GREAT PEOPLE GREAT FUTURE

NewCap RADIO

Newfoundland Capital Corporation Limited
2005 Annual Report

LOCAL RADIO: PUTTING LISTENERS AND COMMUNITIES FIRST

Corporate profile

Newfoundland Capital Corporation Limited owns and operates Newcap Radio, one of Canada's leading small and medium market radio broadcasters with 71 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.

The Company has 42 FM and 29 AM licences spanning the country and employs over 750 radio professionals in Canada.

OUR PEOPLE

Why great results are directly attributed to the creativity and commitment of our people

We have imagination

Over 750 radio professionals dedicated to providing creative and innovative radio broadcasting to 51 communities across the country.

We have credibility

We are recognized for providing outstanding reporting and entertainment. From the Edward R. Murrow award, to Canada's On-Air Personality of the Year, our professionals have won numerous national and international awards.

We have determination

In 2005, Newcap Radio launched 6 new FM stations. Our dedicated and focused team makes our growth objectives achievable.

We have commitment

We support a vast variety of charities and community organizations. Millions of dollars have been raised for causes that matter to our listeners and to our employees.

people with TALENT

Providing outstanding radio reporting and entertainment requires the coordinated effort of a diverse group of professionals: on-air personalities and hosts, writers, producers, promotions managers, engineers, reporters, and many other individuals with unique talents and capabilities. Our people make it happen.

Jackie-Rae Greening
CFCW Program Director and Morning Show Co-Host
Edmonton, Alberta

2005 MEMORABLE MOMENT:
"I have been lucky enough to win the Canadian Country Music Association's 'On-Air Personality of the Year' award the past two years. This most recent one was even more special as I shared the honour with my co-host Wes Montgomery who passed away April of 2005. Wes was the 'King' when it came to being a personality on radio."

people for GROWTH

Achieving year-over-year growth in our portfolio requires discipline in executing our acquisition strategy, but the key to our long-term success is ensuring a smooth and orderly integration process. Our experienced management team makes it happen.

Lee Wagner, C.M.A.
Operations Manager
Newcap Radio, Ottawa, Ontario

2005 MEMORABLE MOMENT:
"In only two short months, Newcap Radio Ottawa successfully relocated its studios, hired new announcers, trained new sales and finance teams, and launched a new alternative rock radio station. Our teamwork and positive attitude made it happen."

people for **COMMUNITY**

We support numerous charitable organizations across Canada. The passion and commitment of our employees, together with our listeners, make a real difference in the communities we serve.

(from left)
Michelle Myrick
Executive Director
Joanne Connolly
Administrative Assistant
VOCM Cares Foundation and
K-ROCK Children's Trust Fund
St. John's, Newfoundland
and Labrador

2005 MEMORABLE MOMENT:
"Providing financial assistance to a sick child, for a family that otherwise could not afford the medical treatment, put a real face on the Children's Trust Fund."

OUR VISION

Reasons why local radio remains the unrivaled means of reaching the local community

More focused

Radio remains one of the most effective communication mediums to reach a targeted demographic.

More relevant

Local radio is still the primary source for breaking news across Canada.

More connected

Local radio reaches 95% of the population over the age of 12 with, on average, 20 hours of listening per week.

More profitable

Spending on radio advertising reached an all-time high in 2005, increasing more than 8% from 2004.

More reach

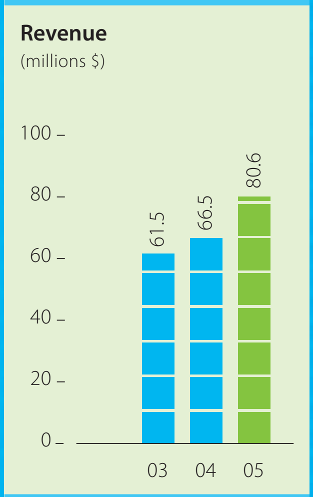
70% of Canadians listen to radio on their drive to work, school or shopping.

More growth

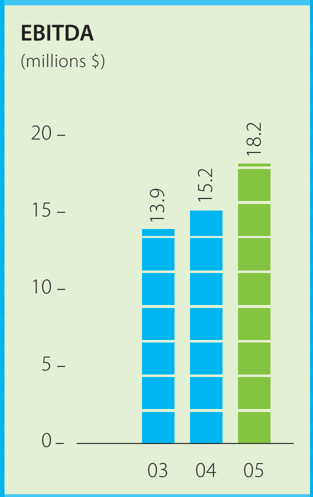
The Canadian population continues to grow, leading to more radio licencing opportunities across the country.

Financial highlights

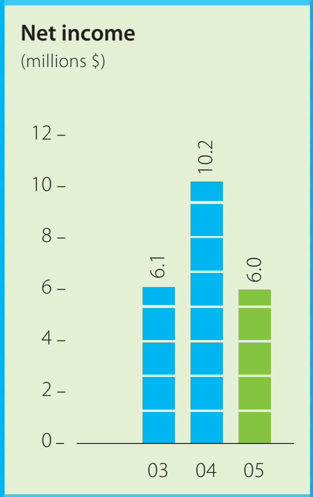
(millions of dollars except share information)		2005	2004	2003
Operations				
Revenue	$	**80.6**	66.5	61.5
EBITDA (defined on page 30)		**18.2**	15.2	13.9
Net income		**6.0**	10.2	6.1
Financial position				
Total assets	$	**213.5**	155.7	160.1
Long-term debt		**53.3**	15.1	26.6
Shareholders' equity		**82.9**	86.2	79.8
Market capitalization		**187.0**	147.2	138.7
Per share information				
Net income – basic	$	**0.53**	0.85	0.51
Dividends declared		**0.30**	0.10	0.10
Book value		**7.34**	7.36	6.71
Share price (closing price December 31)				
NCC.SV.A		**16.50**	12.50	11.50
NCC.MV.B		**17.00**	13.00	13.00
Number of shares outstanding (thousands)				
Class A Subordinate Voting Shares		**10,040**	10,467	10,643
Class B Common Shares		**1,258**	1,258	1,258



