

Newfoundland Capital Corporation Limited

Third Quarter 2012

Period Ended September 30 (unaudited)



Dartmouth, N.S. – November 8, 2012, Newfoundland Capital Corporation Limited (“Company”) today announces its financial results for the third quarter ending September 30, 2012.

Highlights

- **Revenue** for the third quarter of \$33.7 million was \$1.8 million or 6% higher than last year. Year-to-date revenue of \$95.5 million was \$3.6 million or 4% higher than 2011. The growth was due to a combination of organic growth as well as incremental revenue from the acquired stations in British Columbia.
- **Earnings before interest, taxes, depreciation and amortization (“EBITDA”⁽¹⁾)** of \$8.9 million in the quarter were \$0.3 million or 3% higher than last year due to higher revenue. Year-to-date EBITDA of \$22.7 million was \$1.9 million or 8% lower than 2011 due to higher operating expenses. Excluding this year’s \$1.1 million expense related to the extension of stock options and the accounting for the Company’s equity total return swap which reduced operating expenses in the prior year by \$1.2 million, year-to-date EBITDA would have been 2% higher than 2011.
- **Profit (loss) for the period** - the Company posted a loss of \$1.1 million in the quarter compared to profit of \$4.3 million in 2011. The decrease in profit was primarily due to a \$7.5 million non-cash impairment charge recognized in the quarter, further described below. Year-to-date profit of \$3.5 million was \$9.6 million or 74% lower than the same period in 2011. The impairment charge combined with unrealized mark-to-market investment portfolio losses of \$2.3 million this year caused the decline in year-to-date profit.

Significant events

- In the third quarter the Company recognized an impairment charge of \$7.5 million related to its television operations in Lloydminster, Alberta. This was triggered by the decision by the Canadian Radio-television and Telecommunications Commission (“CRTC”) to discontinue the Local Programming Improvement Fund effective August 31, 2014. The details of this are more fully described in the Management’s Discussions and Analysis and in the unaudited condensed interim consolidated financial statements.
- Pursuant to its Normal Course Issuer Bid, the Company repurchased 891,134 shares for \$7.1 million in the quarter bringing the year-to-date total of shares repurchased to 1,161,768 for total cash consideration of \$9.3 million.
- On August 9, 2012, the Board of Directors declared dividends of \$0.06 per share to all shareholders of record as at August 31, 2012. Dividends of \$1.8 million were paid on September 14, 2012.

“We are very pleased that positive revenue growth has continued into the third quarter. We see some softening in that trend heading into the fourth quarter” commented Rob Steele, President and Chief Executive Officer. “We are focusing our attention on managing costs to deliver solid EBITDA results for 2012.”

Financial Highlights – Third quarter

(thousands of dollars except share information)

	2012	2011
Revenue	\$ 33,699	31,905
EBITDA ⁽¹⁾	8,850	8,552
Profit (loss) for the period	(1,061)	4,334
Earnings (loss) per share – basic	(0.04)	0.14
Earnings (loss) per share – diluted	(0.04)	0.14
Share price, NCC.A (closing)	7.50	7.75
Weighted average number of shares outstanding (in thousands)	29,465	30,328
Total assets	229,510	230,195
Long-term debt	52,855	51,662
Shareholders’ equity	114,074	109,908

(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 September 30, 2012 and 2011 prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the annual audited consolidated financial statements and related notes prepared in accordance with IFRS and the MD&A contained in the Company's 2011 Annual Report. The Company's third quarter 2012 interim financial statements and the accompanying notes have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described therein. These interim financial statements include the accounts of the Company and other entities in which the Company controls in accordance with IAS 27 "Consolidated and Separate Financial Statements" and are reported in Canadian dollars. These documents along with the Company's Annual Information Form, its Management Proxy Circular dated March 14, 2012 and other public information are filed electronically with various securities commissions in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed at www.sedar.com. This information is also available on the Company's website at www.ncc.ca.

The Board of Directors, upon recommendation of the Audit and Governance Committee, approved the content of this MD&A on November 8, 2012. Disclosure contained in this document is current to this date, unless otherwise stated.

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

CORPORATE PROFILE

Newfoundland Capital Corporation Limited owns and operates Newcap Radio, which is one of Canada's leading radio broadcasters with 85 licences across Canada. The Company reaches millions of listeners each week through a variety of formats and is a recognized industry leader in radio programming, sales and networking. It is Canada's largest pure-play radio company, employing approximately 800 of the best radio professionals across the country. The Company's portfolio of radio assets includes 68 FM and 17 AM licences which can be heard throughout Canada. Most of our stations are globally accessible via the internet and various mobile device applications, allowing listeners the flexibility to tune in to our stations at anytime from anywhere. The shares of the Company trade on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.

STRATEGY AND OBJECTIVES

The Company's long-term strategy is to maximize returns on existing operations, convert AM stations to FM, and add new licences through business and licence acquisitions and through the Canadian Radio-television and Telecommunications Commission ("CRTC") licence application process.

This year the Company expects to continue to grow its existing operations by increasing advertising revenue and remaining focused on controlling discretionary costs to drive EBITDA margins. It has integrated the operations acquired in British Columbia and will launch recently awarded AM to FM conversions. 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.

2012 Developments:

- January – launched the St. Paul, Alberta AM to FM conversion.
- February – completed the acquisition of broadcasting assets related to FM licences in Penticton and Kelowna, British Columbia for cash consideration approximating \$7.0 million.
- February – received CRTC approval to convert the Stettler, Alberta AM station to FM. The FM country station was launched in early October.
- May – the CRTC awarded the Company the two licences it had applied for in New Brunswick, one in Miramichi and the other in Fredericton. Management intends to launch these new stations within the next twelve months.
- July – the CRTC announced it was phasing out the television Local Programming Improvement Fund effective August 31, 2014. This decision impacts the future financial results of the Company's only television operations located in Lloydminster, Alberta. As a result, an impairment charge of \$7.5 million was recognized in profit, as required, in this quarter.

