

# Newfoundland Capital Corporation Limited

## First Quarter 2014

Period Ended March 31 (unaudited)



Dartmouth, N.S. – May 8, 2014, Newfoundland Capital Corporation Limited (“Company”) today announces its financial results for the first quarter ending March 31, 2014.

### Highlights

- **Revenue** of \$28.5 million was \$0.3 million or 1% lower than last year. The decrease was primarily due to lower national advertising revenue in the Broadcasting segment.
- **Earnings before interest, taxes, depreciation and amortization (“EBITDA”<sup>(1)</sup>)** of \$4.5 million in the quarter were \$0.6 million or 12% lower than last year. The decrease was primarily due to the lower revenue in the Broadcasting segment.
- **The loss for the period** was \$3.2 million compared to last year’s profit of \$2.1 million due to acquisition-related costs of \$8.4 million related to the Toronto and Vancouver business acquisition. Excluding these costs, profit for the quarter would have been \$0.8 million higher than last year primarily due to mark-to-market unrealized gains in the quarter.

### Significant events

- In March, the Company completed the most significant business acquisition in its history. Two radio stations in Toronto and three radio stations in Vancouver were acquired from Bell Media for \$111.9 million.
- In March, the Canadian Radio-television and Telecommunications Commission (“CRTC”) approved the acquisition of CHNI-FM in Saint John, New Brunswick. This transaction is expected to close later this year.

“We are very pleased to have completed the Toronto and Vancouver business acquisition. These are the two largest radio advertising markets in the country and our primary focus is to effectively integrate these new operations. The addition of these licences is transformational, making us a true coast-to-coast broadcaster”, commented Rob Steele, President and Chief Executive Officer. “At the same time we will continue to drive revenue, both locally and nationally, as aggressively as possible, to ensure the continued success of our organic operations.”

### Financial Highlights – First Quarter

(thousands of dollars except share information)

	2014	2013
Revenue	\$ 28,463	28,766
EBITDA <sup>(1)</sup>	4,537	5,175
Profit (loss) for the period	(3,204)	2,095
Earnings (loss) per share – basic	(0.11)	0.07
Earnings (loss) per share – diluted	(0.11)	0.07
Share price, NCC.A (closing)	9.01	9.40
Weighted average number of shares outstanding (in thousands)	28,144	29,183
Total assets	355,080	232,134
Long-term debt	146,968	50,952
Shareholders’ equity	130,543	121,465

(1) Refer to page 10 “Non-IFRS Accounting Measure”

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The purpose of the Management's Discussion and Analysis ("MD&A") is to provide readers with additional complementary information regarding the financial condition and results of operations for Newfoundland Capital Corporation Limited (the "Company") and should be read in conjunction with the unaudited condensed interim consolidated financial statements ("interim financial statements") and related notes for the periods ended March 31, 2014 and 2013 prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the annual audited consolidated financial statements and related notes prepared in accordance with IFRS and the MD&A contained in the Company's 2013 Annual Report. The Company's first quarter 2014 interim financial statements and the accompanying notes have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described therein. These interim financial statements include the accounts of the Company and other entities in which the Company controls in accordance with IAS 27 "Consolidated and Separate Financial Statements" and are reported in Canadian dollars. These documents along with the Company's Annual Information Form, its Management Proxy Circular dated March 3, 2014 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](http://www.sedar.com). This information is also available on the Company's website at [www.ncc.ca](http://www.ncc.ca).*

*The Board of Directors, upon recommendation of the Audit and Governance Committee, approved the content of this MD&A on May 8, 2014. Disclosure contained in this document is current to this date, unless otherwise stated.*

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

## CORPORATE PROFILE

Newfoundland Capital Corporation Limited owns and operates Newcap Radio, which is one of Canada's leading radio broadcasters with 95 licences across Canada. The Company reaches millions of listeners each week through a variety of formats and is a recognized industry leader in radio programming, sales and networking. It is Canada's largest pure-play radio company, employing approximately 1,000 of the best radio professionals across the country. The Company's portfolio of radio assets includes 80 FM and 15 AM licences which can be heard throughout Canada. Most of 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 and add new licences through business and licence acquisitions and through the Canadian Radio-television and Telecommunications Commission ("CRTC") licence application process.

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

## CORPORATE DEVELOPMENTS

The following is a review of the key corporate developments which should be considered when reviewing the "Consolidated Financial Review" section. The results of the acquired or launched stations have been included in the interim financial statements since the respective acquisition and launch dates.

## 2014 Developments:

- January – received CRTC approval for a new FM licence in Fox Creek, Alberta (a repeater of CFXW-FM Whitecourt, Alberta).
- February – received CRTC approval for a new FM licence in Hinton, AB.
- March – received CRTC approval to acquire CHNI-FM in Saint John, New Brunswick from Rogers Broadcasting Ltd. This transaction is expected to close later this year.
- March – received CRTC approval to acquire five radio stations located in Toronto, Ontario and Vancouver, British Columbia. This business acquisition closed on March 31, 2014 for cash consideration of \$111.9 million with working capital adjustments expected to be finalized by June 30, 2014.

## 2013 Developments:

- January – completed the acquisition of CKCH-FM, The Eagle, in Sydney, Nova Scotia.
- January – received CRTC approval to convert the Port Au Choix, Newfoundland and Labrador AM station to FM. It was launched in late April.
- March – re-branded CFRK-FM in Fredericton as The New Hot 92.3.
- April – received CRTC approval to convert the Wainwright, Alberta AM station to FM. This was launched in September 2013.
- April – launched 95.9 Sun FM in Miramichi, New Brunswick with a Top 40 format.
- May – received CRTC approval for a new FM licence in Wabasca, Alberta (a repeater of CHSL-FM in Slave Lake, Alberta) and a new FM licence to serve Clarendville, Newfoundland and Labrador. The new FM in Wabasca was launched in October 2013 while the new FM in Clarendville will be launched in 2014.
- June – launched the Company's second FM in Fredericton, New Brunswick. Up! 93.1 features a Classic Hits format.
- December – finalized the sale of CHFT-FM in Fort McMurray, Alberta for cash proceeds of \$5.0 million.

## CONSOLIDATED FINANCIAL REVIEW

In 2013, the Company disposed of its net assets in Fort McMurray, Alberta. The results from this discontinued operation have been excluded from the 2013 figures.