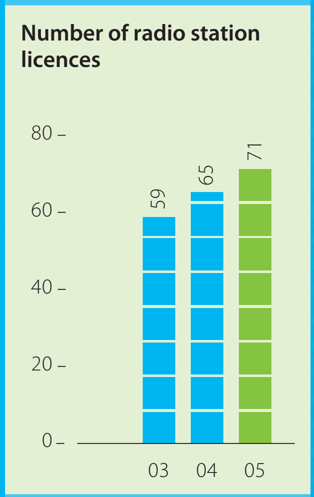
Revenue increased 21.1%, of which 9.4% was same station growth.



Of the 19.9% EBITDA increase, 12.8% was a result of same station growth.



Net income is lower in 2005 due to the non-recurring settlement this year and one-time gain in 2004.



The Company added 6 new FM licences this year.

Growth. Talent. Community. These are the drivers of value creation in our company and are embedded in all we do at Newcap Radio.

Robert G. Steele
President and Chief Executive Officer

Harry R. Steele
Chairman

Letter to shareholders

Newcap Radio is delivering more dynamic radio programming in more communities in Canada than ever before. Our theme this year *"Local Radio: Putting Listeners and Communities First"* is especially relevant as we focus on our two priorities: First, providing outstanding radio reporting and entertainment, and second, growing our radio network across the country.

Our priorities are built around what we value most: a growing company, a profound sense of respect for our radio professionals, and an ongoing commitment to the local communities in which we operate.

A management team dedicated to portfolio growth and a successful execution process

This year we publicly stated that our goal is to double Newcap Radio's EBITDA from $15.2 million to $30.4 million by the end of 2009. We have set three distinct objectives to reach our goal, each of which contributes value to our target EBITDA:

Growth by acquisition

In 2005 we added a total of six new licences to our portfolio. Following our path last year, we again demonstrated our ability to source and acquire high quality radio stations in communities throughout Canada. Newcap Radio received approval from the Canadian Radio-television and Telecommunications Commission (CRTC) for the acquisition of four new broadcast licences in 2005. We received an FM licence in Winnipeg, an important radio market and our first in Manitoba. We also acquired two licences in Red Deer, Alberta and one in Thunder Bay, Ontario.

Growth by new licences

In addition to our acquisitions, Newcap Radio was awarded a second FM licence in Ottawa, Ontario, a Top 10 radio market in Canada; full station status in Whitecourt, Alberta; and a conversion from AM to FM for our Slave Lake, Alberta station.

Growth by maximizing the return of existing radio assets

In 2005, consolidated revenue growth of 21% over last year was driven by organic growth of 9% and the balance from new acquisitions. The largest revenue gains can be attributed to the Ottawa market and revenue from our new properties. As a result of the acquisitions this year, we expect strong revenue growth momentum to continue in 2006.

Earnings before interest, taxes, depreciation and amortization (EBITDA) was $18.2 million, an increase of 20% over last year.

Our ability to generate increased and stable cash flow has led the Board of Directors to declare two dividends this year, in total, a $0.20 increase from last year, or $0.30 per share.

In terms of its corporate affairs, Newcap decided to settle matters with Halterm Limited in the amount of $3.5 million for all past, present and future claims. Although we felt strongly about our position in this case, the settlement allows us to focus on our core strategy without distraction.

We added 6 new licences this year, including 2 located in important Top 10 radio markets in Canada.

+6

EBITDA increased 20% over last year to $18.2 million.

+20%

In 2005, Newcap Radio collected and delivered 1,000,000 teddy bears for the victims of Hurricane Katrina.

1 million

Radio professionals motivated to increase audience share by building strong, sustainable brands

Newcap Radio is focused on delivering exceptional entertainment, information and news to its listeners, with an emphasis on locally-relevant programming. In 2005 our efforts were again recognized through important industry awards, including the prestigious Edward R. Murrow award for Best Newscast in a Small Radio Market.

Further highlights of our radio franchise efforts in 2005 include:

- A proactive approach to exploring new media opportunities such as Internet streaming and Internet advertising to leverage our radio brand franchise;
- An increased number of management meetings held across all regions to support the exchange of best practices and encourage informal communication networks;
- The regionalization of our Alberta Radio Group to increase operating efficiencies, reduce expenses and improve our local management capability; and
- The implementation of an ongoing, ambitious sales training program to upgrade our sales efforts in the Company and ensure a coordinated approach across all regions.

These efforts ensure we remain agile and responsive to the dynamic radio communications environment. We have a skilled and cohesive team of broadcasting professionals that meet the highest standards of radio programming, while delivering a variety of new and cutting edge promotions to the market.

A clear leader in the development of locally relevant community outreach

Community outreach is one of the most important aspects of operating a local radio station and it remains an essential part of our business philosophy. We believe in our ability to provide immediate help and reach out to causes that matter to our listeners. In 2005 we raised over $3.5 million for over 300 charitable causes in all communities we serve. We are also proud to have donated over 1 million teddy bears for children who were victims of Hurricane Katrina, far surpassing our expectations. The tremendous response we receive from our listeners inspires us to continue with our community initiatives.