2011 Developments:

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

CONSOLIDATED FINANCIAL REVIEW

Consolidated Financial Results of Operation

<i>(thousands of dollars, except percentages and per share data)</i>	Three months ended September 30			Nine months ended September 30		
	2012	2011	Growth	2012	2011	Growth
Revenue	\$ 33,699	31,905	6%	95,490	91,906	4%
Operating expenses	(24,849)	(23,353)	6%	(72,748)	(67,297)	8%
EBITDA⁽¹⁾	8,850	8,552	3%	22,742	24,609	(8%)
Depreciation and amortization	(1,051)	(976)	8%	(3,117)	(2,926)	7%
Interest expense	(892)	(783)	14%	(2,776)	(3,366)	(18%)
Accretion of other liabilities	(70)	(130)	(46%)	(237)	(389)	(39%)
Other income (expense)	587	(1,159)	—	(2,692)	417	—
Impairment charge	(7,488)	—	—	(7,488)	—	—
Profit (loss) from continuing operations before provision for income taxes	(64)	5,504	—	6,432	18,345	(65%)
Provision for income tax expense	(997)	(1,144)	(13%)	(2,953)	(5,127)	(42%)
Profit (loss) from continuing operations	(1,061)	4,360	—	3,479	13,218	(74%)
Loss from discontinued operations	—	(26)	—	—	(81)	—
Profit (loss) for the period	\$ (1,061)	4,334	—	3,479	13,137	(74%)
Earnings (loss) per share – continuing operations						
– Basic	(0.04)	0.14	—	0.12	0.43	—
– Diluted	(0.04)	0.14	—	0.11	0.42	—
Earnings (loss) per share						
– Basic	(0.04)	0.14	—	0.12	0.43	—
– Diluted	(0.04)	0.14	—	0.11	0.42	—

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

Revenue

In the quarter, consolidated revenue of \$33.7 million was \$1.8 million higher than last year; for the nine month period ended September 30, 2012 revenue of \$95.5 million was \$3.6 million higher than 2011. This improvement came exclusively from the broadcasting segment.

Operating expenses

Consolidated operating expenses of \$24.8 million were \$1.5 million higher than the third quarter last year and this increase was driven by higher operating costs in the Broadcasting segment. Year-to-date operating expenses of \$72.7 million were \$5.5 million higher than 2011. The increase was partly due to higher share-based compensation expense and the equity total return swap hedge in the Corporate and Other segment. Share-based compensation expense combined with the net effect of the Company's equity total return swap hedge caused a net increase in operating expenses of \$2.3 million year-to-date. Higher broadcasting operating expenses also contributed to the overall increases in operating expenses.

EBITDA

Consolidated EBITDA in the quarter of \$8.9 million was \$0.3 million higher than last year due to higher revenue. Year-to-date EBITDA was \$22.7 million; \$1.9 million lower than 2011. This year-to-date decrease was due to the higher operating expenses described immediately above. Normalizing EBITDA to exclude share-based compensation expense and the accounting for the Company's equity total return swap, EBITDA would have been approximately 2% better than 2011.

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

Depreciation and amortization

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

Interest expense

Interest expense in the third quarter was slightly higher than the third quarter last year and \$0.6 million lower year-to-date. Lower average debt levels and a reduced interest rate contributed to the decrease in the year-to-date interest expense.

Accretion of other liabilities

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

Other income (expense)

Other income generally consists of gains and losses, realized and unrealized, on the Company's marketable securities. In the third quarter of 2012, the Company recognized mark-to-market unrealized gains of \$0.7 million compared to losses of \$1.2 million in the third quarter of 2011. For the nine month period ended September 30, 2012, the mark-to-market unrealized losses were \$2.3 million as compared to mark-to-market gains of \$0.1 million in 2011. In addition, as part of the acquisitions in British Columbia, the Company recognized a transaction gain and acquisition-related CCD costs in Other income (expense) which net to just under \$0.1 million. Refer to note 5 in the interim financial statements for additional details.

Impairment charge

In the quarter, the CRTC announced it was systematically phasing out the television Local Programming Improvement Fund between September 2012 and August 31, 2014. This CRTC decision impacts the financial results of the television cash-generating unit ("CGU") in Lloydminster, Alberta by permanently reducing annual EBITDA by as much as \$1.0 million by 2014 and beyond. As a result, management performed a detailed impairment analysis of this CGU, which comprises the net assets, including the broadcast licences, related to two local television stations. Management concluded that the CGU was impaired and the impairment charge was required to be recognized immediately. When determining whether impairment exists, management must compare the carrying values of its assets to the recoverable amounts. In doing so, the recoverable amounts of the broadcast licences and certain capital assets were lower than the carrying values, resulting in impairment charges. The full value of the television broadcast licences, aggregating \$7.0 million, has been written off as an impairment charge. In addition to the broadcast licence impairment charge, the Company also had some impairment related to the television property and equipment amounting to \$0.5 million. Refer to note 6 in the interim financial statements for additional details.

Provision for income taxes

In the quarter, the effective tax rate was higher than the 31% statutory rate primarily because of the non-deductible portion of the broadcast licence impairment charge. On a year-to-date basis, the effective tax rate is also higher than the statutory rate of 31% primarily for the same reason.

Loss from discontinued operations

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

Profit (loss) for the period

In the third quarter, the Company posted a loss of \$1.1 million compared to profit of \$4.3 million in 2011. The decrease in profit was primarily due to a \$7.5 million non-cash impairment charge recognized in the quarter. Year-to-date profit of \$3.5 million was \$9.6 million or 74% lower than the same period in 2011. The impairment charge combined with unrealized mark-to-market losses of \$2.3 million this year caused the decline in year-to-date profit.

Other comprehensive income ("OCI")

OCI consists of the net change in the fair value of the Company's cash flow hedges and actuarial gains and losses arising on the Company's defined benefit pension plans. The changes in fair values of the interest rate swap cash flow hedges are recorded in OCI. The after-tax gains included in OCI in the third quarter of 2012 were \$0.3 million compared to losses of \$0.3 million in 2011. Year-to-date, the after-tax gains in OCI were \$0.9 million (2011 – less than \$0.1 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, 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 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 comparative figures exclude the results of discontinued operations more fully described in note 4 of the interim financial statements.

Broadcasting Financial Results of Operations

<i>(thousands of dollars, except percentages)</i>	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	2012	2011	% Change
Revenue	\$ 32,613	30,619	7%	92,661	88,774	4%
Operating expenses	(21,851)	(20,188)	8%	(63,300)	(59,708)	6%
EBITDA	\$ 10,762	10,431	3%	29,361	29,066	1%
EBITDA margin	33%	34%	(1%)	32%	33%	(1%)

Revenue

Broadcasting revenue in the quarter of \$32.6 million was \$2.0 million or 7% better than last year. Year-to-date broadcasting revenue of \$92.7 million was \$3.9 million or 4% higher than 2011. Organic growth was 6% in the quarter and 3% year-to-date. The remaining growth was due to incremental revenue from the acquired stations in British Columbia. Year-to-date, the overall industry growth rate was 4%. Due to the timing of the radio broadcast calendar, the Company's 2012 third quarter benefited from additional revenue. Excluding this impact, the third quarter revenue would have been on par with last year.