### Consolidated Financial Results of Operations

<i>(thousands of dollars, except percentages and per share data)</i>	<b>March 31, 2014</b>	March 31, 2013	<b>% Change</b>
Revenue	\$ 28,463	28,766	(1%)
Operating expenses	(23,926)	(23,591)	1%
<b>EBITDA<sup>(1)</sup></b>	<b>4,537</b>	5,175	(12%)
Depreciation, amortization and accretion	(1,081)	(1,069)	1%
Interest expense	(881)	(986)	(11%)
Other income (expense)	(6,920)	91	—
<b>Profit (loss) from continuing operations before provision for income taxes</b>	<b>(4,345)</b>	3,211	—
Provision for income tax (expense) recovery	1,141	(1,089)	—
Profit (loss) from continuing operations	(3,204)	2,122	—
Loss from discontinued operations	—	(27)	—
<b>Profit (loss) for the period</b>	<b>\$ (3,204)</b>	2,095	—
<b>Earnings (loss) per share from continuing operations</b>			
– Basic	\$ (0.11)	0.07	—
– Diluted	(0.11)	0.07	—
<b>Earnings (loss) per share</b>			
– Basic	(0.11)	0.07	—
– Diluted	(0.11)	0.07	—

(1) EBITDA – Earnings before interest, taxes, depreciation and amortization – refer to page 10 “Non-IFRS Accounting Measure”

### Revenue

In the quarter, consolidated revenue of \$28.5 million was \$0.3 million or 1% lower than last year due to lower revenue in the Broadcasting segment.

### Operating expenses

Consolidated operating expenses of \$23.9 million were \$0.3 million or 1% higher than the first quarter last year.

**EBITDA**

Consolidated EBITDA in the quarter of \$4.5 million was \$0.6 million or 12% lower than last year. The decrease was due to the lower revenue combined with higher operating expenses.

For a more detailed discussion on revenue, operating expenses and EBITDA, refer to the following section.

**Depreciation, amortization and accretion of other liabilities**

In the quarter, depreciation and amortization expense was slightly higher than 2013 because of a higher asset base. 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.

**Interest expense**

Interest expense in the first quarter was \$0.9 million or 11% lower than the prior year due to lower rates compared to the same time in 2013. The Company’s interest expense will increase in the future as a result of the debt level required to finance the Toronto and Vancouver business acquisition and because the Company’s effective interest rate has increased by approximately 1% due to the higher debt levels.

**Other income (expense)**

Other income (expense) consists of gains and losses, realized and unrealized, on the Company’s marketable securities and items that are not indicative of the Company’s core operating results, and not used in the evaluation of the consolidated Company’s performance such as acquisition-related costs and impairment charges. Other (expense) was \$6.9 million in 2014 compared to other income of \$0.1 million last year. Because of the Toronto and Vancouver business transaction, the Company incurred acquisition-related costs of \$8.4 million in the first quarter of 2014; the bulk of which related to \$6.2 million of CCD commitments required to complete the acquisition (payable over seven years). In 2013, \$0.2 million of acquisition-related costs were recorded due to the acquisition in Sydney. The Company also recognized mark-to-market unrealized gains of \$1.4 million in 2014 compared to last year’s \$0.2 million. Refer to note 4 in the interim financial statements for additional details on the acquisition-related costs and note 11(a) for details on mark-to-market gains.

**Provision for income taxes**

There was an income tax recovery in the first quarter because of the loss incurred. The effective income tax rate was 26% in the quarter, slightly lower than the statutory income tax rate of 31% mainly because the unrealized gains are taxed at a lower rate.

**Discontinued operations**

In 2013, the Company disposed of its net assets associated with the FM radio station located in Fort McMurray, Alberta and therefore, the financial results of operations from this component were treated as discontinued operations in the comparative figures. Refer to note 5 of the interim financial statements for additional details on discontinued operations.

**Profit (loss) for the period**

First quarter loss was \$3.2 million compared to last year’s profit of \$2.1 million. The Company incurred acquisition-related costs of \$8.4 million related to the Toronto and Vancouver business acquisition. Excluding these costs, profit for the quarter would have been \$0.8 million higher than last year primarily due to mark-to-market unrealized gains in the quarter.

**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 change in fair value of the interest rate swap cash flow hedge is recorded in OCI. The after-tax loss included in OCI in the first quarter of 2014 was less than \$0.1 million (2013 – gain of \$0.2 million).

**FINANCIAL REVIEW BY SEGMENT**

Consolidated financial figures include the results of operations of the Company’s two separately reported segments – Broadcasting and Corporate and Other. The Company provides information about segment revenue and segment EBITDA because these financial measures are used by its key decision makers in making operating decisions and evaluating performance. For additional information about the Company’s segmented information, see note 14 of the Company’s interim financial statements.

**Broadcasting Segment**

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

Cash-generating units (“CGU’s”) within the Broadcasting segment are managed and evaluated based on their revenue and EBITDA. The following summarizes the key operating results of the Broadcasting segment. The results from discontinued operations have been excluded from the 2013 figures.

## Broadcasting Financial Results of Operations

<i>(thousands of dollars, except percentages)</i>	March 31, 2014	March 31, 2013	% Change
Revenue	\$ 27,656	27,998	(1%)
Operating expenses	(20,922)	(20,784)	1%
EBITDA	\$ 6,734	7,214	(7%)
EBITDA margin	24%	26%	(2%)

### Revenue

Broadcasting revenue in the quarter of \$27.7 million was \$0.3 million or 1% lower than last year. Organic (same-station) revenue declined by 2% in the quarter while incremental revenue from the stations launched in 2013 in New Brunswick contributed positively by 1%. The overall industry growth rate for the three months ended March 31, 2014 was flat.

National advertising declined 9% despite the fact that the Company's radio stations are highly rated in many markets. Local sales, where the Company benefits from closer connections with clients, were up year-over-year by 2%.

### Operating expenses

For the quarter, broadcasting operating expenses were \$20.9 million, up \$0.1 million or 1% over last year. Because revenue has been lower than expected, cost control measures such as reducing discretionary spending have been put in place to lessen the impact on EBITDA.

### EBITDA

First quarter broadcasting EBITDA of \$6.7 million was \$0.5 million or 7% lower than 2013 primarily due to lower revenue. The reduced revenue has also impacted EBITDA margins in the quarter.

## 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, 2014	March 31, 2013	% Change
Revenue	\$ 807	768	5%
Operating expenses	(3,004)	(2,807)	7%
EBITDA	\$ (2,197)	(2,039)	(8%)

### Revenue

Revenue in the first quarter of \$0.8 million was 5% higher than last year due to increased hotel revenue.

### Operating expenses

Operating expenses of \$3.0 million were \$0.2 million or 7% higher than the first quarter last year primarily attributable to inflation.

### EBITDA

EBITDA was lower than the same period last year because of higher operating expenses.