Outlook 2006

Newcap Radio will continue to seek out accretive and high quality radio assets to increase its presence in all markets in Canada, and as opportunities occur, internationally. Critical to our operational and financial success in 2006 is ensuring that our acquisitions complete a smooth and efficient integration process.

As we look ahead to 2006, we will continue on our path of building a truly national radio broadcasting company. Management is excited about the future of the Company and is wholly dedicated to fulfilling its goals and objectives.

We thank our amazing team of radio professionals for their commitment and drive. Through their efforts, Newcap Radio continues to put listeners and communities first, with top quality reporting and entertainment in 51 communities across Canada.

signed (Robert G. Steele)

Robert G. Steele
President and
Chief Executive Officer

signed (Harry R. Steele)

Harry R. Steele
Chairman

OUR MEANS

How Newcap Radio is positioning itself as a leader in radio broadcasting

With diverse radio assets

No one understands better how to manage a diverse portfolio than we do. From small market to large market stations, top quality programming is our number one operating objective.

With clear, defined objectives

An organization-wide focus on our objectives keeps us aligned. Frequent management meetings ensure that everyone is working toward the common goal.

With strong, sustainable relationships

We value the importance of the relationships we have built with our listeners, our employees, our advertisers and our communities.

With a solid financial position

We have the financial capability to grow our company and ensure the continued upgrading of our stations. We are fiscally responsible and focused on share value growth.

With rigorous market intelligence

We employ cutting edge market research to ensure our radio product is focused on the needs of listeners. This leads to larger, more loyal audiences for our advertising customers and higher revenue for each station.

people with IMAGINATION

(from left)
Brenda Dittrich
Creative Director
Alberta Radio Group
Terilyn Paulgaard
Creative Writer
Edmonton Radio Group

2005 MEMORABLE MOMENT:
Brenda: "Working in Creative is like majoring in English... with a minor in Kindergarten. We work hard... and we definitely play hard!"
Terilyn: "We're considered the stations' intellectuals. Like Harpo was the 'smart' Marx Brother."

The many faces of Newcap Radio

Playing everything from Alternative Rock to Classic Country, our writers, reporters, engineers and many others bring the best of radio to our listeners. Newcap Radio manages its diverse portfolio of assets with skill, experience and creativity.

1. Large market – Ottawa HOT 89.9 and LIVE 85.5

Call letters: CIHT-FM 89.9 and CILV-FM 85.5
Format: Top 40 and Alternative Rock
Professionals: 55
Frequency: 89.9 MHz and 85.5 MHz
Transmission: FM

2005 Memorable moment: "One of Hot 89.9's proudest moments in 2005 was when our listeners surpassed our goal of raising 89,000 pounds of food for the Ottawa Food Bank. Over 120,000 pounds of food was collected in just 52 hours! We appropriately called the initiative Hunger At Home 2005; it clearly made a difference to our generous audience."

2. Mid market – Thunder Bay CKTG-FM and Magic 99.9

Call letters: CKTG-FM 105.3 and CJUK-FM 99.9
Format: Classic Rock and Soft Rock
Professionals: 31
Frequency: 105.3 MHz and 99.9 MHz
Transmission: FM

2005 Memorable moment: "CKTG-FM came out of the gate this year as the most listened-to radio station in Thunder Bay. Now our advertising clients have the benefit of working with the number one radio station in the market. Events like "The GIANT Rocks the Fort" placed us at number one: approximately one-third of the Thunder Bay population, or 30,000 classic rock fans, congregated at historic Fort William to see all of Canada's premiere classic rock bands."

3. Small market – Cold Lake 95.3 K-ROCK

Call letters: CJXK-FM 95.3
Format: Classic Rock
Professionals: 8
Frequency: 95.3 MHz
Transmission: FM

2005 Memorable moment: "95.3 K-ROCK is the Alberta Lakelands source for classic rock. K-ROCK is unique among competing radio providers in the market as it was honoured this year with the designation of 'Ambassador to the City'. These accolades fall on a staff of only eight, but those individuals went out of their way to present Cold Lake with a strong positive image."

Scorecard

Our goal is to double EBITDA from $15.2 million to $30.4 million by the end of 2009. We will remain focused on our strategic objectives and stay true to our values.

Objective One: GROW by acquisition

Why this is a priority	How we did in 2005	What you can expect in 2006
We will continue to seek out accretive and value-enhancing acquisitions both in Canada and internationally to ensure continued revenue and earnings growth	**Successfully completed four acquisitions:** ✓ We acquired two FM broadcast licences in Red Deer, Alberta, approved in August ✓ We acquired one FM licence in Thunder Bay, Ontario, approved in May ✓ We acquired one FM licence in Winnipeg, Manitoba, approved in November ✓ We acquired three FM radio licences, two television licences and an outdoor advertising billboard in Lloydminster, Alberta (2004)	**Focus on accretive acquisitions:** • We are looking at all markets across Canada and will explore opportunities to expand internationally **Purchase agreements subject to approval:** • Newcap currently has one purchase agreement subject to approval by the CRTC in Winnipeg, Manitoba

Objective Two: GROW by new licences

Why this is a priority	How we did in 2005	What you can expect in 2006
We will carefully review every FM and AM licence that becomes available through the CRTC licencing process to add to our revenue and earnings growth	**Successfully received approval from the CRTC for two new FM licences:** ✓ In June, we received approval from the CRTC for a second FM licence in Ottawa, Ontario ✓ In May, we received approval from the CRTC for full station status of our FM licence in Whitecourt, Alberta (from repeater status) ✓ Slave Lake was converted from AM to FM status in November	**Proactive exploration of licencing prospects:** • We will review and initiate applications for new FM licences where we see a potential fit with Newcap **FM licence applications before the CRTC:** • Newcap currently has several new FM licence applications before the CRTC, including Calgary, Bonnyville and Lethbridge, Alberta, and Charlottetown, P.E.I. • We were awarded an FM licence in Lac La Biche, Alberta in January 2006