The Central Canada radio properties led the way in revenue growth for the Company achieving an increase of 8% year-to-date.

Operating expenses

For the quarter, broadcasting operating expenses were \$21.9 million, up \$1.7 million or 8% over last year. Year-to-date broadcasting operating expenses of \$63.3 million were \$3.6 million or 6% higher than 2011. The increases were due to the business acquisition as well as higher advertising expenses and increased variable costs in line with higher revenue and inflation.

EBITDA

Third quarter broadcasting EBITDA of \$10.8 million was \$0.3 million or 3% higher than 2011 while year-to-date broadcasting EBITDA of \$29.4 million was \$0.3 million or 1% better than this time last year. Higher revenue contributed to the increases in EBITDA.

Corporate and Other Segment

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

Corporate and Other Financial Results of Operation

<i>(thousands of dollars, except percentages)</i>	Three months ended September 30			Nine months ended September 30		
	2012	2011	% Change	2012	2011	% Change
Revenue	\$ 1,086	1,286	(16%)	2,829	3,132	(10%)
Operating expenses	(2,998)	(3,165)	5%	(9,448)	(7,589)	(24%)
EBITDA	\$ (1,912)	(1,879)	(2%)	(6,619)	(4,457)	(49%)

Revenue

Lower hotel revenue due to reduced occupancy caused revenue in the third quarter and year-to-date to be lower than the same periods last year.

Operating expenses

Third quarter operating expenses of \$3.0 million were \$0.2 million or 5% lower than last year due to lower head office costs in the quarter. Year-to-date operating expenses of \$9.4 million were \$1.9 million or 24% higher than 2011. Share-based compensation expense combined with the net effect of the equity total return swap hedge was \$1.4 million year-to-date compared to the 2011 year-to-date income of \$0.9 million. Additional information on share-based compensation is contained in note 9 of the interim financial statements and details on the equity total return swap are disclosed in note 11(c).

EBITDA

EBITDA was lower than the same quarter last year because of the reduction in revenue. The decrease on a year-to-date basis was due to higher expenses as explained above.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Company's revenue and operating results vary depending on the quarter. The first quarter is generally a period of lower retail spending and as a result, advertising revenue is generally lower. The fourth quarter tends to be a period of higher retail spending. In the third quarter of 2012 the Company recognized a \$7.5 million impairment charge. Unrealized mark-to-market investment losses and non-cash share-based compensation expense related to extending stock option expiry dates lowered profit in the first and second quarters of 2012. Positively impacting the 2011 fourth quarter were the reversal of previous broadcast licence impairment charges and the mark-to-market unrealized gains. In 2010 the Company recognized a broadcast licence impairment charge in the fourth quarter. The results from discontinued operations have been excluded from the comparative figures for revenue.

<i>(thousands of Canadian dollars except per share data)</i>	2012			2011			2010	
	3rd	2nd	1st	4th	3rd	2nd	1st	4th
Revenue	\$ 33,699	34,325	27,467	34,700	31,905	33,448	26,553	31,839
Profit (loss) for the period	(1,061)	3,759	781	12,975	4,334	5,895	2,908	3,910
Earnings (loss) per share								
– Basic	(0.04)	0.12	0.03	0.43	0.14	0.19	0.10	0.12
– Diluted	(0.04)	0.12	0.02	0.41	0.14	0.19	0.09	0.12

Selected cash flow information – nine months ended September 30, 2012

Cash flows from operating activities of \$14.7 million combined with net borrowings of \$12.1 million were used to purchase broadcasting assets in British Columbia for \$7.0 million, repurchase capital stock for \$9.3 million, purchase property and equipment for \$3.6 million, pay dividends of \$4.5 million and pay \$2.5 million toward CCD commitments.

Selected cash flow information – nine months ended September 30, 2011

Cash flows from operating activities of \$19.1 million were used to repurchase capital stock for \$8.7 million, to pay dividends of \$3.7 million, to repay \$1.5 million of debt, to purchase property and equipment totaling \$4.1 million and to pay \$1.2 million toward CCD commitments.

Capital expenditures and capital budget

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

FINANCIAL CONDITION

Total assets

Assets of \$229.5 million were \$4.4 million lower than December 31, 2011. Most of the decrease relates to a reduction in current assets, primarily due to the unrealized mark-to-market decrease in marketable securities

Liabilities, shareholders' equity and capital structure

As at September 30, 2012, the Company had \$1.1 million of current bank indebtedness outstanding and \$52.9 million of long-term debt. The capital structure consisted of 50% equity (\$114.1 million) and 50% liabilities (\$115.4 million) at quarter end.

LIQUIDITY

Liquidity risk

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

Credit facility and covenants

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

The Company chooses this type of credit facility because it provides flexibility with no scheduled repayment terms. The Company is subject to covenants on its credit facility. The Company's bank covenants include certain maximum or minimum ratios such as total debt to EBITDA ratio, interest coverage and fixed charge coverage ratio. Other covenants include seeking prior approval for acquisitions or disposals in excess of a quantitative threshold. The Company was in compliance with the covenants throughout the quarter and at quarter end.

Cash flow from operations and funds available from the Company's \$90.0 million credit facility have been the primary funding sources of working capital, capital expenditures, 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 credit facility to fund obligations.

Working capital requirements

As at September 30, 2012, the Company's working capital deficiency was \$0.8 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, 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

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

- In May 2012, the CRTC approved the Company's applications for new FM broadcast licences in Fredericton and Miramichi, New Brunswick. As a result, the Company is committed to fund CCD in the amount of \$0.8 million, payable in equal instalments over a seven year period.
- During the year, the Company entered into an agreement for a business acquisition for \$2.4 million cash consideration, subject to CRTC approval.

SHARE CAPITAL

Outstanding share data

The weighted average number of shares outstanding at September 30, 2012 was 29,956,000 (2011 – 30,419,000). As of this date, there are 25,396,667 Class A Subordinate Voting Shares ("Class A Shares") and 3,771,702 Class B Common Shares ("Class B Shares") outstanding.