## BUSINESS ACQUISITIONS

On March 31, 2014, the Company completed the acquisition of the Toronto and Vancouver radio operations for \$111.9 million. The purchase price allocation is subject to change because of working capital adjustments that will be known by June 30, 2014. The purchase price was allocated to the net assets acquired on the basis of the estimated fair values on the acquisition date using the acquisition method of accounting. Currently, the purchase price has been allocated as follows: \$110.7 million to broadcast licences, \$8.0 million to goodwill, \$0.8 million to property and equipment, \$3.5 million of deferred tax liabilities, \$3.2 million of assumed CCD commitments and \$0.9 million of accrued liabilities.

Revenue and profit of the acquired stations for the first quarter approximated \$7.5 million and \$1.1 million respectively. Pro-forma revenue including the results of the acquired stations, as though the acquisition date for the transaction had been January 1, 2014, would have been approximately \$36.0 million. Pro-forma loss, on the same basis, excluding interest and accretion expense, would have been \$2.2 million. For the twelve month period ended December 31, 2013, the trailing revenues of the five stations were \$37.8 million.

As part of the purchase agreement, the Company did not retain the station name or the morning show at CKZZ-FM in Vancouver. The Company has recruited a new morning show and has launched an aggressive marketing campaign to re-brand the station to Z95.3.

Refer to note 4 of the interim financial statements for more details on this business acquisition.

#### SELECTED QUARTERLY FINANCIAL INFORMATION

The Company's revenue and operating results vary, depending on the quarter. The first quarter is a period of lower retail spending and as a result, advertising revenue is lower. The fourth quarter tends to be a period of higher retail spending. In the first quarter of 2014, the Company incurred significant acquisition-related costs of \$8.4 million arising from the Toronto and Vancouver business acquisition (refer to note 4 of the interim financial statements). Profit in the fourth quarter of 2013 benefited from a \$3.8 million gain on disposal of the Fort McMurray net assets. Third quarter profit for 2013 was positively impacted by a reduction in provision for income taxes. Positively impacting the 2012 fourth quarter profit was the reversal of a previous broadcast licence impairment charge. The third quarter of 2012 was adversely impacted by impairment charges of \$7.5 million. The results from discontinued operations have been excluded from the comparative figures for revenue.

<i>(thousands of Canadian dollars except per share data)</i>	<b>2014</b> <b>1<sup>st</sup></b>	2013				2012		
		4 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	4 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup>
Revenue	\$ <b>28,463</b>	35,649	32,749	35,434	28,765	35,099	33,250	33,798
Profit (loss) for the period	<b>(3,204)</b>	10,295	8,656	5,972	2,095	7,405	(1,061)	3,759
Earnings per share								
– Basic	<b>(0.11)</b>	0.37	0.30	0.20	0.07	0.25	(0.04)	0.13
– Diluted	<b>(0.11)</b>	0.35	0.29	0.19	0.07	0.24	(0.04)	0.12

#### *Selected cash flow information – three months ended March 31, 2014*

In the quarter, cash flows from operating activities of \$1.2 million combined with net debt borrowings of \$114.6 million were used to finance the \$111.9 million business acquisition of broadcasting operations in Toronto and Vancouver, payment of dividends of \$2.5 million and property and equipment purchases of \$1.1 million.

#### *Selected cash flow information – three months ended March 31, 2013*

In the quarter, cash flows from operating activities of \$2.1 million combined with net borrowings of \$3.9 million were used to purchase broadcasting assets in Nova Scotia for \$2.0 million, purchase property and equipment for \$1.0 million and pay dividends of \$2.6 million.

#### *Capital expenditures and capital budget*

The capital expenditures for 2014 are expected to total approximately \$9.5 million. The major planned expenditures include the capital costs associated with the acquired licences in Toronto, Vancouver and Saint John as well as general improvements and upgrades. The Company continuously upgrades its broadcast equipment to improve operating efficiencies.

#### FINANCIAL CONDITION

##### *Total assets*

Assets of \$355.1 million were \$119.5 million higher than December 31, 2013 due to the Toronto and Vancouver acquisition.

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

As at March 31, 2014, the Company had \$2.6 million of current bank indebtedness and \$156.5 million of long-term debt, of which \$8.4 million was current. The capital structure consisted of 37% equity (\$130.5 million) and 63% liabilities (\$224.5 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 facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Management deems its liquidity risk to be low and this is explained in the paragraphs that follow.

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

The Company has two syndicated credit facilities. The first one is a \$90.0 million revolving credit facility. This type of facility provides flexibility with no scheduled repayment terms. The Company also has a \$90.0 million non-revolving credit facility that was drawn on March 31, 2014 to finance the Toronto and Vancouver business acquisition. The facility is being amortized over eight years and is repayable in quarterly instalments of \$2.8 million. The first quarterly instalment will be made in September 2014. The maturity date for both credit facilities is March 2017.

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

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

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

The Company does not maintain any significant positive cash balances; instead it uses the vast majority of its positive cash balances to reduce debt and minimize interest expense. As a result, the Company nets its deposits in banks with bank indebtedness. The fact that the Company does not have positive cash positions on its balance sheet does not pose an increase to its liquidity risk because the Company generates cash from operations and, as part of its credit facility, it has a \$5.0 million current operating credit line to fund any current obligations and it can also access any unused capacity in its revolving credit facility to fund obligations.

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

As at March 31, 2014, the Company's working capital was \$1.5 million. The cash from current receivables will be sufficient to cover the Company's current obligations to its suppliers and employees and in combination with ongoing cash from operations and the availability of cash from its revolving credit facility, the Company will be able to meet all other current cash requirements as they arise. If cash inflows from customers are not sufficient to cover current obligations, because of timing issues, the Company has access to 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, CCD 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**

Since the publication of the 2013 Annual MD&A (dated March 3, 2014), the Company's commitments and contractual obligations have increased as follows:

- \$113.0 million increase in long-term debt (this amount includes the current portion of long-term debt); and
- \$11.2 million increase in CCD commitments (undiscounted).

These increases were directly attributable to the Toronto and Vancouver business acquisition.

## **SHARE CAPITAL**

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

The weighted average number of shares outstanding at March 31, 2014 was 28,144,000 (2013 – 29,183,000). As of this date, there are 24,385,648 Class A Subordinate Voting Shares ("Class A Shares") and 3,769,322 Class B Common Shares ("Class B Shares") outstanding.

### ***Dividends***

Dividends of \$0.09 per share were declared in December to all shareholders of record as of December 31, 2013. Dividends of \$2.5 million were paid January 31, 2014.