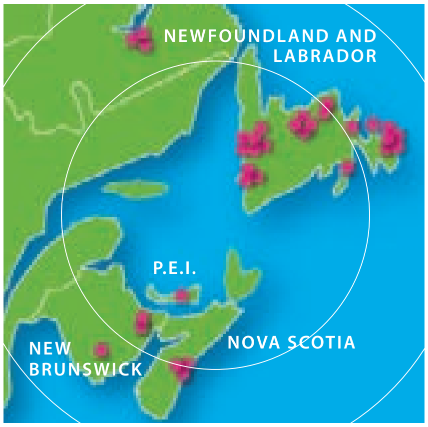
Objective Three: MAXIMIZE return of existing radio assets

Why this is a priority	How we did in 2005	What you can expect in 2006
Delivering creative and relevant programming at each one of our stations is critical to our success	**Amalgamated our Edmonton Radio Group in West Edmonton Mall:** ✓ Interactive studios are now completely accessible to the public **Developed linkages with new media:** ✓ We initiated podcasting of radio programs in select markets across Canada **Began reorganization of Alberta stations:** ✓ We started the process of reorganizing the Alberta Radio Group from a centralized management platform to a regional platform ✓ The process was completed with the Alberta East Group, connecting Cold Lake, St. Paul and Wainwright into the Lloydminster hub **Initiated investment in national sales training program – "Phase 1":** ✓ The national sales training program involves extensive professional development goals and objectives	**Monetizing and exploiting new media opportunities and platforms:** • We will continue to drive new, incremental revenue through emerging media advertising opportunities, including internet advertising, streaming media, podcasting and radio-internet cross-promotion across our national network of stations **More regionalization:** • We will complete the regionalization of the Alberta Radio Group with the same process occurring, as needed, in our other markets across Canada, creating greater operational efficiency and cost discipline **More investment in national sales training program:** • "Phase II" of the program will be completed by the end of 2006

Our national presence

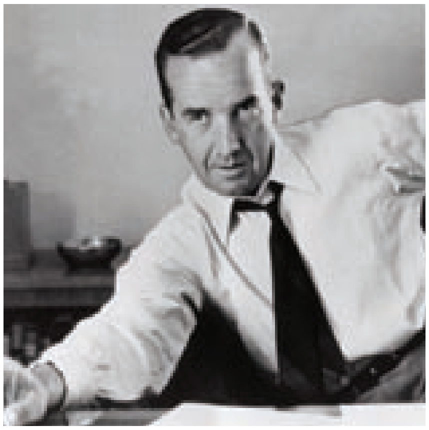
We have 71 licences across Canada and operate in both large and small markets throughout the country. No other radio broadcaster reaches listeners in as many diverse communities as we do. In 2006, we will add to our portfolio by exploring all high quality acquisition and new licence opportunities that become available.

EASTERN



To be persuasive we must be believable; to be believable we must be credible; to be credible we must be truthful.

Edward R. Murrow
Journalist / Broadcaster



Gerry Phalen, News Director for VOCM, St. John's, Newfoundland and Labrador, accepts prestigious Edward R. Murrow award

VOCM has won more news awards than its years in the business. Since 1971, VOCM has been the recipient of more than 95 national and international awards.

And this year, VOCM received the coveted Edward R. Murrow award for Best Newscast in a Small Radio Market. VOCM was the only Canadian media to be given this award, in recognition of its capabilities in delivering outstanding newscasts in its market. This is the second time VOCM has received this distinction.

Edward R. Murrow is considered among journalism's greatest figures, noted for honesty and integrity in delivering the news. Murrow left a legacy that stands as one of the cornerstones of broadcast journalism.

The Eastern Region has been providing consistency and excellence in radio programming for more than a decade. Our heritage stations in St. John's, Halifax and Moncton dominate their markets in audience share and profit generation, and our newest station in Fredericton has emerged at the #1 spot in its first rating opportunity.

In only three short months FRED-FM ranked #1 in Fredericton, New Brunswick

Newcap Radio launched FRED-FM in July 2005. With only three months of on-air time, the pure classic rock station rose to number one in the market, ahead of three heritage stations in Fredericton.

With relentless street-level promotions and a passionate team of radio broadcasters, FRED-FM has far surpassed expectations for a first-year station.

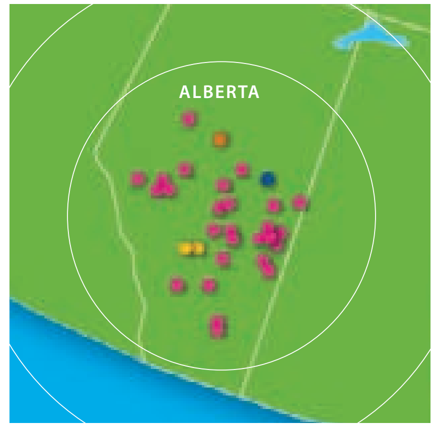
720 CHTN-Charlottetown opens Eastern Canada's first storefront studio

720 CHTN-Charlottetown is home to Eastern Canada's first storefront studio. Since ending the Local Sales Agreement in May 2005 and operating as a stand-alone station starting June 1, 720 CHTN has branded itself as "Prince Edward Island's Community Radio Station".

