IFRS accounting policies presented in note 3 have been applied consistently in the preparation of the unaudited interim consolidated financial statements for the three months ended March 31, 2011 and March 31, 2010 and in the preparation of the IFRS statement of financial position as at January 1, 2010, as at March 31, 2010, as at December 31, 2010 and as at March 31, 2011.

The Company has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in preparing these first IFRS unaudited interim consolidated financial statements. The effects of the transition to IFRS equity, total comprehensive income and reported cash flows is set out in the following tables and the notes that accompany the tables. Specifics of IFRS 1 are also explained below:

15. TRANSITION TO IFRS (continued)

IFRS 1 exemptions

IFRS 1 sets out specific guidelines that a first-time adopter must adhere to where certain circumstances apply. The following guidelines have been applied to the Company's opening statement of financial position dated January 1, 2010:

i. **Hedge accounting**

Hedge accounting can only be applied prospectively from the date of transition to transactions that satisfy the hedge accounting criteria. Hedging relationships cannot be designated retrospectively and the documentation of the hedging relationship cannot be created retrospectively. Only hedging relationships that satisfied the hedge accounting criteria as of the Company's transition date are reflected as hedges in the Company's results under IFRS. Each of the Company's hedging relationships were assessed to conclude that all hedges recorded under GAAP qualified for hedge accounting under IFRS at the date of transition.

ii. **Use of estimates**

Retrospective adjustments to accounting estimates or judgments are not allowed as part of the transition, unless there is objective evidence that the estimates applied were in error. With the exception of changing the method of calculating depreciation from declining-balance to straight-line, no estimates previously applied by the Company under GAAP were revised upon adoption of IFRS except where necessary to reflect any difference in accounting policies. (Additional details on the estimate change for determining depreciation expense are disclosed in note 15(a).)

IFRS 1 has certain exemptions from the general requirement to fully apply IFRS standards retrospectively as at the date of transition. The Company has opted to take the following IFRS 1 exemptions:

iii. **Business combinations**

IFRS 3 *Business Combinations* has not been applied to acquisitions that occurred before January 1, 2010. Use of this exemption means that the previous GAAP carrying amounts of assets and liabilities, which are required to be recognized under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Company did not recognize or exclude any previously recognized amounts as a result of IFRS recognition requirements.

In accordance with IFRS 1, the Company has tested goodwill, broadcast licences and other intangible assets for impairment at the date of transition to IFRS. As a result, goodwill, broadcast licences and one of the Company's finite-life intangible assets were impaired by \$936,000, \$6,704,000 and \$256,000, respectively. This is further described below under "Explanatory notes to transitional IFRS adjustments" in notes 15(b), (c) and (d).

iv. **Employee future benefits**

The Company has elected to recognize, as part of its transition adjustment to retained earnings, all of its unrecognized cumulative actuarial gains and losses and vested past service costs as calculated in conjunction with an IFRS compliant actuarial valuation. The Company has also elected to disclose the following amounts prospectively from the date of transition: (i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and (ii) the experience adjustments arising on the plan liabilities and the plan assets.

v. **Share-based payments**

The Company has elected to not retrospectively apply IFRS 2 *Share-based Payments* to its equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010.

15. TRANSITION TO IFRS (continued)

Reconciliation of equity

Shareholders' equity as at January, 1, 2010 and at December 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Note 15	December 31, 2010			January 1, 2010		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Current assets							
Marketable securities		\$ 5,286	—	5,286	4,923	—	4,923
Receivables		25,589	—	25,589	23,831	—	23,831
Prepaid expenses		977	—	977	778	—	778
Other assets		1,339	—	1,339	1,810	—	1,810
Deferred income tax assets	h	793	(793)	—	1,173	(1,173)	—
<i>Total current assets</i>		33,984	(793)	33,191	32,515	(1,173)	31,342
Non-current assets							
Property and equipment	a	36,305	(1,619)	34,686	37,248	(1,385)	35,863
Other assets	d,g	4,596	(982)	3,614	4,216	(596)	3,620
Broadcast licences	b	148,207	559	148,766	149,641	111	149,752
Goodwill	c	7,045	(936)	6,109	7,045	(936)	6,109
Deferred income tax assets	g,h	2,216	2,806	5,022	2,188	3,105	5,293
Total assets		\$ 232,353	(965)	231,388	232,853	(874)	231,979
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Bank indebtedness		\$ 1,380	—	1,380	99	—	99
Accounts payable and accrued liabilities	f	20,875	34	20,909	17,118	95	17,213
Dividends payable		1,891	—	1,891	3,297	—	3,297
Income taxes payable		10,626	—	10,626	6,836	—	6,836
Current portion of long-term debt		—	—	—	57,100	—	57,100
<i>Total current liabilities</i>		34,772	34	34,806	84,450	95	84,545
Non-current liabilities							
Long-term debt		53,158	—	53,158	—	—	—
Other liabilities	f,g	15,830	2,035	17,865	18,946	1,765	20,711
Deferred income tax liabilities	a,b,d,h	26,604	(8,228)	18,376	25,668	(7,762)	17,906
Total liabilities		\$ 130,364	(6,159)	124,205	129,064	(5,902)	123,162
Shareholders' equity							
Common shares		\$ 40,813	—	40,813	42,913	—	42,913
Contributed surplus	f	2,492	(316)	2,176	2,157	(119)	2,038
Accumulated other comprehensive loss	g	(1,637)	(565)	(2,202)	(1,897)	—	(1,897)
Retained earnings	j	60,321	6,075	66,396	60,616	5,147	65,763
Total equity		\$ 101,989	5,194	107,183	103,789	5,028	108,817
Total liabilities and shareholders' equity		\$ 232,353	(965)	231,388	232,853	(874)	231,979