## **SHARE-BASED COMPENSATION PLANS**

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

A total of 2,347,500 stock options are outstanding pursuant to the Company's executive stock option plan. During the quarter, no options were granted by the Company (2013 – Nil). 107,500 options were exercised during the first quarter using the cashless exercise option resulting in 26,767 shares issued from treasury (2013 – 60,000 options exercised with 43,724 shares issued from treasury). Compensation expense related to the stock option plan in the quarter was less than \$0.1 million (2013 – less than \$0.1 million).

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

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 April 2014 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 60<sup>th</sup> day following the 5<sup>th</sup> anniversary of the grant date. As at March 31, 2014, 50,000 rights were outstanding.

No SARS were granted in the first quarters of 2014 or 2013. 52,500 SARS were exercised in the first three months of 2014 for cash proceeds of \$0.2 million (2013 – 15,000 SARS exercised for cash proceeds of \$0.1 million). Compensation expense in the first quarter was less than \$0.1 million (2013 – \$0.1 million). The total obligation for SARS compensation was \$0.1 million (2013 – \$0.5 million).

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

For more detailed disclosures about derivative financial instruments and financial risk management, refer to note 11 of the interim financial statements.

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

The Company has in place an interest rate swap agreement with a Canadian Chartered Bank to hedge its exposure to fluctuating interest rates on its long-term debt. The swap has a notional amount of \$45,000,000 and expires in May 2017.

The swap agreement involves the exchange of the three-month bankers’ acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and recorded as an increase or decrease to interest expense. A 0.5% change in the projected floating interest rates during the remaining term of the hedge agreement would have impacted the fair value of the interest rate swap by approximately \$0.5 million which would have flowed through profit since the swap was ineffective for accounting purposes as at March 31, 2014.

As at March 31, 2014, the aggregate fair value payable of the swap agreement was \$0.7 million (2013 – \$1.1 million). The net change in OCI for the first quarter of 2014 was a loss of less than \$0.1 million (2013 – gain of \$0.2 million).

### ***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.

In July 2013, the swap expired and any remaining notional SARS were unwound. As a result there is no longer any balance receivable related to the equity total return swap. In 2013 for the first quarter, there was a current receivable balance of \$0.8 million and realized before-tax gains of \$0.1 million were recorded in the income statements.

### ***Market risk***

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

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

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

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

### ***Capital Management***

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

### **ADOPTION OF NEW ACCOUNTING STANDARDS**

#### ***IFRIC 21 Levies***

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not have an impact on the Company's financial position or performance.

### **FUTURE ACCOUNTING STANDARDS**

#### ***IFRS 9 Financial Instruments***

IFRS 9, as issued in 2010, reflects the first phase of the International Accounting Standard Board's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013. In November 2013, Chapter 6 of IFRS 9 on hedge accounting was published. At the same time, Chapter 7, containing the effective date and transition provisions was amended to remove the mandatory effective date of IFRS 9. This was intended to provide sufficient time for preparers to make the transition to the new requirements. The Company may still choose to apply IFRS 9 immediately, but is not required to do so.

### **CRITICAL ACCOUNTING ESTIMATES**

There has been no substantial change in the Company's critical accounting estimates since the publication of the 2013 Annual MD&A dated March 3, 2014.

### **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 2013 Annual MD&A dated March 3, 2014.

### **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, 2014 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

### **OUTLOOK**

Broadcasting revenue to-date in 2014 has been below expectations, largely due to declines in national revenue. Locally, revenue is trending positive.

Because revenue has declined, the Company is lessening the impact on EBITDA by controlling discretionary costs.

The integration of the Toronto and Vancouver stations is ongoing. Management is focusing their efforts on making the integration as efficient as possible while also managing ongoing organic operations.

The Company employs some of the best, most talented individuals in the industry. Their efforts are what drive continuous results. The Company is committed to being actively involved in the communities where it operates and in maintaining the relationships formed with advertisers and listeners alike.

### **Non-IFRS Accounting Measure**

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

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

<i>(thousands of Canadian dollars)</i>	<i>Three months ended</i>	
	<i>March 31</i>	
	<b>2014</b>	<b>2013</b>
<i>Profit (loss) for the period from continuing operations</i>	<b>\$ (3,204)</b>	2,122
<i>Provision for income tax expense (recovery)</i>	<b>(1,141)</b>	1,089
<i>Other (income) expense</i>	<b>6,920</b>	(91)
<i>Interest expense</i>	<b>881</b>	986
<i>Depreciation, amortization and accretion of other liabilities</i>	<b>1,081</b>	1,069
<b>EBITDA</b>	<b>\$ 4,537</b>	5,175

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

**Newfoundland Capital Corporation Limited**

**Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the three months ended March 31, 2014 and 2013**

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

The accompanying unaudited condensed interim consolidated financial statements (“interim financial statements”) of the Company for the three months ended March 31, 2014 and 2013 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company’s management.

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

Dated this 8th day of May, 2014

## Interim Condensed Consolidated Statements of Financial Position

(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	March 31 2014	December 31 2013
<b>Assets</b>			
<b>Current assets</b>			
Marketable securities	11(a)	\$ 5,005	3,595
Receivables	11	23,381	27,995
Prepaid expenses		2,933	915
<i>Total current assets</i>		<u>31,319</u>	32,505
<b>Non-current assets</b>			
Property and equipment	4	36,487	36,460
Other assets		1,653	1,622
Broadcast licences	4	265,168	154,481
Goodwill	4	15,466	7,422
Deferred income tax assets		4,987	3,115
<i>Total non-current assets</i>		<u>323,761</u>	203,100
<b>Total assets</b>		<u>\$ 355,080</u>	235,605
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Bank indebtedness		\$ 2,592	998
Accounts payable and accrued liabilities		15,869	16,496
Dividends payable		—	2,532
Income taxes payable		2,950	3,745
Current portion of long-term debt	6	8,438	—
<i>Total current liabilities</i>		<u>29,849</u>	23,771
<b>Non-current liabilities</b>			
Long-term debt	6	146,968	42,642
Other liabilities	4,11(b)	18,960	10,626
Deferred income tax liabilities	4	28,760	24,781
<i>Total non-current liabilities</i>		<u>194,688</u>	78,049
<b>Total liabilities</b>		<u>224,537</u>	101,820
<b>Shareholders' equity</b>		<u>130,543</u>	133,785
<b>Total liabilities and shareholders' equity</b>		<u>\$ 355,080</u>	235,605

*Commitment (note 13)*

*See accompanying notes to the interim financial statements*

## Interim Condensed Consolidated Income Statements

(unaudited)