CHTN actively supports the community. When the local food bank announced a crisis situation with nearly empty shelves, CHTN locked the morning show team in the new studio until the studio was filled with donations.

In just 27 hours, CHTN listeners and the community filled the studio, collecting over $15,000 in donations.

WESTERN



Newcap Radio's three Edmonton banner stations bring the live audience factor back into radio

As of May, 2005, the new open-concept radio station inside the West Edmonton Mall now houses 790 CFCW, Big Earl and K-ROCK. The three stations now share a 26,000 square foot interactive, cutting-edge studio space. Listeners and visitors to the mall have immediate access to storefront control rooms and the opportunity to see and hear the celebrity radio announcers live.

This interactive radio station format is a first in North America. On-air teams directly interact with listeners by simply opening the glass sliding doors to the recording room.

BIG EARL 96·3 K-ROCK 97.3 790 CFCW

With 31 broadcast licences in Alberta, Newcap Radio has the best coverage of the province's 3.2 million listeners. The Region is competitively positioned in 2006 with a showcase location at the West Edmonton Mall, and top listener rankings in Camrose, Lloydminster and Red Deer.

In 2005, the Western Region increased revenue by 36%.

+36%

Newcap TV brings own unique style and talent to television

Newcap has actively worked toward re-branding the CTV affiliate station in Lloydminster to Newcap Television since assuming control of Midwest Broadcasting in February 2005.

Newcap TV was launched with more in-depth news coverage, a focus on community-based stories, extensive coverage of competitive sports and an expanded lineup of top rated programs.

Since the launch, the local audience tune-in increased over 20%. Over 250,000 local and satellite viewers tune in to Newcap TV.

Hurricane Katrina Teddy Bear X-Press delivers a smile to 1 million children

Hurricane Katrina was a devastating natural disaster that impacted people around the world, including the local Edmonton population. 96X started a toy drive with a simple goal: filling one truck with teddy bears and toys and driving to the affected areas to hand them out to children who had survived the storm.

What began with one small child dropping off a bear at the station snowballed into over 1 million teddy bears collected for the young victims of Hurricane Katrina. Seven trucks were filled with teddy bears and three studios were packed full with donations.

The 96X Teddy Bear X-Press was nominated as Promotion of the Year for Canadian Music Week 2006.

CENTRAL

Within its markets, the Central Region is a leader in providing innovative programming and music, while retaining top rankings in listener tune-in. The Ottawa Hot 89.9 Morning Show hit the #1 spot in both its male and female target markets in 2005.

Sudbury's "Big Daddy" breaks the rules

This year Sudbury launched its new Big Daddy station, introducing for the first time in Sudbury a "play anything" station. This format breaks the rules of traditional radio.

Big Daddy is a risk taker with more than just its playlist. With such innovative fundraisers as "Sudbury's Hottest Mom" and "The Fugitive", a large-scale hunt taking place all around the city, Big Daddy has proven its ability to lead in the community.

The new Sudbury station was proudly designated as Media of the Year by the United Way, honouring their ongoing commitment to the community.

OUR RESULTS

The purpose of the Management's Discussion and Analysis (MD&A) is to provide readers with additional complementary information regarding Newfoundland Capital Corporation Limited's financial condition and results of operations and should be read in conjunction with the annual audited consolidated financial statements, prepared as of February 27, 2006, and related notes contained in this 2005 Annual Report. These documents along with the Company's Annual Information Form 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.

Management's discussion and analysis of financial condition and results of operations contains forward-looking statements. 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. Readers are cautioned not to place undue reliance on these statements. 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.

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in fiscal 2005.

Management's discussion and analysis

Corporate profile

Newfoundland Capital Corporation Limited (the Company) is one of Canada's leading small and medium market radio broadcasters with 71 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.

The Company has 42 FM and 29 AM licences spanning the country and employs over 750 radio professionals in Canada.

The majority of the Company's revenue is advertising-based and therefore subject to economic fluctuations. Revenue is generated by both the Company's sales team and through national sales representatives.

The shares of the Company trade on the Toronto Stock Exchange (TSX) under the symbols NCC.SV.A and NCC.MV.B. In 2006 the TSX will discontinue its symbol extension program, as a result, in May, the Company's symbols will revert back to the original symbols – NCC.A and NCC.B.

Industry overview

Revenue for radio stations is generated by the sale of advertising airtime. The success of radio broadcasters depends largely on their ability to compete for local and national advertising dollars by developing listener franchises within the markets they serve. High quality, engaging radio programming, overall awareness, community relations and sales promotion are some of the areas that give broadcasters a competitive edge. A radio station's share of market is also important in some cases in determining each station's revenue potential. Most mid-size and major radio markets are surveyed by a rating service to determine how much of the listening public tune in to one station over another; the better a station is rated, the more attractive that station becomes to local and national advertisers, translating into increased revenue. Advertisers are also concerned with the demographic analysis of each station's target market. Intelligence such as the listener's age group, gender, and listening hours allows advertisers and our sales force to focus on achieving maximum reach to the desired audience.

The industry is regulated by The Canadian Radio-television and Telecommunications Commission (CRTC). Broadcast licences typically have a licence term of seven years; renewals of which are rarely withheld unless serious violations of CRTC regulations and/or conditions have occurred. The Company takes the conditions imposed by the CRTC in awarding licences very seriously and has procedures in place to ensure compliance in every respect. All of the broadcast licences of the Company are in good standing.