15. TRANSITION TO IFRS (continued)

Reconciliation of equity

Shareholders' equity as at March 31, 2010 can be reconciled to the amounts reported under previous Canadian GAAP as follows:

	Note	March 31, 2010		IFRS
		Previous GAAP	Effect of transition to IFRS	
ASSETS				
Current assets				
Marketable securities		\$ 4,387	—	4,387
Receivables		20,567	—	20,567
Prepaid expenses		919	—	919
Other assets		1,339	—	1,339
Deferred income tax assets	h	1,288	(1,288)	—
<i>Total current assets</i>		28,500	(1,288)	27,212
Non-current assets				
Property and equipment	a	36,888	(1,485)	35,403
Other assets	d,g	4,371	(624)	3,747
Broadcast licences	b	149,641	111	149,752
Goodwill	c	7,045	(936)	6,109
Deferred income tax assets	g,h	2,256	3,066	5,322
Total assets		\$ 228,701	(1,156)	227,545
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank indebtedness		\$ 1,672	—	1,672
Accounts payable and accrued liabilities	f	15,023	39	15,062
Dividends payable		—	—	—
Income taxes payable		7,336	—	7,336
Current portion of long-term debt		56,000	—	56,000
<i>Total current liabilities</i>		80,031	39	80,070
Non-current liabilities				
Long-term debt		—	—	—
Other liabilities	f,g	17,311	1,668	18,979
Deferred income tax liabilities	a,b,d,h	26,010	(8,017)	17,993
Total liabilities		\$ 123,352	(6,310)	117,042
Shareholders' equity				
Common shares		\$ 42,913	—	42,913
Contributed surplus	f	2,262	(185)	2,077
Accumulated other comprehensive loss	g	(1,679)	—	(1,679)
Retained earnings	j	61,853	5,339	67,192
Total equity		\$ 105,349	5,154	110,503
Total liabilities and shareholders' equity		\$ 228,701	(1,156)	227,545

15. TRANSITION TO IFRS (continued)

Reconciliation of the income statement

The income statement for the three month period ended March 31, 2010 and the year ended December 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Note 15	Three months ended March 31, 2010			Year ended December 31, 2010		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue		\$ 25,706	—	25,706	117,399	—	117,399
Operating expenses	f,g	21,314	(186)	21,128	91,829	(404)	91,425
Depreciation and amortization	a,d	876	96	972	3,941	217	4,158
Operating profit		3,516	90	3,606	21,629	187	21,816
Interest expense		764	—	764	3,639	—	3,639
Accretion of other liabilities		190	—	190	683	—	683
Other expense (income)		545	—	545	(437)	—	(437)
Broadcast licence impairment loss	b	—	—	—	1,609	(448)	1,161
Profit before income taxes		2,017	90	2,107	16,135	635	16,770
Provision for income taxes							
Current		690		690	4,234		4,234
Deferred		90	(102)	(12)	1,200	(293)	907
	i	780	(102)	678	5,434	(293)	5,141
Profit for the period		\$ 1,237	192	1,429	10,701	928	11,629
Earnings per share							
Basic		\$ 0.04	—	0.04	0.33	0.03	0.36
Diluted		0.04	—	0.04	0.32	0.02	0.34

Reconciliation of comprehensive income

The statement of comprehensive income for the three month period ended March 31, 2010 and the year ended December 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Note 15	Three months ended March 31, 2010			Year ended December 31, 2010		
		Previous GAAP	Effect of transition to IFRS*	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
Profit for the period		\$ 1,237	192	1,429	10,701	928	11,629
Other comprehensive income							
Cash flow hedges:							
Net movement on interest rate swaps		397	—	397	405	—	405
Income tax expense		(106)	—	(106)	(108)	—	(108)
		291	—	291	297	—	297
Net movement on total equity return swap		(110)	—	(110)	(56)	—	(56)
Income tax recovery		37	—	37	19	—	19
		(73)	—	(73)	(37)	—	(37)
Defined benefit plan actuarial losses	g	—	—	—	—	(819)	(819)
Income tax recovery	i	—	—	—	—	254	254
		—	—	—	—	(565)	(565)
Other comprehensive income		218	—	218	260	(565)	(305)
Comprehensive income		\$ 1,455	192	1,647	10,961	363	11,324

* There was no effect on other comprehensive income as a result of transitioning to IFRS for the three months ended March 31, 2010.