<i>(thousands of Canadian dollars, except per share data)</i>	Notes	Three months ended March 31	
		2014	2013
Revenue		\$ 28,463	28,766
Operating expenses		(23,926)	(23,591)
Depreciation, amortization and accretion of other liabilities		(1,081)	(1,069)
Interest expense		(881)	(986)
Other income (expense)	4, 11(a)	(6,920)	91
<b>Profit (loss) from continuing operations before provision for income taxes</b>		<b>(4,345)</b>	3,211
Provision for income tax (expense) recovery			
Current		(251)	(1,062)
Deferred		1,392	(27)
		1,141	(1,089)
<b>Profit (loss) from continuing operations</b>		<b>(3,204)</b>	2,122
Loss from discontinued operations	5	—	(27)
<b>Profit (loss) for the period</b>		<b>\$ (3,204)</b>	2,095
<b>Earnings (loss) per share from continuing operations</b>	12		
– Basic		\$ (0.11)	0.07
– Diluted		(0.11)	0.07
<b>Earnings (loss) per share</b>	12		
– Basic		\$ (0.11)	0.07
– Diluted		(0.11)	0.07

See accompanying notes to the interim financial statements

## Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Three months ended March 31	
		2014	2013
<b>Profit (loss) for the period</b>		<b>\$ (3,204)</b>	2,095
<b>Other comprehensive income (loss):</b>			
Cash flow hedges:			
Net movement on interest rate swaps	11(b)	(61)	306
Income tax recovery (expense)		16	(84)
<b>Other comprehensive income (loss) that will be reclassified to profit and loss in subsequent periods</b>		<b>(45)</b>	222
<b>Comprehensive income (loss)</b>		<b>\$ (3,249)</b>	2,317

See accompanying notes to the interim financial statements

## Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

<i>(thousands of Canadian dollars)</i>	Issued share capital (note 7)	Contributed surplus (note 8)	Accumulated other comprehensive income	Retained earnings	Total
Balance at January 1, 2014	\$ 36,495	2,680	107	94,503	133,785
Loss for the period	—	—	—	(3,204)	(3,204)
Other comprehensive loss	—	—	(45)	—	(45)
Total comprehensive loss	—	—	(45)	(3,204)	(3,249)
Exercise of stock options	101	(101)	—	—	—
Executive stock option compensation expense	—	7	—	—	7
<b>Balance at March 31, 2014</b>	<b>\$ 36,596</b>	<b>2,586</b>	<b>62</b>	<b>91,299</b>	<b>130,543</b>

See accompanying notes to the interim financial statements

<i>(thousands of Canadian dollars)</i>	Issued share capital (note 7)	Contributed surplus (note 8)	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2013	\$ 38,079	2,614	(1,630)	80,065	119,128
Profit for the period	—	—	—	2,095	2,095
Other comprehensive income	—	—	222	—	222
Total comprehensive income	—	—	222	2,095	2,317
Executive stock option compensation expense	—	20	—	—	20
<b>Balance at March 31, 2013</b>	<b>\$ 38,079</b>	<b>2,634</b>	<b>(1,408)</b>	<b>82,160</b>	<b>121,465</b>

See accompanying notes to the interim financial statements

## Interim Condensed Consolidated Statements of Cash Flows

(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Three months ended March 31	
		2014	2013
<b>Operating Activities</b>			
Profit (loss) from continuing operations before provision for income taxes		\$ (4,345)	3,211
Items not involving cash			
Depreciation, amortization and accretion of other liabilities		1,081	1,069
Share-based compensation expense	9	20	95
Unrealized gains on marketable securities	11(a)	(1,389)	(217)
Canadian Content Development commitments arising from business acquisitions not yet paid	4	6,243	191
Other		(80)	34
		<u>1,530</u>	<u>4,383</u>
Net change in non-cash working capital from continuing operations		<u>2,393</u>	<u>1,420</u>
Cash generated from continuing operations		3,923	5,803
Interest paid		(1,671)	(676)
Income taxes paid		(1,049)	(3,041)
Net cash flow from continuing operations		1,203	2,086
Cash flow from discontinued operations		—	(12)
Net cash flows from operating activities		<u>1,203</u>	<u>2,074</u>
<b>Financing Activities</b>			
Change in bank indebtedness		1,594	880
Long-term debt borrowings	6	113,000	3,000
Dividends paid	7	(2,532)	(2,625)
		<u>112,062</u>	<u>1,255</u>
<b>Investing Activities</b>			
Business acquisitions	4	(111,922)	(2,040)
Property and equipment additions		(1,101)	(1,002)
Canadian Content Development commitment payments		(220)	(262)
Other		(22)	(25)
		<u>(113,265)</u>	<u>(3,329)</u>
<b>Cash, beginning and end of period</b>		\$ —	—

See accompanying notes to the interim financial statements

**1. REPORTING ENTITY**

Newfoundland Capital Corporation Limited (the “Company”) is incorporated in Nova Scotia, Canada. The address of the Company’s registered office of business is 745 Windmill Road, Dartmouth, Nova Scotia, B3B 1C2. The Company’s primary activity is radio broadcasting. These unaudited condensed interim consolidated financial statements (“interim financial statements”) comprise the financial position of the Company and its subsidiaries, together referred to as the “Company”. The Company’s revenue is derived primarily from the sale of advertising airtime which is subject to seasonal fluctuations. The first quarter of the year is generally a period of lower retail spending. As a result, revenue and profit are generally lower than the other quarters.

These interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors on May 8, 2014.

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

These interim financial statements have been prepared in accordance with International Accounting Standards 34 (“IAS”), Interim Financial Reporting, and accordingly, they do not include all of the information and disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements. The same accounting policies and methods of computation were followed in the preparation of these interim financial statements as were followed in the preparation of the annual financial statements for the year ended December 31, 2013. Accordingly, these interim financial statements should be read together with the annual financial statements for the year ended December 31, 2013 prepared in accordance with IFRS.

These interim financial statements have been prepared in accordance with those IFRS standards and IFRS Interpretations Committee (“IFRIC”) interpretations issued and effective or issued and early adopted as at the date of these statements (May 8, 2014). All amounts are expressed in Canadian dollars, rounded to the nearest thousand (unless otherwise specified). The functional currency of the Company and each of its subsidiaries is the Canadian dollar.

**b) Critical Accounting Estimates and Assumptions**

There has been no substantial change in the Company’s critical accounting estimates and assumptions since the publication of the annual financial statements for the year ended December 31, 2013.