Dividends

In December 2011, the Company declared a dividend of \$0.09 per share on each of its Class A shares and Class B shares payable in January 2012. On August 9, 2012 the Company declared dividends of \$0.06 per share payable on September 14, 2012 to all shareholders of record as at August 31, 2012. In the third quarter, dividends of \$1.8 million were paid (2011 – \$1.8 million) and year-to-date dividends paid totalled \$4.5 million of which \$2.7 million related to dividends declared in 2011 (2011 – \$3.7 million of which \$1.9 million related to dividends declared in 2010).

Share repurchases

The Company has approval under a Normal Course Issuer Bid to repurchase up to 1,327,922 Class A shares and 113,151 Class B shares. This bid expires February 12, 2013. During the third quarter, 891,134 (2011 – nil) Class A shares were repurchased for \$7.2 million (2011 – \$nil) bringing the year-to-date total shares repurchased to 1,161,768 (2011 – 1,388,072) for total cash consideration of \$9.3 million (2011 – \$8.7 million). As a result of the share repurchases, capital stock was reduced by \$1.7 million (2011 – \$2.0 million) and retained earnings by \$7.6 million (2011 – \$6.7 million).

SHARE-BASED COMPENSATION

Executive stock option plan

A total of 2,530,000 stock options were outstanding pursuant to the Company's executive stock option plan. In 2012, no options were granted or exercised during the third quarter or on a year-to-date basis. In 2011, no options were granted during the third quarter and year-to-date 60,000 options were granted at a weighted-average exercise price of \$6.75. During the third quarter in 2011, 30,000 options were exercised using the cashless option resulting in 5,000 shares being issued from treasury. The 2011 year-to-date options exercised totaled 390,000; 375,000 using the cashless exercise option resulting in 191,000 shares being issued from treasury while 15,000 options were exercised for cash proceeds of \$0.1 million.

Compensation expense related to the executive stock option plan in the quarter was less than \$0.1 million (2011 – less than \$0.1 million). Year-to-date compensation expense was \$1.2 million (2011 – \$0.1 million). The increase in the expense was a result of the Toronto Stock Exchange, shareholders and Board of Directors' approval to extend the expiry dates of 2,140,000 stock options by 5 years. The year-to-date non-cash accounting expense recognized as a result of these extensions was \$1.0 million. Refer to note 9 of the interim financial statements for further details relating to the executive stock option plan.

Stock appreciation rights plan

During the third quarter, 185,000 stock appreciation rights ("SARs") (2011 – nil) were exercised for cash proceeds of \$0.2 million (2011 – \$nil). 255,000 SARs have been exercised year-to-date (2011 – 595,750) for cash proceeds of \$0.3 million (2011 – \$0.7 million). For the quarter ended September 30, 2012, the compensation expense related to SARs was less than \$0.1 million (2011 – recovery of \$0.3 million). Year-to-date, the recovery was \$0.1 million (2011 – expense of \$0.2 million). The obligation at quarter end was \$0.2 million (2011 – \$0.5 million). Refer to note 9 of the interim financial statements for further details relating to SARs.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

Interest rate risk management

To hedge its exposure to fluctuating interest rates on its long-term debt, the Company has two interest rate swap agreements with Canadian chartered banks. The aggregate notional amount of the swap agreements was \$55.0 million (2011 – \$55.0 million). In the second quarter, the Company completed a blend and extend of its \$45.0 million swap agreement to extend the expiry date of the agreement to May 2017 and to take advantage of lower interest rates. The interest rate on this swap has been reduced by approximately 200 basis points. Additional details on this are provided in note 11(b) of the interim financial statements. The \$10.0 million swap expires in June 2013.

The swap agreements involve the exchange of the three-month bankers' acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and recorded as an increase or decrease to interest expense. The aggregate fair value payable of the swap agreements was \$1.3 million (2011 – \$3.0 million). Hedge accounting applies for a notional amount of \$50.0 million. The net change in OCI for the quarter was a \$0.3 million gain (2011 – \$0.3 million loss) and year-to-date was a \$0.9 million gain (2011 – less than a \$0.1 million gain).

Share price volatility management

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

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

Realized before-tax losses recorded in third quarter profit were \$0.1 million bringing the year-to-date before-tax losses to \$0.2 million. The 2011 third quarter before-tax losses recognized in profit were \$0.4 million. During the first half of 2011, the Company wound-up 805,000 of the then 1,275,000 notional Class A shares under the swap and as a result the 2011 year-to-date before-tax gains were \$1.2 million. The estimated fair value of the equity total return swap receivable, classified as current other asset, at September 30, 2012 was \$0.5 million (2011 – \$0.9 million). The Company is gradually unwinding this hedge and as at September 30, 2012, 326,100 notional shares remained outstanding.

Market risk

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

Credit risk management

The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize the concentration of credit risk. Credit exposure is managed through credit approval and monitoring procedures. The Company does not require collateral or other security from clients for trade receivables; however, the Company generally performs 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

IFRS 7 Financial Instruments: Disclosures

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RISKS AND OPPORTUNITIES

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

- In July 2012, the CRTC announced that it was systematically phasing out the television Local Programming Improvement Fund ("LPIF") between September 2012 and August 31, 2014. This will impact the financial results of the Company's

television stations operated in Lloydminster, Alberta. The Company first began receiving LPIF funds in 2009. Based on historical results, the removal of LPIF funding will gradually reduce annual EBITDA over the next three years, and by 2014 and beyond, the annual EBITDA reduction will be approximately \$1.0 million. As disclosed earlier under the heading “Consolidated Financial Review – Impairment charge”, the Company recorded an impairment charge of \$7.5 million as a result of this CRTC announcement. Management is examining its options to help mitigate this decline in EBITDA.

- Bill C-11, the Copyright Modernization Act, passed in Parliament on June 8, 2012 and received Royal Assent on June 29, 2012. This Act oversees the tariffs levied by the Canadian Musical Reproduction Rights Agency and Society for Reproduction Rights of Authors, Composers and Publishers in Canada (“CSI”) and the Audio-Video Licensing Agency (“AVLA”). In theory an exception for these tariffs exists for broadcasters, but in practice the exception can only be realized if a radio station chooses to delete and reconstitute its entire playlist each 30 days. While Bill C-11 updated several copyright provisions, it left this 30-day destroy exception intact. In the interim, radio broadcasters will continue to pay these two tariffs while research is undertaken to determine whether a technical solution may be developed to eliminate these tariffs.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in the Company’s internal controls over financial reporting that occurred in the nine months ending September 30, 2012 that have materially affected, or are likely to materially affect, the Company’s internal controls over financial reporting.