Strategy and objectives

The Company seeks to be the broadcaster of choice in the communities it serves. It recruits and retains the best and brightest people in the industry in order to offer its listeners and customers an innovative, high-quality product. The Company is committed to its long-term vision of increasing its presence in Canadian markets of all sizes and seeks out sound investments in broadcast licences to achieve this goal. The Company will continue to apply to the CRTC for new licences to support its growth objective. In terms of maximizing the return of existing radio assets, the Company is focused on growing organic revenue, reducing operating expenses, implementing operational improvements where necessary, and successfully integrating new properties into current operations.

Long-term objectives

The Company's previously disclosed long-term vision to expand its presence in Canadian markets continues to be a primary objective. The execution of this goal is reliant upon the addition of broadcast licences through business acquisitions and newly awarded licences following successful applications to the CRTC. Additional broadcast licences will result in increased asset values and higher profitability which translates into enhanced shareholder value; another of the Company's primary long-term goals.

In 2005, the Company made progress toward this objective. Four business and licence acquisitions were completed and as a result, over $30 million was added to total asset value. In June, the Company was awarded a second FM radio licence in Ottawa by the CRTC, adding another important major market radio licence to its portfolio. This new licence complements the Company's existing FM station in one of Canada's major radio revenue markets.

The Company will pursue business and licence acquisitions as attractive opportunities arise. It will also actively make applications to the CRTC for new licences.

Short-term objectives

In the short-term, objectives are clearly focused on the Company's existing properties and their day-to-day results. 2005 was a year of investment in the future. For 2006, the focus is on growing revenue, actively managing expenses and effectively integrating the recent acquisitions.

The Company is skilled and experienced at targeting its programming to its particular listening audience, and positions itself as the station of choice in the markets that it serves. However, the Company faces increased competition in many markets where new licences have been awarded to competitors. As such, investing in promotional activities is essential to the Company's business plan, and 2005 was no exception. The Company invested more money on marketing its radio stations in 2005 than ever before in its history. The benefits have been evidenced by way of increased radio revenue in most markets and the strong rankings of the Company's stations in this year's Broadcast Bureau of Measurement

Melissa Wright, Mid-day Host, K-ROCK 97.3, Edmonton, Alberta

(from left) Katfish Morgan, Shirley Roy and Darryl Kornicky, The Live 88.5 Morning Show Team, Live 88.5, Ottawa, Ontario

Rich Horner, News Director, Q104, 96.5 KOOL FM and 780 KIXX, Halifax, Nova Scotia

(BBM) radio ratings. The Company is diligent in measuring the return on every dollar spent for promotional activities to ensure each initiative meets its target objective. These expenditures are expected to continue in the future, leading to increases in revenue.

Corporate developments

In 2004 and 2005, the Company added 2 television licences and 12 FM licences to its portfolio and converted 3 AM signals to FM. The following sections describe in detail the corporate developments over the past two years.

Acquisitions and approvals of new licences by the CRTC

Western

To further strengthen the Company's continued commitment to serve the Alberta radio community, the broadcasting assets of Shortell's Limited, and its related companies, were purchased on January 31, 2005 for $14.2 million. The assets acquired include three FM radio licences (CKSA-FM, its repeater and CILR-FM), two television licences (CKSA-TV and CITL-TV) and an outdoor billboard business. This is the Company's introduction to television broadcasting and outdoor billboard advertising. The addition of these new advertising media is expected to increase revenue opportunities through the cross-promotion of radio, television, and billboard. Newcap TV has already gained strong momentum in terms of viewership and is building brand equity in its market with an improved and revamped programming schedule. According to BBM television ratings released in January 2006, Newcap TV has improved its rating and market share dramatically. These increases are in most day-parts including the all-important evening news broadcast.

The Company acquired 100% of the common shares of 4323041 Canada Inc. (4323041) entitling it to the broadcast licences, property, assets, and rights used in connection with the operation of two FM radio licences, CKGY and CIZZ, in Red Deer, Alberta. The purchase price was $9.1 million and was completed on September 26, 2005. This was an important addition to the Company's portfolio because Red Deer is an area that has been termed as "Canada's Economic Corridor". Red Deer is geographically located between the two major Alberta centres – Calgary and Edmonton.

Subsequent to year end, the CRTC awarded the Company an FM licence to broadcast in Lac La Biche, Alberta. Lac La Biche is a thriving community located in the area of Canada's oil sands development. Newcap Radio will be the first commercial radio station for this community.

Central

On December 5, 2005, the Company acquired 80.1% of the common shares of CKVN Radiolink System Inc. (CKVN). The initial 19.9% of the common shares had been purchased on February 2, 2005. This acquisition entitles the Company to the broadcast licence, net assets, and rights used in connection with an FM radio licence in Winnipeg, Manitoba. The total purchase price was $1.4 million.

On the heels of the acquisition of CKVN, the Company announced on December 16, 2005, that it had entered into an agreement to purchase CKJS Limited, which holds the CKJS-AM radio broadcast licence in Winnipeg, for $1.8 million. This represents the Company's second acquisition in Manitoba and demonstrates its continued commitment to growing its broadcast network across the country. The acquisition is pending approval by the CRTC with a decision expected in 2006.

On May 30, 2005, the Company paid $2.0 million to purchase assets of Big Pond Communications (2000) Inc. (Big Pond) in Thunder Bay, Ontario. The primary assets acquired were equipment and the broadcasting licence to operate CJUK-FM. This broadcasting licence complements the Company's existing FM radio licence in this market.

In June 2005, the Company was awarded a new FM radio licence to serve Ottawa by the CRTC. This is an important accomplishment for the Company, as Ottawa is the fourth largest market by population and the fifth largest by radio revenue. It also complements the Company's other FM station in this market.