**3. ACCOUNTING STANDARDS ADOPTED AND FUTURE ACCOUNTING STANDARDS**

***IFRIC 21 Levies – adopted accounting standard***

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not have an impact on the Company’s financial position or performance.

***IFRS 9 Financial Instruments – future accounting standard***

IFRS 9, as issued in 2010, reflects the first phase of the International Accounting Standard Board’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013. In November 2013, Chapter 6 of IFRS 9 on hedge accounting was published. At the same time, Chapter 7, containing the effective date and transition provisions was amended to remove the mandatory effective date of IFRS 9. This was intended to provide sufficient time for preparers to make the transition to the new requirements. The Company may still choose to apply IFRS 9 immediately, but is not required to do so.

**4. BUSINESS ACQUISITIONS**

**Business Acquisition – 2014**

On March 31, 2014, the Company acquired the shares of companies that held the radio broadcasting assets of two radio stations in Toronto, Ontario and three radio stations in Vancouver, British Columbia for total cash consideration of \$111,922,000. Because this was a share deal, the Company did not receive full tax basis on the assets acquired and this resulted in the recognition of deferred tax liabilities as set out in the table below.

4. BUSINESS ACQUISITIONS (continued)

**Business Acquisition – 2014** (continued)

The major assets acquired included broadcast licences, goodwill and capital assets while certain accrued liabilities along with Canadian Content Development (“CCD”) obligations were assumed. No trade receivables or trade payables were acquired. Goodwill arose as a result of the combination of sales forces and the cost synergies that will benefit the Company by combining the operations of the two stations in Toronto and by combining the operations of the three stations in Vancouver. The accounting value of goodwill in the table below does not have any deferred tax liability associated with it because it is not deductible for tax purposes.

The Company completed this transaction to increase the value of its assets and profitability and also to have a presence in these large markets which offer great growth potential. The purchase was financed by the Company’s credit facilities which are described in note 6.

The purchase price was allocated to the net assets acquired on the basis of the estimated fair values on the acquisition date using the acquisition method of accounting. The purchase price allocation has not yet been finalized as there will be certain working capital adjustments on June 30, 2014. The following table sets out the net assets acquired and their estimated acquisition date fair values, aggregated at the cash-generating unit (“CGU”) level:

<i>(thousands of Canadian dollars)</i>	<b>Toronto CGU</b>	<b>Vancouver CGU</b>	<b>Total</b>
Property and equipment	\$ 397	382	779
Broadcast licences	65,690	44,996	110,686
Goodwill	5,446	2,598	8,044
Total assets acquired	71,533	47,976	119,509
Accrued liabilities	(497)	(376)	(873)
CCD commitments assumed	(708)	(2,491)	(3,199)
Deferred tax liabilities	(2,506)	(1,009)	(3,515)
Net assets acquired	\$ 67,822	44,100	111,922

Earnings have been included in profit since the date of acquisition. Revenue and net profit (excluding the acquisition-related costs described in the following paragraph) recognized to date in the income statements related to these acquisitions were minimal since the acquisition closed on March 31, 2014. Revenue and profit of the acquired stations for the first quarter approximated \$7,500,000 and \$1,050,000, respectively. Pro-forma revenue including the results of the acquired stations, as though the acquisition date for the transaction had been January 1, 2014, would have been approximately \$35,965,000. Pro-forma loss, on the same basis, excluding interest and accretion expense, would have been \$2,154,000.

**Acquisition-related costs**

As a result of the acquisition, the Company has become obligated to fund \$11,168,000 of CCD commitments. For accounting purposes, the CCD commitments must be recorded on the statement of financial position as *other liabilities* at fair value which was determined based on discounting cash flows using the effective interest method (“EIM”). Under EIM, accretion expense is calculated and recorded using the effective interest rate (5.02%) that exactly discounts estimated future cash payments throughout the life of the CCD commitment to the fair value at initial recognition. The fair value of the total CCD commitments was determined to be \$9,442,000 and was recognized in *other liabilities*. Of this liability, \$3,199,000 represents the existing obligations that the Company assumed on acquisition, while the remaining \$6,243,000 was the commitment required in order for the Canadian Radio-television and Telecommunications Commission (“CRTC”) to approve the transaction. The \$6,243,000 liability was a separate transaction and not factored in to the purchase price allocation and as such has been expensed in *Other income (expense)*. Of the \$6,243,000 CCD expensed, \$3,902,000 related to the Toronto CGU and \$2,341,000 related to the Vancouver CGU. Additional incremental costs approximating \$2,125,000 directly related to these acquisitions were also expensed in *Other income (expense)* in the income statements and these included legal fees, consulting charges, severances, research, travel and certain other regulatory required amounts.

**Business Acquisition – 2013**

On January 2, 2013, the Company acquired 70.1% of the shares of 3221809 Nova Scotia Limited which operates the CKCH-FM radio station in Sydney, Nova Scotia. The Company previously held 29.9% of the shares and as a result, this was a business combination achieved in stages whereby the Company was required to measure the acquisition-date fair value of the 29.9% equity interest the day immediately preceding the transaction. The fair value was determined to be \$600,000 which closely approximated the carrying value of the investment and therefore no gains or losses were recorded as a result.

4. BUSINESS ACQUISITIONS (continued)

**Business Acquisition – 2013** (continued)

Total consideration was \$4,425,000 and this was made up of the fair value of the initial 29.9% investment of \$600,000, the settlement of an existing note having a fair value of \$1,425,000 payable by the acquiree to the Company and cash paid of \$2,400,000. The major net assets acquired included the FM broadcast licence, property and equipment and a small amount of working capital. Trade accounts receivable having a gross contractual amount receivable of \$246,000 were included in working capital. The contractual cash flows not expected to be collected were estimated to be \$34,000 and this was factored in to the determination of fair value. The purchase price allocation, as set out in the table below, has been finalized.

The Company already operated an FM radio station in Sydney, and complementing it with this FM station was the reason for the acquisition. This allowed the Company to increase its revenue base and benefit from cost synergies which is why goodwill in the amount of \$1,313,000 arose on this transaction. The accounting value of goodwill in the table below does not have any deferred tax liability associated with it because it is not deductible for tax purposes. The purchase was financed by the Company's credit facility.