OUTLOOK

Revenue growth is lower than it was in 2011. At this time, management is focusing its efforts on closely monitoring costs and also on improving programming in certain markets and creating new revenue opportunities to maintain positive revenue growth.

Management is beginning the planning process to launch the new stations in Miramichi and Fredericton, New Brunswick. These stations are expected to be launched in the first half of 2013.

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

Non-IFRS Accounting Measure

⁽¹⁾ **EBITDA** is 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 and amortization as well as 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: impairment charges and other income (expense). A calculation of this measure is as follows:

(thousands of Canadian dollars)	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Profit (loss) from continuing operations				
before provision for income taxes	\$ (64)	5,504	6,432	18,345
Impairment charge	7,488	—	7,488	—
Other expense (income)	(587)	1,159	2,692	(417)
Accretion of other liabilities	70	130	237	389
Interest expense	892	783	2,776	3,366
Depreciation and amortization expense	1,051	976	3,117	2,926
EBITDA	\$ 8,850	8,552	22,742	24,609

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

Newfoundland Capital Corporation Limited
Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the three months and nine months ended September 30, 2012 and 2011

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

The accompanying unaudited condensed interim consolidated financial statements (“interim financial statements”) of the Company for the three months and nine months ended September 30, 2012 and 2011 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company’s management.

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

Dated this 8th day of November, 2012

Interim Consolidated Statements of Financial Position

(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	September 30 2012	December 31 2011
ASSETS			
Current assets			
Marketable securities	11(a)	\$ 4,192	6,588
Receivables	11	23,958	25,466
Prepaid expenses		1,858	865
Other asset	11(c)	539	889
<i>Total current assets</i>		30,547	33,808
Non-current assets			
Property and equipment	5,6	35,644	35,015
Other assets		2,465	2,546
Broadcast licences	5,6	150,925	151,712
Goodwill		6,109	6,109
Deferred income tax assets		3,820	4,750
Total assets		\$ 229,510	233,940
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness		\$ 1,112	1,557
Accounts payable and accrued liabilities		16,764	17,640
Dividends payable	7	—	2,730
Income taxes payable		13,431	17,214
<i>Total current liabilities</i>		31,307	39,141
Non-current liabilities			
Long-term debt		52,855	40,211
Other liabilities	9,11(b)	12,361	14,990
Deferred income tax liabilities		18,913	19,932
Total liabilities		115,436	114,274
Shareholders' equity		114,074	119,666
Total liabilities and shareholders' equity		\$ 229,510	233,940

Commitments (note 13)

See accompanying notes to the interim financial statements

Interim Consolidated Income Statements

(unaudited)

(thousands of Canadian dollars except per share data)	Notes	Three months ended September 30		Nine months ended September 30	
		2012	2011	2012	2011
Revenue		\$ 33,699	31,905	95,490	91,906
Operating expenses		(24,849)	(23,353)	(72,748)	(67,297)
Depreciation and amortization		(1,051)	(976)	(3,117)	(2,926)
Interest expense		(892)	(783)	(2,776)	(3,366)
Accretion of other liabilities		(70)	(130)	(237)	(389)
Other income (expense)	5, 11(a)	587	(1,159)	(2,692)	417
Impairment charge	6	(7,488)	—	(7,488)	—
Profit (loss) from continuing operations before provision for income taxes		(64)	5,504	6,432	18,345
Provision for income tax (expense) recovery					
Current		(1,333)	(1,302)	(3,408)	(4,601)
Deferred		336	158	455	(526)
		(997)	(1,144)	(2,953)	(5,127)
Profit (loss) from continuing operations		(1,061)	4,360	3,479	13,218
Loss from discontinued operations	4	—	(26)	—	(81)
Profit (loss) for the period		\$ (1,061)	4,334	3,479	13,137
Earnings (loss) per share from continuing operations	12				
— basic		\$ (0.04)	0.14	0.12	0.43
— diluted		(0.04)	0.14	0.11	0.42
Earnings (loss) per share	12				
— basic		\$ (0.04)	0.14	0.12	0.43
— diluted		(0.04)	0.14	0.11	0.42

See accompanying notes to the interim financial statements

Interim Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

(thousands of Canadian dollars)	Notes	Three months ended September 30		Nine months ended September 30	
		2012	2011	2012	2011
Profit (loss) for the period		\$ (1,061)	4,334	3,479	13,137
Other comprehensive income (loss):					
Cash flow hedges:					
Net movement on interest rate swaps	11(b)	405	(350)	1,191	1
Income tax recovery (expense)	11(b)	(110)	94	(322)	—
Other comprehensive income (loss)		295	(256)	869	1
Comprehensive income (loss)		\$ (766)	4,078	4,348	13,138

See accompanying notes to the interim financial statements

Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(thousands of Canadian dollars)	Issued share capital (note 7)	Contributed surplus (note 8)	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2012	\$ 39,779	1,400	(2,729)	81,216	119,666
Profit for the period	—	—	—	3,479	3,479
Other comprehensive income	—	—	869	—	869
Total comprehensive income	—	—	869	3,479	4,348
Repurchase of share capital	(1,700)	—	—	(7,643)	(9,343)
Dividends	—	—	—	(1,762)	(1,762)
Executive stock option compensation expense	—	1,165	—	—	1,165
Balance at September 30, 2012	\$ 38,079	2,565	(1,860)	75,290	114,074

See accompanying notes to the interim financial statements

(thousands of Canadian dollars)	Issued share capital (note 7)	Contributed surplus (note 8)	Accumulated other comprehensive loss	Retained earnings	Total
Balance at January 1, 2011	\$ 40,813	2,176	(2,202)	66,396	107,183
Profit for the period	—	—	—	13,137	13,137
Other comprehensive income	—	—	1	—	1
Total comprehensive income	—	—	1	13,137	13,138
Repurchase of share capital	(2,002)	—	—	(6,742)	(8,744)
Dividends	—	—	—	(1,820)	(1,820)
Exercise of executive stock options	968	(884)	—	—	84
Executive stock option compensation expense	—	67	—	—	67
Balance at September 30, 2011	\$ 39,779	1,359	(2,201)	70,971	109,908

See accompanying notes to the interim financial statements

Interim Consolidated Statements of Cash Flows

(unaudited)