15. TRANSITION TO IFRS (continued)

Reconciliation of the statement of cash flows

The statement of cash flows for the three month period ended March 31, 2010 and the year ended December 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Three months ended March 31, 2010			Year ended December 31, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
Operating Activities						
Profit before provision for income taxes	\$ 2,017	90	2,107	16,135	635	16,770
Provision for income taxes	(780)	780	—	(5,434)	5,434	—
Profit for the period	1,237	—	—	10,701	—	—
Items not involving cash						
Depreciation and amortization	876	96	972	3,941	217	4,158
Deferred income taxes	90	(90)	—	1,200	(1,200)	—
Broadcast licence impairment loss	—	—	—	1,609	(448)	1,161
Share-based compensation plans	76	(119)	(43)	401	(291)	110
Accretion of other liabilities	190	—	190	683	—	683
Unrealized gains on marketable securities	(185)	—	(185)	(1,084)	—	(1,084)
Other	(31)	(30)	(61)	(26)	(116)	(142)
Cash flow from operating activities before changes in non-cash working capital	2,253	727	2,980	17,425	4,231	21,656
Net change in non-cash working capital balances	1,306	587	1,893	5,581	346	5,927
	3,559	1,314	4,873	23,006	4,577	27,583
Interest paid	—	(1,123)	(1,123)	—	(4,131)	(4,131)
Income taxes paid	—	(191)	(191)	—	(446)	(446)
	3,559	—	3,559	23,006	—	23,006
Financing Activities						
Change in bank indebtedness	1,573	—	1,573	1,281	—	1,281
Long-term debt borrowings	—	—	—	12,500	—	12,500
Long-term debt repayments	(1,100)	—	(1,100)	(16,100)	—	(16,100)
Repurchase of capital stock	—	—	—	(9,227)	—	(9,227)
Dividends paid	(3,297)	—	(3,297)	(5,275)	—	(5,275)
Other	—	—	—	(419)	—	(419)
	(2,824)	—	(2,824)	(17,240)	—	(17,240)
Investing Activities						
Property and equipment additions	(504)	—	(504)	(2,949)	—	(2,949)
Canadian Content Development commitment payments	(441)	—	(441)	(2,759)	—	(2,759)
Other	210	—	210	(58)	—	(58)
	(735)	—	(735)	(5,766)	—	(5,766)
Cash, beginning and end of period	\$ —	—	—	—	—	—

Under IFRS, it is common to begin with “profit before provision for income taxes” and under IFRS interest paid and income taxes paid are incorporated into the cash flow statement. Other than these format changes, all adjustments due to the IFRS transition result from the changes described for the statement of financial position and income statement.

15. TRANSITION TO IFRS (continued)

Explanatory notes to transitional IFRS adjustments

IFRS employs a conceptual framework that is similar to GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's GAAP statement of financial position as at January 1, 2010, March 31, 2010 and December 31, 2010, and its income statement, statement of comprehensive income and statement of cash flows for the three months ended March 31, 2010 and the year ended December 31, 2010 have been reconciled to IFRS. The following explanatory notes provide further details of the transitional adjustments and a summary of accounting policies adopted under IFRS:

a. Property and equipment

IAS 16 *Property, Plant and Equipment* requires significant component parts of property and equipment to be depreciated separately. This gives rise to more accurate depreciation expense. Management updated all useful lives to ensure depreciation is measured appropriately. The Company also changed how it depreciates property and equipment from the declining-balance method to the straight-line method. Management believes this change in estimate provides more accurate depreciation expense. This change in estimate resulted in an increase in accumulated depreciation of \$970,000 on transition (this is included in the January 1, 2010 adjustment of \$1,385,000 described below). The Company applied IAS 16 retrospectively which resulted in a restatement of accumulated depreciation. The impact is as follows:

- January 1, 2010 financial position – accumulated depreciation was increased and the net book value of property and equipment was reduced by \$1,385,000, deferred tax liability decreased by \$360,000 and retained earnings reduced by \$1,025,000.
- March 31, 2010 financial position - accumulated depreciation was increased and the net book value of property and equipment was reduced by \$1,485,000, deferred tax liability decreased by \$396,000 and retained earnings reduced by \$1,089,000.
- December 31, 2010 financial position - accumulated depreciation was increased and the net book value of property and equipment was reduced by \$1,619,000 deferred tax liability decreased by \$455,000 and retained earnings reduced by \$1,164,000.
- March 31, 2010 income statement - depreciation expense was increased by \$100,000 and provision for income taxes reduced by \$27,000.
- December 31, 2010 income statement - depreciation expense was increased by \$233,000 and provision for income taxes reduced by \$63,000.