Launch of new stations

Western

To better serve smaller communities in Alberta which currently have AM services, the Company requested approval from the CRTC for three new FM licences and permission to convert three AM signals to FM. The launch of six new FM services in Alberta began in 2004 with stations launched in Hinton, Cold Lake and Jasper. In January of this year the Wainwright station went on-air. Branded Wayne-FM, the station showcases adult contemporary music. The two remaining stations in Brooks and Camrose were launched in the Fall and have both been well received by listeners and advertising clients.

In the Spring of 2005, the Company received CRTC approval to convert its FM repeater signal in Whitecourt, Alberta to full station status. The originating station called "The Rig" with a rock-based music format was launched in early July 2005. Late in 2005, the Company also received CRTC approval for a conversion from AM to FM for its radio station in Slave Lake. This conversion will take place in 2006.

Central

The newly awarded FM licence in Ottawa, discussed above, was launched on Boxing Day 2005. Live 88.5, featuring an alternative rock music format, has received tremendous feedback from listeners and advertisers alike. Combined with its sister station, HOT 89.9, the two radio stations target the lucrative 18-49 year old sales demographic.

Eastern

In November 2004, the Company was awarded a new FM broadcast licence to serve Fredericton, New Brunswick. The classic rock radio station, FRED-FM, broadcasting at 92.3 FM was launched at the end of July 2005. The response to the station has been very positive. The station debuted at #1 in overall tuning and many key demographics in the Fall 2005 rating report.

Selected annual financial information

Business and licence acquisitions between 2003 and 2005 are the primary reasons for the growth in revenue and assets over the past three years. In addition, the Company has had the following one-time events. The Company's interest in Optipress Inc. was sold in January 2004, resulting in a $2.5 million gain on disposal which is included in the Company's 2004 net income. A non-recurring $3.5 million settlement paid by the Company to Halterm Limited pursuant to an indemnity claim had a negative effect on net income and earnings per share in 2005.

(thousands of dollars except share data)	**2005**	2004	2003
Revenue	**$ 80,563**	66,529	61,502
Net income	**6,032**	10,164	6,085
Earnings per share			
Net income			
– basic	**0.53**	0.85	0.51
– diluted	**0.51**	0.84	0.51
Total assets	**$ 213,507**	155,724	160,082
Long-term debt	**53,285**	15,073	26,595
Outstanding shares (thousands)			
Class A Subordinate Voting Shares	**10,040**	10,467	10,643
Class B Common Shares	**1,258**	1,258	1,258
Dividends declared			
Class A Subordinate Voting Shares	**$ 0.30**	0.10	0.10
Class B Common Shares	**0.30**	0.10	0.10

Consolidated operating results

The Company has one separately reportable segment – broadcasting, which derives its revenue from the sale of broadcast advertising. Corporate and other derives its revenue from hotel operations.

Revenue

			Growth	
(thousands of dollars except percentages)	**2005**	2004	Total	Organic
Revenue				
Broadcasting	**$ 77,503**	63,384	22.3%	9.8%
Corporate and other	**3,060**	3,145	(2.7%)	(2.7%)
	$ 80,563	66,529	21.1%	9.2%

Consolidated revenue of $80.6 million was a 21.1% improvement over 2004. Organic growth (same-station growth) of 9.2% contributed to this improvement, while new station revenue accounted for the balance of the growth. In the fourth quarter, organic growth of 8.4% contributed to the increase in revenue, while new station revenue accounted for 20.6% of the improvement.

Same-station revenue generated in Ottawa is 51.6% higher than the same time last year. Stations in the small-market Alberta group have benefited from enhancements and changes completed in the last two years and is evidenced by revenue increases in 2005 of 13.4% over 2004. Edmonton has also improved its revenue this year by 11.6%. Building strong relationships with customers, continuously evolving the sales strategies, and delivering high-quality radio content are contributing to organic growth.

The new station revenue growth of 11.9% described above is a result of incremental revenue from the Lloydminster, Thunder Bay, Red Deer and Winnipeg acquisitions, and the launch of new stations in Alberta and New Brunswick.

Corporate and other revenue was on par with the prior year.

The industry as a whole benefited from strong sales both nationally and locally in 2005. The demand for radio advertising increased this year and the Company benefited as a result. In particular, demand for inventory at the Company's Ottawa station has outpaced industry revenue growth by over 40.0%.

Other income

Other income increased by $0.9 million due to increased investments and improved income from these investments.

Operating expenses

The integration of the new operations in Lloydminster, Thunder Bay, Red Deer, and Winnipeg and new station launches has increased operating expenses. Operating expenses increased to $65.0 million or 22.5% over last year with over 50.0% resulting from incremental expenses incurred to integrate and launch the new stations. The Company also incurred additional expenses associated with moving to new premises in Charlottetown and Edmonton and to support promotional activities to improve the Company's ratings, market share and revenue across all markets. The remainder relates to the variable costs associated with higher revenue and inflationary increases. Fourth quarter operating expenses were $5.9 million higher than the same period last year. 50.0% of the increase was due to costs associated with the incremental operations. The remainder was attributable to increased spending on promotional activities as discussed above.

Earnings before interest, taxes, depreciation and amortization (EBITDA[1])

(thousands of dollars except percentages)	2005	2004	Growth Total	Growth Organic
EBITDA				
Broadcasting	**$ 22,366**	18,975	17.9%	12.1%
Corporate and other	**(4,123)**	(3,765)	(9.5%)	(9.5%)
	$ 18,243	15,210	19.9%	12.8%
% of Revenue				
Broadcasting	**28.9%**	29.9%	(1.0%)	–
Total	**21.9%**	22.3%	(0.4%)	–

EBITDA is $3.0 million ahead of last year due primarily to the upward trend in broadcasting operations, growing 17.9% to $22.4 million at year end. Organic improvements led to 12.1% of the growth in broadcasting EBITDA while incremental EBITDA from the four business and licence acquisitions accounted for the remaining 5.8%.