<i>(thousands of Canadian dollars)</i>	Notes	Nine months ended September 30	
		2012	2011
Operating Activities			
Profit from continuing operations			
before provision for income taxes		\$ 6,432	18,345
Items not involving cash			
Depreciation and amortization		3,117	2,926
Share-based compensation expense	9	1,114	259
Accretion of other liabilities		237	389
Unrealized losses (gains) on marketable securities	11(a)	2,274	(95)
Impairment charge	6	7,488	—
Other		256	(143)
		<u>20,918</u>	<u>21,681</u>
Net change in non-cash working capital from continuing operations		<u>3,876</u>	<u>744</u>
		24,794	22,425
Interest paid		(2,869)	(3,177)
Income taxes paid		(7,195)	(122)
Net cash flows from continuing operations		<u>14,730</u>	<u>19,126</u>
Net cash flows from discontinued operations		—	(9)
Net cash flows from operating activities		<u>14,730</u>	<u>19,117</u>
Financing Activities			
Change in bank indebtedness		(445)	114
Long-term debt borrowings		14,500	—
Long-term debt repayments		(2,000)	(1,500)
Dividends paid	7	(4,492)	(3,711)
Repurchase of capital stock	7	(9,343)	(8,744)
Proceeds from exercise of stock options	7	—	84
		<u>(1,780)</u>	<u>(13,757)</u>
Investing Activities			
Acquisition of broadcasting assets	5	(6,978)	—
Property and equipment additions		(3,588)	(4,083)
CCD commitment payments		(2,492)	(1,239)
Other		108	(38)
		<u>(12,950)</u>	<u>(5,360)</u>
Cash, beginning and end of period		\$ —	—

See accompanying notes to the interim financial statements

1. REPORTING ENTITY

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

These interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors on November 8, 2012.

2. BASIS OF PREPARATION

Statement of compliance

These interim financial statements have been prepared in accordance with International Accounting Standards 34 (“IAS”), Interim Financial Reporting, and accordingly, they do not include all of the information and disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements. The same accounting policies and methods of computation were followed in the preparation of these interim financial statements as were followed in the preparation of the annual financial statements for the year ended December 31, 2011. Accordingly, these interim financial statements should be read together with the annual financial statements for the year ended December 31, 2011 prepared in accordance with IFRS.

These interim financial statements have been prepared in accordance with those IFRS standards and IFRS Interpretations Committee (“IFRIC”) interpretations issued and effective or issued and early adopted as at the date of these statements (November 8, 2012). All amounts are expressed in Canadian dollars, rounded to the nearest thousand (unless otherwise specified). The functional currency of the Company and each of its subsidiaries is the Canadian dollar.

3. NEW ACCOUNTING STANDARDS

Adoption of new accounting standards

IFRS 7 Financial Instruments: Disclosures

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

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

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

4. DISCONTINUED OPERATIONS

In 2011, the Company disposed of its net assets associated with CKJS-AM and CHNK-FM in Winnipeg, Manitoba. The financial results of operations from these cash-generating units (“CGU’s”) have been treated as discontinued operations in the income statements and cash flows for 2011. The results from these CGU’s were also excluded from the comparative figures from the Broadcasting segments results in segmented information presented in note 14.

Selected financial information for the CGU’s included in discontinued operations is presented below:

<i>(thousands of Canadian dollars)</i>	Three months ended September 30, 2011	Nine months ended September 30, 2011
Revenue	\$ 353	1,026
Operating expenses	(367)	(1,072)
Depreciation and amortization	(22)	(66)
	(36)	(112)
Accretion of other liabilities	(2)	(7)
Loss before income taxes	(38)	(119)
Provision for income tax recovery	12	38
Loss from discontinued operations	\$ (26)	(81)

5. ACQUISITION OF BROADCASTING ASSETS

Acquisition of broadcasting assets

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

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

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

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

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

Earnings have been included in profit since the date of acquisition. Revenue and net losses recognized to date in the income statements related to these acquisitions, including the gain and acquisition-related costs, were \$1,231,000 and \$198,000, respectively. Pro-forma revenue and net losses for the combined entity, as though the acquisition date for both transactions had been January 1, 2012 and including the gain and acquisition-related costs, would have been approximately \$1,553,000 and \$265,000, respectively, due to restructuring costs incurred to date.

Acquisition-related costs

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

6. IMPAIRMENT CHARGE

In July 2012, the CRTC announced it was systematically phasing out the television Local Programming Improvement Fund between September 2012 and August 31, 2014. This decision impacts the financial results of the television cash-generating unit (“CGU”) in Lloydminster, Alberta by permanently reducing annual profit before provision for income taxes by as much as \$1,000,000 by 2014 and beyond. As a result, management performed a detailed impairment analysis of this CGU, which comprises the net assets, including the broadcast licences, related to two local television stations. Management concluded that the CGU was impaired and the impairment charge was required to be recognized immediately. When determining whether impairment exists, management must compare the carrying values of its assets to the recoverable amounts. In doing so, the recoverable amounts of the broadcast licences (calculated using the Value-in-Use method) and certain capital assets (calculated using the Fair Value less Costs to Sell approach) were lower than the

6. IMPAIRMENT CHARGE (continued)

carrying values, resulting in impairment charges. The full value of the television broadcast licences, aggregating \$6,988,000, has been written off as an impairment charge. In addition to the broadcast licence impairment charge, the Company also had some impairment related to the television property and equipment amounting to \$500,000.

The recoverable amount of the Lloydminster CGU was determined based on a value-in-use calculation using cash flow projections 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 rate applied to the cash flow projections, which was based on the Company's weighted average cost of capital, was 9.8%. Cash flow projections are extended beyond the five year budget period because broadcast licences are considered indefinite life assets.

The key assumptions used in the calculation of value-in-use are the discount rate, the growth rate and market share during the forecast period and the growth rate used to extrapolate cash flow beyond 5 years. The same methods of computation of these assumptions were followed in the preparation of these interim financial statements as were followed in the preparation of the annual financial statements for the year ended December 31, 2011.

The recoverable amount of the Lloydminster property and equipment was determined based on a fair value less cost to sell ("FVLCS") calculation. The determination of FVLCS was based on what the assets would likely sell for less any costs associated to dispose of them. The assumptions were based on past experience and also on external sources of information such as property assessment values.

7. SHARE CAPITAL

Outstanding share capital

Outstanding share capital was 29,168,000 at September 30, 2012 (2011 – 30,330,000).

Share repurchases

The Company has approval under a Normal Course Issuer Bid to repurchase up to 1,327,922 Class A shares and 113,151 Class B shares. This bid expires February 12, 2013. During the third quarter, 891,134 (2011 – nil) Class A shares were repurchased for \$7,173,000 (2011 – \$nil) bringing the year-to-date total shares repurchased to 1,161,768 (2011 – 1,388,072) for total cash consideration of \$9,343,000 (2011 – \$8,744,000). As a result of the share repurchases, capital stock was reduced by \$1,700,000 (2011 – \$2,002,000) and retained earnings by \$7,643,000 (2011 – \$6,742,000).