b. Broadcast licences

Application of IAS 38 Intangible Assets

Under GAAP, the Company stopped amortizing its broadcast licences on January 1, 2002 pursuant to revised GAAP accounting standards which were applied prospectively. Under IFRS indefinite life intangible assets are not amortized. Because the Company must adopt IFRS retrospectively, the amount of accumulated amortization of broadcast licences had to be eliminated on the transition date. The impact was as follows:

- January 1, 2010, March 31, 2010 and December 31, 2010 financial position – the Company increased broadcast licences by \$6,815,000, increased deferred tax liability by \$1,819,000 and increased retained earnings by \$4,996,000.

Application of IAS 36 Impairment of Assets

Upon transition, the Company was required to conduct an impairment analysis of its broadcast licences as prescribed by the standards in IAS 36 *Impairment of Assets* as disclosed in note 3. Testing for impairment under IAS 36 differs from GAAP; the significant differences are described in note 15(e). The Company performed its impairment assessment and determined impairments existed on transition and on October 31, 2010.

15. TRANSITION TO IFRS (continued)

b. Broadcast licences (continued)

Application of IAS 36 Impairment of Assets (continued)

The following describes the impact on financial results by applying IAS 36 and IAS 38:

- January 1, 2010 and March 31, 2010 financial position - the Company reduced the carrying value of broadcast licences, due to impairment losses, by \$6,704,000, decreased deferred tax liabilities by \$1,719,000 and decreased retained earnings by \$4,985,000.
- December 31, 2010 financial position – in addition to the above-noted reversal of accumulated amortization and the impairment losses, there were several elements that affected previously reported December 31, 2010 broadcast licence balance; they are presented below:
 - Under GAAP, in the second quarter of 2010, the Company had recognized an impairment loss of \$1,609,000. Because under IFRS this impairment existed as at January 1, 2010, the GAAP impairment loss was eliminated from the comparative income statement under IFRS. This adjustment also increased deferred tax liabilities and retained earnings by \$435,000 and \$1,174,000 respectively.
 - The Company, having chosen October 31 as its annual impairment assessment date, recognized additional impairment losses which reduced broadcast licenses by a further \$1,161,000 which is net of the recovery in certain CGU's totalling \$1,274,000. This adjustment also reduced deferred tax liabilities and retained earnings by \$316,000 and \$772,000 respectively.
- December 31, 2010 income statement – the net effect of the changes described above for the second and fourth quarter had a net impact of reducing the impairment charge by \$448,000 and increasing provision for income taxes by \$121,000.

c. Goodwill

Upon transition, the Company was required to conduct an impairment analysis of goodwill as prescribed by the standards in IAS 36 *Impairment of Assets* as disclosed in note 3. Testing for impairment under IAS 36 differs from GAAP; the significant difference being that future plans cannot be included in the cash flow projections used to determine the fair value of an asset or a CGU. The Company conducted its impairment assessment and concluded that impairment existed on the transition date. The impact was as follows:

- January 1, 2010, March 31, 2010 and December 31, 2010 financial position – the Company recorded a goodwill impairment loss of \$936,000 which also reduced deferred tax liabilities by \$250,000 and retained earnings by \$686,000.

The Company, having chosen October 31 as its annual impairment assessment date, concluded there was no further goodwill impairment.

IAS 36 allows the reversal of impairment losses when certain criteria are met; however, goodwill impairment losses cannot be reversed.

d. Other intangible assets

Upon transition, the Company was required to conduct an impairment analysis of its other intangible assets as prescribed by standards in IAS 36 *Impairment of Assets* as disclosed in note 3. Other assets included a customer list which was deemed to be impaired on January 1, 2010. The results are as follows:

- January 1, 2010 financial position – the Company recorded an impairment loss on its customer list in the amount of \$256,000 which also reduced deferred tax liabilities by \$67,000 and retained earnings by \$189,000.
- March 31, 2010 financial position - other assets were reduced by \$252,000 because of the January 1, 2010 write off of the customer list described above which also reduced deferred tax liabilities by \$67,000 and retained earnings by \$185,000.
- December 31, 2010 financial position - other assets were reduced by \$240,000 because of the January 1, 2010 write off of the customer list described above which also reduced deferred tax liabilities by \$67,000 and retained earnings by \$173,000.