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

<i>(thousands of Canadian dollars)</i>	<b>CKCH-FM</b>
Working capital	\$ 198
Deferred tax asset	215
Property and equipment	766
Broadcast licence	2,387
Goodwill	1,313
Total assets acquired	4,879
Deferred tax liabilities on property and equipment and broadcast licences	(454)
Net assets acquired	\$ 4,425

In order for the acquisition to have been approved by the CRTC, the Company had to commit to additional CCD payments of \$222,000, payable in equal instalments over seven years. This financial liability was recognized on the statement of financial position as *other liabilities* and its fair value was determined based on discounting cash flows using EIM. Under EIM, accretion expense is calculated and recorded using the effective interest rate (3.9%) that exactly discounts estimated future cash payments throughout the seven year life of the CCD commitment to the fair value at initial recognition. The amount of CCD expensed in *Other income (expense)* in the income statements was \$191,000.

5. DISCONTINUED OPERATIONS

In December 2013, the Company disposed of its net assets associated with CHFT-FM in Fort McMurray, Alberta. The financial results from this CGU have been treated as discontinued operations in the income statements and cash flows for 2013. The results from this CGU were also excluded from the comparative figures from the Broadcasting segment results in segmented information presented in note 14.

Selected comparative first quarter financial information for this CGU included in discontinued operations is presented below:

<i>(thousands of Canadian dollars)</i>	2013
Revenue	\$ 286
Operating expenses	(298)
Depreciation and accretion of other liabilities	(24)
Loss from discontinued operations before provision for taxes	(36)
Provision for current income tax recovery	9
<b>Loss from discontinued operations</b>	<b>\$ (27)</b>

**6. LONG-TERM DEBT**

<i>(thousands of Canadian dollars)</i>	<b>2014</b>	2013
Revolving term credit facility of \$90 million, renewable, expires in March 2017	\$ 66,500	51,000
Non-revolving term credit facility of \$90 million, repayable in quarterly instalments, expires in March 2017	<u>90,000</u>	<u>—</u>
	<b>156,500</b>	51,000
Less: current portion of non-revolving credit facility	<b>(8,438)</b>	<u>—</u>
Less: debt transaction costs	<b>(1,094)</b>	<b>(48)</b>
	<u>\$ 146,968</u>	<u>50,952</u>

In conjunction with the business acquisition disclosed in note 4, the Company secured an additional \$90 million non-revolving credit facility which was drawn on March 31, 2014 when the purchase agreement closed. The facility is being amortized over eight years and is repayable in quarterly instalments of \$2,812,500. The facility expires March 31, 2017. The first quarterly instalment will be made in September 2014.

Long-term debt bears interest at bankers' acceptance rates plus a premium based on certain financial ratios. To manage interest rate risk and ensure stability in the Company's interest costs, the Company has in place an interest rate swap agreement (see note 11(b)) for a portion of its debt which fixes the floating bankers' acceptance rates.

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

**7. SHARE CAPITAL**

**Outstanding share capital**

Outstanding share capital was 28,154,970 at March 31, 2014 (2013 – 29,212,093).

**Exercise of stock options**

Pursuant to the Company's executive stock option plan disclosed in note 9, 107,500 options were exercised during the first quarter of 2014 using the cashless exercise option resulting in 26,767 shares issued from treasury. As a result of the options being exercised, share capital was increased and contributed surplus was decreased by \$101,000. During the first quarter of 2013, 60,000 options were exercised using the cashless exercise option with 43,724 shares issued from treasury.

**Dividends**

In December 2013, the Company declared a dividend of \$0.09 per share on each of its Class A shares and Class B shares. \$2,532,000 was paid to shareholders during the first quarter (2012 – \$2,625,000).

**8. CONTRIBUTED SURPLUS**

<i>(thousands of Canadian dollars)</i>	Three months ended March 31	
	<b>2014</b>	2013
Balance January 1	\$ 2,680	2,614
Exercise of stock options (note 7)	<b>(101)</b>	<u>—</u>
Executive stock option plan compensation expense (note 9)	<u>7</u>	<u>20</u>
<b>Balance March 31</b>	<b>\$ 2,586</b>	<b>2,634</b>

**9. 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 April 2014 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 60<sup>th</sup> day following the 5<sup>th</sup> anniversary of the grant date. As at March 31, 2014, 50,000 rights were outstanding.

**9. SHARE-BASED COMPENSATION PLANS (continued)**

**Stock appreciation rights (continued)**

No SARS were granted in the first quarters of 2014 or 2013. 52,500 SARS were exercised in the first three months of 2014 for cash proceeds of \$159,000 (2013 – 15,000 SARS exercised for cash proceeds of \$56,000). Compensation expense in the first quarter was \$13,000 (2013 – \$75,000). The total obligation for SARS compensation of \$93,000 was classified as accounts payable and accrued liabilities (2013 – compensation payable was \$474,000, of which \$452,000 was current).

**Executive stock options**

A total of 2,347,500 stock options are outstanding pursuant to the Company’s executive stock option plan. The options generally vest as follows: twenty-five percent on the date of grant and twenty-five percent on each of the three succeeding anniversary dates. Option holders may elect to exercise their options on a cashless basis in which case capital shares are issued from treasury based on a formula that takes into account the market value of the Company’s Class A shares and the option’s strike price.

No options were granted during the first quarter (2013 – Nil), 15,000 options expired (2013 – Nil) and 107,500 options were exercised (2013 – 60,000). Compensation expense related to the stock option plan in the quarter was \$7,000 (2013 – \$20,000).

**10. EMPLOYEE BENEFIT PLANS**

<i>(thousands of Canadian dollars)</i>	Three months ended March 31	
	2014	2013
Defined contribution plan expense	\$ 416	410
Defined benefit plan expense	98	99

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

<i>(thousands of Canadian dollars)</i>	Total	Level 1	Level 2	Level 3
		Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
<b>Financial assets at fair value through profit or loss:</b>				
Cash and bank indebtedness	\$ (2,592)	(2,592)	—	—
Marketable securities	5,005	5,005	—	—
<b>Loans and receivables:</b>				
Accounts receivable	23,381	—	23,381	—
<b>Items accounted for as hedges:</b>				
Interest rate swap payable	(720)	—	(720)	—
<b>Other liabilities at amortized cost</b>				
Accounts payable and accrued liabilities, net of current portion of other liabilities	(15,838)	—	(15,838)	—
Current and long-term debt	(156,500)	—	(156,500)	—

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

## 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

### Offsetting financial assets and liabilities

The Company sets off its positive cash balances with bank indebtedness in accordance with its mirror-netting agreement with a Canadian Chartered Bank. Positive cash balances at March 31, 2014 were equal to \$496,000 while negative cash balances were \$3,088,000 which net to \$2,592,000. The Company does not set off any other financial instruments.