Executive stock options

A total of 2,530,000 stock options were outstanding pursuant to the Company's executive stock option plan. In 2012, no options were granted or exercised during the third quarter or on a year-to-date basis. In 2011, no options were granted during the third quarter and year-to-date 60,000 options were granted at a weighted-average exercise price of \$6.75. During the third quarter in 2011, 30,000 options were exercised using the cashless option resulting in 5,000 shares being issued from treasury. The 2011 year-to-date options exercised totalled 390,000; 375,000 using the cashless exercise option resulting in 191,000 shares being issued from treasury while 15,000 options were exercised for cash proceeds of \$84,000. As a result, in 2011 share capital was increased by \$35,000 in the quarter and by \$968,000 year-to-date.

Dividends

In December 2011, the Company declared a dividend of \$0.09 per share on each of its Class A shares and Class B shares payable in January 2012. On August 9, 2012 the Company declared dividends of \$0.06 per share payable on September 14, 2012 to all shareholders of record as at August 31, 2012. In the third quarter, \$1,762,000 dividends were paid (2011 – \$1,820,000) and year-to-date dividends paid totalled \$4,492,000 of which \$2,730,000 related to dividends declared in 2011 (2011 – \$3,711,000 of which \$1,891,000 related to dividends declared in 2010).

8. CONTRIBUTED SURPLUS

(thousands of Canadian dollars)

Balance, January 1, 2012	\$	1,400
Executive stock option plan compensation expense		1,165
Balance, September 30, 2012	\$	2,565
Balance, January 1, 2011	\$	2,176
Exercise of stock options		(884)
Executive stock option plan compensation expense		67
Balance, September 30, 2011	\$	1,359

9. SHARE-BASED COMPENSATION

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

Stock appreciation rights

As at September 30, 2012, 170,000 stock appreciation rights (“SARS” or “rights”) were outstanding. No SARS were granted to-date in 2012 or 2011. 185,000 SARS were exercised (2011 – nil) in the quarter for cash proceeds of \$250,000 (2011 – \$nil). Year-to-date, 255,000 SARS were exercised (2011 – 595,750) for cash proceeds of \$340,000 (2011 – \$707,000). Compensation expense in the third quarter was \$16,000 (2011 – recovery of \$330,000) and year-to-date, the recovery was \$51,000 (2011 – expense of \$192,000). The total obligation for SARS compensation was \$232,000 of which \$168,000 was current and classified as accounts payable and accrued liabilities (2011 – compensation payable was \$530,000, of which \$405,000 was current).

Executive stock options

Compensation expense related to the executive stock option plan in the quarter was \$37,000 (2011 – \$21,000). Year-to-date compensation expense was \$1,165,000 (2011 – \$67,000). The increase in the expense was a result of the Toronto Stock Exchange, shareholders and Board of Directors’ approval to extend the expiry dates of 2,140,000 stock options by 5 years. The year-to-date non-cash accounting expense recognized as a result of these extensions was \$1,050,000.

10. EMPLOYEE BENEFIT PLANS

<i>(thousands of Canadian dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Defined contribution plan expense	\$ 388	379	1,186	1,139
Defined benefit plan expense	85	80	253	241

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 fair values of CCD commitments approximated their carrying values as they were recorded at the net present values of their future cash flows, using discount rates ranging from 5.2% to 12.2%. Accretion expense arising on CCD obligations was \$70,000 for the quarter (2011 – \$130,000) and \$237,000 year-to-date (2011 – \$389,000).

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	Level 2	Level 3
			Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
Financial assets at fair value through profit or loss:					
	Cash and bank indebtedness	\$ (1,112)	(1,112)	—	—
	Marketable securities	4,192	4,192	—	—
Loans and receivables:					
	Accounts receivable	23,958	—	23,958	—
	Equity total return swap receivable	539	—	539	—
Items accounted for as hedges:					
	Interest rate swap payable	(1,329)	—	(1,329)	—
Other liabilities at amortized cost:					
	Accounts payable and accrued liabilities, net of current portion of CCD and interest swaps	(14,841)	—	(14,841)	—
	Long-term debt	(53,000)	—	(53,000)	—
	CCD commitments	(2,964)	—	(2,964)	—

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Estimated fair value of financial instruments (continued)

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 generally performs 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 \$24,500,000 as at September 30, 2012, which included accounts receivable and the equity total return swap receivable. The Company reviews its receivables for possible indicators of impairment on a regular basis and as such, it maintains a provision for potential credit losses which totaled \$1,295,000 as at September 30, 2012. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Approximately 90% of trade receivables are outstanding for less than 90 days. Amounts would be written off directly against accounts receivable and against the allowance only if and when it was clear the amount would not be collected due to customer insolvency. Historically, the significance and incidence of amounts written off directly against receivables have been low. The total amount written off in the third quarter was \$67,000, bringing the year-to-date total to \$272,000, 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 September 30, 2012, a 10% change in the share prices of each marketable security would result in an estimated \$350,000 change in profit.

For the quarter ended September 30, 2012, the change in fair value of marketable securities, recorded in Other income (expense), was an unrealized gain of \$657,000 (2011 – unrealized loss of \$1,175,000). Year-to-date, the unrealized loss was \$2,274,000 (2011 – unrealized gain of \$95,000).

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

b) Interest rate risk management

To hedge its exposure to fluctuating interest rates on its long-term debt, the Company has entered into two interest rate swap agreements with Canadian Chartered Banks. One has a notional value of \$10,000,000 and expires in June 2013 and the other has a notional amount of \$45,000,000 and was recently amended to expire in May 2017 (from May 2013). The swap agreements involve the exchange of the three-month bankers' acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and recorded as an increase or decrease to interest expense. The Company elected to apply hedge accounting and as such formally assesses effectiveness of the swaps at inception and on a regular basis and has concluded that the swaps are effective in offsetting changes in interest rates. Hedge accounting applies to \$50,000,000 of the \$55,000,000 notional value.

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

As at September 30, 2012, 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 \$86,000 in the quarter (2011 – \$nil) and \$186,000 year-to-date (2011 – \$nil).