15. TRANSITION TO IFRS (continued)

d. Other intangible assets (continued)

- March 31, 2010 income statement – amortization of intangible assets expense was reduced by \$4,000 and provision for income taxes increased by \$1,000.
- December 31, 2010 income statement - amortization of intangible assets expense was reduced by \$16,000 and provision for income taxes increased by \$4,000.

e. Impairment of non-financial assets

In order to assess impairment of non-financial assets, the Company compares an asset's, or a CGU's, recoverable amount to its carrying amount. As disclosed in notes 15 (b), (c) and (d) and in note 5, the Company concluded that impairment existed on certain of its intangible assets and goodwill. The following is a summary of the significant differences between GAAP and IFRS impairment testing requirements that impacted the results of the Company's impairment conclusions:

Cash-Generating Units ("CGU")

Under GAAP, impairment testing was conducted at the reporting unit level. In reporting units, assets having interdependent net cash flows were aggregated together. IFRS aggregates assets together in a CGU for those having interdependent cash inflows. This posed a difference in how the Company grouped its assets together and has resulted in differences in impairment conclusions.

Determination of the recoverable amount

Under GAAP, the Company performed its recoverability test on broadcast licences by first comparing the fair value (based on projected cash flows) of the asset to its carrying amount. If the fair value was less than the carrying value, an impairment charge equal to the difference was recognized. For all other long-lived assets, the undiscounted cash flows would have been compared to the assets' carrying amounts. Under IFRS, the impairment charge is calculated as the excess of the asset's carrying amount over its recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. The Company's method of determining recoverable amount under GAAP and under IFRS is similar in many ways; however, under IFRS the impact of future plans, like expansions or improvements (such as AM to FM conversions), cannot be included in the projected cash flows to determine the recoverable amount. Under GAAP, the Company could include estimates in its cash flows for future plans.

Reversal of impairment

Under GAAP, an impairment charge may not be reversed. Under IFRS, impairment charge on assets other than goodwill can be reversed if certain criteria are met. The Company's annual impairment test performed as at October 31, 2010 revealed that impairment charges that arose from the January 1, 2010 impairment test aggregating \$1,274,000 could be reversed.

f. Share-based payments

The significant differences between GAAP and IFRS as it relates to share-based payments are as follows:

Recognition of expense

Under GAAP, for share-based awards with graded vesting, the fair value of the award is recognized on a straight-line basis over the time period necessary for the award to vest. Under IFRS, each tranche within an award having graded vesting features is considered a separate grant with a different vesting date and a different fair value.

Cash-settled share-based payments

IFRS requires the measurement of fair value of cash-settled share-based payments to be based on an appropriate option pricing model whereas under GAAP it was measured at intrinsic value. In addition, until SARS are settled the Company must re-measure its SARS obligation at each reporting date with changes in fair value being recorded in net income as SARS vest.

Forfeiture

Under GAAP, forfeiture of awards is recognized as it occurs. Under IFRS, an estimate of the number of awards expected to vest is made on the measurement date. If subsequent information indicates that actual forfeiture is likely to differ from that estimate, an adjustment is made at that time. There was no impact on the Company's figures as a result of this change.

15. TRANSITION TO IFRS (continued)

f. Share-based payments (continued)

Stock appreciation rights (SARS)

IFRS 2 *Share-based Payments* requires that cash-settled share-based payments be measured using an appropriate pricing model and that each tranche within an award be treated as a separate award. Under GAAP, the Company previously measured its obligations for stock appreciation rights using the intrinsic value and treated each tranche within an award as one pooled award. As a result of retrospectively applying IFRS 2, the impact is as follows:

- January 1, 2010 financial position – the Company increased its current liability relating to SARS by \$95,000 (included in accounts payable and accrued liabilities), its long-term SARS liability by \$39,000 (included in other liabilities), increased deferred tax assets by \$43,000 and decreased retained earnings by \$91,000.
- March 31, 2010 financial position – the Company increased its current and non-current SARS liability by \$39,000 and \$3,000, respectively. Deferred tax assets were increased by \$13,000 and retained earnings were decreased by \$29,000.
- December 31, 2010 financial position – the Company increased its current and non-current SARS liability by \$34,000 and \$6,000, respectively. Deferred tax assets increased by \$13,000 and retained earnings decreased by \$27,000.
- March 31, 2010 income statement – SARS compensation expense, included in operating expenses, was decreased by \$92,000 and provision for income taxes increased by \$30,000.
- December 31, 2010 income statement – SARS compensation expense, included in operating expenses, was decreased by \$95,000 and provision for income taxes increased by \$31,000.