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

### Credit risk

The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize the concentration of credit risk. Credit exposure is managed through credit approval and monitoring procedures. The Company does not require collateral or other security from clients for trade receivables; however the Company does perform credit checks on customers prior to extending credit. Based on the results of credit checks, the Company may require upfront deposits or full payments on account prior to providing service. The maximum credit exposure approximated \$23,400,000 as at March 31, 2014, which included accounts 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 \$790,000 as at March 31, 2014. 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 \$140,000 which represents a very small portion of accounts receivable and revenue. The Company believes its provision for potential credit losses is adequate at this time given the current economic circumstances.

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

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, which includes quoted share prices in active markets, interest rates and the Company's quoted share price as it relates to the stock appreciation rights plan.

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

The fair value of the Company's marketable securities is affected by changes in the quoted share prices in active markets. Such prices can fluctuate and are affected by numerous factors beyond the Company's control. In order to minimize the risk associated with changes in the share price of any one particular investment, the Company diversifies its portfolio by investing in various industries. It also conducts regular financial reviews of publicly available information related to its investments to determine if any identified risks are within tolerable risk levels. As at March 31, 2014, a 10% change in the share prices of each marketable security would result in an estimated \$430,000 change in profit.

For the quarter ended March 31, 2014, the change in fair value of marketable securities, recorded in *other income (expense)*, was an unrealized gain of \$1,389,000 (2013 – \$217,000). Realized gains were \$21,000 (2013 – \$nil).

#### b) *Interest rate risk management*

The Company has in place an interest rate swap agreement with a Canadian Chartered Bank to hedge its exposure to fluctuating interest rates on its long-term debt. The swap has a notional amount of \$45,000,000 and expires in May 2017. The swap agreement involves the exchange of the three-month bankers' acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and recorded as an increase or decrease to interest expense. The Company elected to apply hedge accounting and as such formally assesses effectiveness of the swaps at inception and on a regular basis.

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

c) Interest rate risk management

As at March 31, 2014, the \$45,000,000 swap was ineffective for accounting purposes. As a result the change in fair value of the swap, from the time the swap was deemed ineffective in May 2012, was transferred from OCI to profit. This amounted to an expense of \$156,000 in the quarter (2013 – \$22,000).

At quarter end, the aggregate fair value payable of the swap agreement was \$720,000, of which \$31,000 was classified as a current liability (2013 – \$1,108,000; \$102,000 classified as current). The before-tax change in fair value of the swap included in OCI was a loss of \$220,000 (2013 – \$22,000). The before-tax interest expense transferred from OCI to profit was \$159,000 (2013 – \$328,000).

A 0.5% change in the projected floating interest rates during the remaining term of the hedge agreement would have impacted the fair value of the interest rate swap by approximately \$520,000 which would have flowed through profit since the swap was ineffective for accounting purposes as at March 31, 2014.

d) 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 fluctuated 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.

In July 2013, the swap expired and any remaining notional SARDS were unwound. As a result there is no longer any balance receivable related to the equity total return swap. In 2013 for the first quarter, there was a current receivable balance of \$830,000 and realized before-tax gains of \$93,000.

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 facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Other than for operations, the Company's cash requirements are mostly for interest payments, repayment of debt, capital expenditures, CCD 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	2015 - 2018	Thereafter
Long-term debt (note 6)	\$ 8,438	148,062	—
Bank indebtedness	2,592	—	—
Accounts payable and accrued liabilities, net			
of current portion of undiscounted CCD commitments	13,623	—	—
Income taxes payable	2,950	—	—
CCD commitments, undiscounted	2,246	8,024	2,838
	\$ 29,849	156,086	2,838

Assuming the long-term debt is renewed in 2017, which is consistent with past practice, the payments would be \$45,000,000 for the period 2015 to 2018 and \$103,062,000 thereafter.

Capital risk

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

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

**Capital risk** (continued)

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

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, 2014.

**12. EARNINGS PER SHARE**

<i>(thousands)</i>	Three months ended March 31	
	2014	2013
Weighted average common shares used in calculation of basic earnings per share	28,144	29,183
Effect of dilution related to executive stock options	1,225	1,347
Weighted average common shares used in calculation of diluted earnings per share	29,369	30,530

**13. COMMITMENT**

In March, the CRTC approved the acquisition of CHNI-FM in Saint John, New Brunswick from Rogers Broadcasting Ltd. for \$750,000. The transaction is expected to close during the third quarter.

**14. OPERATING SEGMENT INFORMATION**

The Company has two reportable segments – Broadcasting and Corporate and Other. The Broadcasting segment consists of the operations of the Company’s radio and television licences. This segment derives its revenue from the sale of broadcast advertising. This reportable segment is a strategic business unit that offers different services and is managed separately. The Company evaluates performance based on earnings before interest, taxes, depreciation and amortization. Corporate and Other consists of a hotel and the head office functions. Its revenue relates to hotel operations. Details of segment operations are set out below. Results from Fort McMurray, Alberta operations have been excluded from the Broadcasting segment figures as a result of accounting for discontinued operations as described in note 5.

<i>(thousands of Canadian dollars)</i>	<b>Broadcasting</b>	<b>Corporate and Other</b>	<b>Total</b>
<b>2014</b>			
Revenue	\$ 27,656	807	28,463
Operating expenses	(20,922)	(3,004)	(23,926)
Segment profit (loss)	6,734	(2,197)	4,537
Depreciation, amortization and accretion of other liabilities	(999)	(82)	(1,081)
Interest expense	—	(881)	(881)
Other income (expense)	(8,340)	1,420	(6,920)
Loss before provision for income taxes	\$ (2,605)	(1,740)	(4,345)
Total assets	\$ 337,121	17,959	355,080
Total liabilities	(146,289)	(78,248)	(224,537)
Other disclosures			
Broadcast licences	265,168	—	265,168
Goodwill	15,466	—	15,466
Capital expenditures	(1,047)	(54)	(1,101)
<b>2013</b>			
Revenue	\$ 27,998	768	28,766
Operating expenses	(20,784)	(2,807)	(23,591)
Segment profit (loss)	7,214	(2,039)	5,175
Depreciation, amortization and accretion of other liabilities	(1,006)	(63)	(1,069)
Interest expense	—	(986)	(986)
Other income (expense)	(135)	226	91
Profit (loss) before provision for income taxes	\$ 6,073	(2,862)	3,211
Total assets	\$ 217,842	14,292	232,134
Total liabilities	(55,980)	(54,689)	(110,669)
Other disclosures			
Broadcast licences	154,217	—	154,217
Goodwill	7,422	—	7,422
Capital expenditures	(816)	(186)	(1,002)

**Transfer agent and registrar**

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

**For shareholder account inquiries:**

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

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c/o CST Trust Company

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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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