At quarter end, the aggregate fair value payable of the swap agreements was \$1,329,000, of which \$205,000 was classified as a current liability (2011 – \$3,042,000; \$nil classified as current). The before-tax change in fair value of the swaps included in OCI for the third quarter was a gain of \$185,000 (2011 – loss of \$382,000) and year-to-date the before-tax gain was \$1,112,000 (2011 – loss of \$12,000). The net before-tax amounts transferred from OCI to profit related to the blend and extend fair value balance noted above, the ineffective hedge and the de-designated hedge portion aggregated \$220,000 in the quarter (2011 – recovery of \$32,000) and \$79,000 year-to-date (2011 – recovery of \$13,000).

A 0.5% change in the projected floating interest rates during the remaining term of the hedge agreements would have impacted the fair value of the interest rate swaps by approximately \$520,000. \$40,000 of this would have been recorded in OCI with the remaining flowing through profit due to the fact that the \$45,000,000 swap was ineffective for accounting purposes as at September 30, 2012.

c) Share price volatility risk management

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

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

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

The estimated fair value of the equity total return swap current receivable balance at September 30, 2012 was \$539,000 (2011 – \$881,000). Realized before-tax losses recorded in third quarter profit were \$77,000 and year-to-date before-tax losses were \$171,000. The 2011 third quarter before-tax losses recognized in profit were \$354,000. During the first half of 2011, the Company wound-up 805,000 of the then 1,275,000 notional Class A shares under the swap and as a result significant gains were recognized in profit bringing the year-to-date before-tax gains recorded in profit to \$1,248,000. The Company is gradually unwinding this swap and as at September 30, 2012, 326,100 notional shares remain outstanding.

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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, 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	2013 - 2016	Thereafter
Long-term debt	\$ —	53,000	—
Bank indebtedness	1,112	—	—
Accounts payable and accrued liabilities, net of current portion of undiscounted CCD commitments	15,094	—	—
Income taxes payable	13,431	—	—
CCD commitments, undiscounted	1,670	1,666	667
	\$ 31,307	54,666	667

Capital risk

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

To comply with Federal Government directions, the Broadcasting Act and regulations governing radio stations (the "Regulations"), the Company has imposed restrictions respecting the issuance, transfer and, if applicable, voting of the Company's shares. Restrictions include limitations over foreign ownership of the issued and outstanding voting shares.

Pursuant to such restrictions, the Company can prohibit the issuance of shares or refuse to register the transfer of shares or, if applicable, prohibit the voting of shares in circumstances that would or could adversely affect the ability of the Company, pursuant to the provisions of the Regulations, to obtain, maintain, renew or amend any licence required to carry on any business of the Company, including a licence to carry on a broadcasting undertaking, or to comply with such provisions or with those of any such licence.

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

Financial projections are updated and reviewed regularly to reasonably ensure that financial debt covenants will not be breached in future periods. The Company monitors the covenants and foreign ownership status of the issued and outstanding voting shares and presents this information to the Board of Directors quarterly. The Company was in compliance with all the above as at September 30, 2012.

12. EARNINGS PER SHARE

<i>(thousands)</i>	Three months ended		Nine months ended	
	September 30 2012	2011	September 30 2012	2011
Weighted average common shares used in calculation of basic earnings per share	29,465	30,328	29,956	30,419
Effect of dilution related to executive stock options	1,110	1,106	1,121	1,146
Weighted average common shares used in calculation of diluted earnings per share	30,575	31,434	31,077	31,565

13. COMMITMENTS

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

During the year, the Company entered into an agreement for a business acquisition for \$2,400,000 cash consideration, subject to CRTC approval.

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. Corporate and Other consists of a hotel and the head office functions. Its revenue relates to hotel operations.

The Company evaluates performance based on revenue less operating expenses (which include direct cost of sales and general and administrative expenses). Segment profit (loss) excludes depreciation and amortization, interest expense, accretion on other liabilities, other income (expense) and impairment charges. Results from discontinued operations (note 4) have been excluded from the Broadcasting segment 2011 comparative figures.

<i>(thousands of Canadian dollars)</i>	Corporate			Corporate		
	Broadcasting	& Other	Total	Broadcasting	& Other	Total
	Three months ended September 30			Nine months ended September 30		
2012						
Revenue	\$ 32,613	1,086	33,699	92,661	2,829	95,490
Operating expenses	(21,851)	(2,998)	(24,849)	(63,300)	(9,448)	(72,748)
Segment profit (loss)	10,762	(1,912)	8,850	29,361	(6,619)	22,742
Depreciation and amortization	(986)	(65)	(1,051)	(2,915)	(202)	(3,117)
Interest expense	—	(892)	(892)	—	(2,776)	(2,776)
Accretion of other liabilities	(70)	—	(70)	(237)	—	(237)
Other income (expense)	—	587	587	—	(2,692)	(2,692)
Impairment charge	(7,488)	—	(7,488)	(7,488)	—	(7,488)
Profit (loss) from continuing operations before provision for income taxes	\$ 2,218	(2,282)	(64)	18,721	(12,289)	6,432
Total assets				\$ 213,413	16,097	229,510
Total liabilities				(69,605)	(45,831)	(115,436)
Other disclosures						
Broadcast licences				150,925	—	150,925
Goodwill				6,109	—	6,109
Capital expenditures	\$ (1,211)	(56)	(1,267)	(3,451)	(137)	(3,588)
2011						
Revenue	\$ 30,619	1,286	31,905	88,774	3,132	91,906
Operating expenses	(20,188)	(3,165)	(23,353)	(59,708)	(7,589)	(67,297)
Segment profit (loss)	10,431	(1,879)	8,552	29,066	(4,457)	24,609
Depreciation and amortization	(908)	(68)	(976)	(2,727)	(199)	(2,926)
Interest expense	—	(783)	(783)	—	(3,366)	(3,366)
Accretion of other liabilities	(130)	—	(130)	(389)	—	(389)
Other income (expense)	—	(1,159)	(1,159)	—	417	417
Profit (loss) from continuing operations before provision for income taxes	\$ 9,393	(3,889)	5,504	25,950	(7,605)	18,345
Total assets				\$ 211,099	19,096	230,195
Total liabilities				(60,933)	(59,354)	(120,287)
Other disclosures						
Broadcast licences				148,801	—	148,801
Goodwill				6,109	—	6,109
Capital expenditures	\$ (1,675)	(5)	(1,680)	(3,983)	(100)	(4,083)

Transfer agent and registrar

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

For shareholder account inquiries:

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

e-mail: inquiries@canstockta.com

or write to: Newfoundland Capital Corporation Limited

c/o The Canadian Stock Transfer 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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