Executive stock options

As described above, IFRS 2 requires that each tranche within an award of options be treated separately. Under GAAP, the Company pooled the options and determined the fair value using the average life of the options and recognized the expense on a straight-line basis over the average life. As a result of the retrospective application of IFRS 2 on the Company's options not vested as at January 1, 2010, the following was impacted:

- January 1, 2010 financial position – the Company decreased contributed surplus by \$119,000 which increased retained earnings by an equal amount.
- March 31, 2010 financial position – the Company decreased contributed surplus by \$185,000 which increased retained earnings by an equal amount.
- December 31, 2010 financial position – the Company decreased contributed surplus by \$316,000 which increased retained earnings by an equal amount.
- March 31, 2010 income statement – the Company decreased operating expenses by \$66,000 related to stock option compensation.
- December 31, 2010 income statement – the Company decreased operating expenses by \$197,000 related to stock option compensation.

g. Employee future benefits

The Company elected to apply the IFRS 1 exemption as it relates to its defined benefit pension plan, as described earlier in point (iv) under the heading "IFRS 1 exemptions". The following summarizes the financial impact:

- January 1, 2010 financial position – the Company reduced its accrued pension benefit assets (included in other assets) by \$340,000, increased its accrued pension benefit liability (included in other liabilities) by \$1,726,000, increased its deferred tax assets by \$630,000 and charged retained earnings by \$1,436,000.
- March 31, 2010 financial position – the Company's accrued pension benefit asset was reduced by \$373,000, its accrued pension benefit liability was increased by \$1,665,000 and the related deferred tax assets were increased by \$632,000 and retained earnings decreased by \$1,406,000.

15. TRANSITION TO IFRS (continued)

g. **Employee future benefits** (continued)

- December 31, 2010 financial position – the Company’s accrued pension benefit asset was reduced by \$742,000 and its accrued pension benefit liability was increased by \$2,030,000; \$819,000 of the December 31, 2010 adjustment related to actuarial losses which the Company has elected to charge to equity rather than the income statement. The tax impact was to increase deferred tax assets by \$859,000; \$254,000 of which was to increase OCI deferred tax assets. Finally, retained earnings were reduced by \$1,348,000 and accumulated other comprehensive income (AOCI) by \$565,000.
- March 31, 2010 income statement – the Company’s pension expense was reduced by \$28,000 and provision for income tax increased by \$8,000.
- December 31, 2010 income statement – the Company’s pension expense was reduced by \$113,000 and provision for income tax increased by \$35,000.
- December 31, 2010 statement of comprehensive income – the Company recognized \$819,000 of actuarial losses in OCI and increased the related income tax recovery by \$254,000.

The significant differences between GAAP and IFRS as it relates to employee future benefits are as follows:

IFRS 1 exemption applied

As a result of opting to use the IFRS 1 exemption relating to employee future benefits, all of the Company’s unrecognized cumulative actuarial gains and losses under GAAP were charged to retained earnings on transition date.

Past service costs

Under IAS 19 *Employee Benefits*, all vested past service costs are required to be immediately expensed. Under GAAP, past service costs were expensed over the average remaining service period of the employees. The opening retained earnings adjustment includes the impact of recognizing unrecognized cumulative vested past service costs.

Recognition of actuarial gains and losses

Under GAAP, the Company utilized the corridor method to account for actuarial gains and losses. This method allowed the gains and losses not to be recognized as long as they were less than 10% of the plan assets or of the defined benefit obligation, whichever was higher. While there is a similar deferral method available under IFRS, on transition, the Company elected to adopt the immediate recognition method, an option available in IAS 19, where the Company is able to write off actuarial gains and losses directly to comprehensive income each year which is the reason \$565,000 is charged to AOCI as at December 31, 2010.

Defined Benefit Pension Plan restated figures

The Company maintains a defined benefit plan (“the Basic Plan”) for a small group of the Company’s current and former employees. The plan provides pension benefits based on length of service and the last five years’ of average earnings of each member. The Company measures its accrued benefit obligations and fair value of plan assets for accounting purposes as of December 31 of each year. The most recent actuarial valuation of the pension plan was December 31, 2009.

In addition, the Company has two individual Supplementary Retirement Pension Arrangements (“SRPA’s”) that each pay a pension to a retired executive. These SRPA’s provide benefits over and above that which can be provided under the Income Tax Act, and are thus not pre-funded. Unamortized costs of the SRPA’s are expensed over the expected average remaining life of the participating executives.

15. TRANSITION TO IFRS (continued)

g. Employee future benefits (continued)

The following summarizes the Company's defined benefit plans' restated balances as at December 31, 2010:

<i>(thousands of Canadian dollars)</i>	Basic Plan	SRPA
Accrued benefit obligations		
Balance – beginning of year	\$ 4,105	7,911
Current service cost	80	—
Interest cost	232	411
Benefits paid	(157)	(511)
Actuarial losses in OCI	496	427
Balance – end of year	<u>\$ 4,756</u>	<u>8,238</u>
Plan assets		
Fair value – beginning of year	\$ 5,188	—
Actual return on plan assets	—	—
Expected return on plan assets	358	—
Actuarial gains in OCI	104	—
Employee contributions	4	—
Benefits paid	(157)	—
Fair value – end of year	<u>\$ 5,497</u>	<u>—</u>
Net accrued benefit asset (liability)		
January 1, 2010	\$ 1,083	(7,911)
December 31, 2010	741	(8,238)

Benefit plan expense recognized in profit or loss as operating expenses for the year ended December 31, 2010 is as follows:

<i>(thousands of Canadian dollars)</i>	Basic Plan	SRPA
Current service cost, net of employee contributions	\$ 76	—
Interest cost	232	411
Expected return on plan assets	(358)	—
Defined benefit plan (income) expense	<u>\$ (50)</u>	<u>411</u>

Actuarial gains and losses recognized in other comprehensive income for the year ended December 31, 2010 are as follows:

<i>(thousands of Canadian dollars)</i>	Basic Plan	SRPA
Cumulative actuarial losses at the beginning of the year	\$ —	—
Recognized actuarial losses during the year	392	427
Cumulative actuarial losses at the end of the year	<u>\$ 392</u>	<u>427</u>

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted average assumptions):

	<u>December 31, 2010</u>		<u>January 1, 2010</u>	
	Basic Plan	SRPA	Basic Plan	SRPA
Discount rate for the accrued benefit obligation	4.9%	4.9%	5.7%	5.7%
Expected long-term rate of return on plan assets	7.0%	N/A	7.0%	N/A
Future pension increases	3.0%	1.3%	3.0%	1.3%
Future compensation increases for the accrued benefit obligation	4.0%	4.0%	4.0%	4.0%

15. TRANSITION TO IFRS (continued)

g. Employee future benefits (continued)

Plan assets for the Basic Plan consist of:

	December 31 2010	January 1 2010
Equity funds	63%	60%
Fixed income funds	28%	32%
Money market funds	9%	8%
	100%	100%

The pension plan has no direct investments in Newfoundland Capital Corporation Limited nor any of its affiliates.

h. Deferred tax assets and liabilities

Future income taxes as known under GAAP are entitled deferred taxes under IFRS. Under IFRS, there is no current classification of deferred taxes and therefore the amount previously recorded as current deferred tax assets has been reclassified to non-current deferred tax assets (\$1,173,000, \$1,288,000 and \$793,000 reclassified as non-current deferred tax assets on January 1, 2010, March 31, 2010 and December 31, 2010, respectively).

A significant difference between GAAP and IFRS is that under IFRS, deferred tax assets and liabilities are not recognized on internally-developed intangible assets. Deferred tax assets and liabilities are not recognized for taxable temporary differences where the deferred tax asset or liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. This affects the company's internally-developed broadcasting licences which arise due to the obligation to fund Canadian Content Development. This represented \$22,584,000 of broadcast licence value and \$7,690,000 of remaining CCD obligations as at January 1, 2010.

The company is not restating any prior business combinations on transition. The interpretation of the tax basis will however change and give rise to a change in deferred tax. Under GAAP the tax base for certain intangible asset acquisitions can be increased beyond the related cumulative eligible capital balance. The effect is that there is no future income tax created on intangibles acquired in an asset deal business combination under GAAP. Under IFRS there is no equivalent provision. The Company considered that a sale is the most likely method of reversal for the broadcast license timing difference. In order to determine the deferred tax under the "on sale" basis it was necessary to determine the amount of cumulative eligible capital deductions that have been taken in the past to determine the amount of deferred tax liability that will reverse at the "recapture" rate. This effectively reduced the timing difference on which the deferred tax liability is calculated upon, by \$17,746,000 as at January 1, 2010.

And finally, under IFRS there will be a deferred tax asset related to the accretion interest portion of the Canadian Content Development obligation.

The changes to deferred tax assets and deferred tax liabilities are summarized as follows:

<i>(thousands of Canadian dollars)</i>	Note	January 1, 2010	March 31, 2010	December 31, 2010
Description	15			
Property and equipment	a	\$ (360)	(396)	(455)
Reversal of broadcast licence accumulated amortization	b	1,819	1,819	1,819
Impairment of broadcast licences	b	(1,719)	(1,719)	(1,600)
Impairment of goodwill	c	(250)	(250)	(250)
Impairment of other intangible assets	d	(67)	(67)	(67)
Share-based payments	f	(43)	(13)	(13)
Employee future benefits	g	(630)	(632)	(859)
De-recognition of deferred tax liability on internally-developed intangible assets	h	(6,029)	(6,029)	(6,029)
De-recognition of deferred tax asset arising from CCD obligations		2,162	2,162	1,757
Tax basis and reversal assumptions	h	(4,577)	(4,671)	(4,544)
Net decrease in deferred tax liabilities		\$ (9,694)	(9,796)	(10,241)
Deferred tax asset on actuarial losses recognized in AOCI	g	—	—	254
Net deferred tax impact on retained earnings	j	\$ (9,694)	(9,796)	(9,987)

15. TRANSITION TO IFRS (continued)

h. Deferred tax assets and liabilities (continued)

The significant components of the Company's deferred income tax assets and liabilities are as follows:

<i>(thousands of Canadian dollars)</i>	As at		For the Year Ended December 31, 2010	
	December 31 2010	January 1 2010	Income Statement	OCI
Deferred income tax assets				
Canadian Content Development commitments	\$ 1,051	1,318	267	—
Tax loss carryforwards	904	756	(148)	—
Employee benefit plans	2,308	2,102	48	(254)
Other	650	1,116	377	89
Deferred income tax liabilities				
Property and equipment	(2,678)	(2,515)	163	—
Broadcast licences and goodwill	(15,589)	(15,390)	200	—
Net deferred income tax liability	\$ (13,354)	(12,613)	907	(165)

The net deferred income tax liability is included under the following captions on the consolidated balance sheets:

Deferred income tax assets	\$ 5,022	5,293
Deferred income tax liabilities	(18,376)	(17,906)
	<u>\$ (13,354)</u>	<u>(12,613)</u>

The Company recognizes the benefits of capital and non-capital loss carryforwards as deferred tax assets to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised. As at December 31, 2010, the Company had available loss carryforwards of \$2,746,000. A deferred income tax asset of \$904,000 (2009 – \$756,000) has been recognized in respect of these carryforwards. The available loss carryforwards will expire as follows: \$2,337,000 in 2026 and \$175,000 in 2027 and \$234,000 in 2030.

The Company has not recognized any deferred tax liability for temporary differences associated with investments in subsidiaries on the basis that the Company is able to control the timing of the reversal of such temporary differences and such reversal is not probable in the foreseeable future.

i. Provision for income taxes

The following table summarizes the impact of the transition on the provision for income taxes:

<i>(thousands of Canadian dollars)</i>	Note	March 31 2010	December 31 2010
Description	15		
Depreciation expense	a	\$ (27)	(63)
Impairment of broadcast licences	b	—	121
Amortization	d	1	4
Share-based payments	f	30	31
Employee future benefits	g	8	35
De-recognition of deferred tax expense on internally-developed intangibles	h	(114)	(421)
		<u>\$ (102)</u>	<u>(293)</u>

In addition the amount of income tax recovery related to the defined benefit plan actuarial losses recognized in OCI was \$254,000.

15. TRANSITION TO IFRS (continued)

i. Provision for income taxes (continued)

The reconciliation of income tax attributable to operations computed at the statutory rates to the Company's provision for income taxes for the year ended December 31, 2010 is restated as follows:

(thousands of Canadian dollars, except percentages)

Statutory income tax rate		34.0%
Provision based on the statutory income tax rate applied to profit	\$	5,702
Increase (decrease) due to:		
Subsidiary rate differential		(565)
Non-taxable portion of realized and unrealized capital gains		(64)
Non-deductible stock-based compensation		47
Provincial capital tax and other		95
Deferred income tax expense (recovery) relating to the changes in corporate income tax rates		21
Deferred income tax recovery relating to the origination and reversal of temporary differences		(95)
Provision for income taxes	\$	5,141

Accounting for uncertainty in income tax positions

Under GAAP, benefits or liabilities for uncertain tax positions are determined based on whether it is more likely than not that an uncertain tax position will be sustained upon examination and the amount recorded is based on the single best estimate of the amount to be realized. Under IFRS, the provision for uncertain tax positions is a best estimate of the amount probable to be paid based on a qualitative assessment of all relevant factors. The Company determined that there was no impact on transition to IFRS with respect to the recognition and measurement of its uncertain tax positions.

j. Adjustments to retained earnings

The following table summarizes the increases (decreases) to retained earnings:

	Note	January 1	March 31	December 31
	15	2010	2010	2010
Retained earnings, as stated under GAAP		\$ 60,616	61,853	60,321
Property and equipment	a	(1,385)	(1,485)	(1,619)
Broadcast licences - reversal of accumulated amortization	b	6,815	6,815	6,815
Broadcast licences - impairment	b	(6,704)	(6,704)	(6,256)
Goodwill	c	(936)	(936)	(936)
Other intangible asset	d	(256)	(252)	(240)
Share-based payments	f	(15)	143	277
Defined benefit plans	g	(2,066)	(2,038)	(1,953)
Net deferred tax liabilities	h	9,694	9,796	9,987
Total adjustment to retained earnings on transition to IFRS		5,147	5,339	6,075
Retained earnings, as restated under IFRS		\$ 65,763	67,192	66,396

Transfer agent and registrar

The transfer agent and registrar for the shares of the Company is the CIBC Mellon 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@cibcmellon.com or write to:

Newfoundland Capital Corporation

c/o CIBC Mellon Trust Company

P.O. Box 7010

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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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