An increase in non-cash stock-based compensation expense this year, along with corporate personnel restructuring contributed to the $0.4 million reduction in Corporate and other EBITDA.

Depreciation and amortization

Depreciation and amortization expense is $1.0 million higher compared to 2004. The increase is due to an increased depreciable asset base as a result of acquisitions and new station launches.

Interest expense

Interest expense of $1.7 million has doubled over last year's $0.8 million. Higher interest rates and higher average debt levels resulting from the business and licence acquisitions and capital investments are the reason for this increase.

Other items

The Company recognizes its proportionate share of income or loss of the equity-accounted investment in the Kitchener-Waterloo FM licence. In 2005, the Company's share of losses was $0.2 million, compared to last year's $0.3 million.

The Company incurred a $3.5 million charge on a settlement during the year with respect to an indemnity claim by Halterm Limited. Further information on this matter is described in the *Risks and Opportunities* section.

The Company sold a portion of its long-term investment in the Halterm Income Fund in the fourth quarter of 2005 and realized a gain of $0.8 million. This gain, combined with distributions received in 2004 and 2005, and the inherent unrealized gain on the units the Company still holds, exceeds the amount incurred on the settlement.

Income taxes

The effective income tax rate this year is 37%, on par with the statutory rate of 36%.

Non-controlling interest in subsidiaries' earnings

Non-controlling interest in subsidiaries' earnings represents the 23.7% that Standard Radio Inc. holds in certain Alberta licences and the 37.8% that minority shareholders have in the Moncton, New Brunswick licences. This year's $0.6 million is 61% higher than last year's due to better performance of the licences, particularly in Alberta.

Net income

(thousands of dollars except percentages)	2005	2004
Net income	**$ 6,032**	10,164

Year-to-date net income has been affected by the $3.5 million settlement. The prior year included a $2.5 million gain on disposal of equity investment. Excluding these two non-recurring events, net income for the year would have been ahead of 2004.

Selected quarterly financial information *(unaudited except totals)*

The Company's revenue and operating results vary depending on the quarter. The first quarter tends to be a period of lower retail spending and as a result, advertising revenue is lower. Net income in the first quarter of 2004 included the recognition of the gain on disposal of the Optipress investment. The net loss in the third quarter of 2005 was a direct result of the Halterm settlement.

		Quarter				
(thousands of dollars, except share data)		1st	2nd	3rd	4th	Year
2005						
Revenue	**$**	**15,689**	**20,915**	**19,359**	**24,600**	**80,563**
Net income (loss)		**1,496**	**3,090**	**(1,245)**	**2,691**	**6,032**
Earnings per share						
– basic		**0.13**	**0.27**	**(0.11)**	**0.24**	**0.53**
– diluted		**0.13**	**0.27**	**(0.11)**	**0.23**	**0.51**
2004						
Revenue	$	13,279	18,061	16,120	19,069	66,529
Net income		2,567	2,558	1,607	3,432	10,164
Earnings per share						
– basic		0.21	0.21	0.13	0.29	0.85
– diluted		0.21	0.21	0.13	0.29	0.84

Liquidity and capital resources

Selected cash flow information

Cash flow from operating activities was $3.9 million; $9.2 million lower than last year. The decrease is due to a $4.1 million decrease in net income combined with the change in non-cash working capital, which fluctuates during the year depending on balances of current assets and current liabilities.

Cash flow from operating activities combined with long-term borrowings totalled $42.1 million. The major uses of this cash included $26.3 million in business and licence acquisitions, $8.7 million in capital assets, $6.5 million of capital stock repurchases and dividend payments of $2.9 million. In the prior year, cash flow from operating activities and the proceeds from the disposition of the equity investment totalling $24.4 million was primarily used to reduce bank debt by $11.6 million, repurchase $4.7 million of capital stock, invest $2.6 million in Halterm Income Fund Trust Units and to purchase $2.5 million of capital assets.

The majority of the investment in capital assets this year related to the new services and upgrades in Alberta. Other capital expenditures include:

- the consolidation of operations and employees into one location in Edmonton;
- the launch of the new FM station in Fredericton;
- the relocation to new premises in Charlottetown; and
- the launch of the new FM station in Ottawa.

The Company expects its level of cash flow to be sufficient to fund its working capital, capital expenditures, contractual obligations and other cash requirements going forward. The previously disclosed business and licence acquisition in Winnipeg, Manitoba for consideration of $1.8 million will be funded from the Company's existing credit facility. This acquisition is subject to the approval of the CRTC.

Capital structure and debt financing

As at December 31, 2005, the Company had $2.0 million of current bank indebtedness outstanding and $53.3 million of long-term debt, of which less than $0.1 million is current. The Company has also issued standby letters of credit totaling $1.9 million in support of certain long-term liabilities. The working capital of $1.7 million at year end compares favourably to last year's $2.2 million working capital deficiency. The primary reason for this positive change is the increase in current assets.

Credit facility

In light of the Company's business and licence acquisitions in 2005, the revolving credit facility was increased during the year by $10.0 million. As at year end, the Company's primary credit facility is a $65 million revolving term credit facility that is renewed annually. The current credit facility allows sufficient capacity to fund the announced Winnipeg acquisition. The Company renewed the facility subsequent to year end, which will now mature in April 2007. As a result, no portion of the revolving facility has been classified as current. If the Company renews its facility annually under the same terms and conditions, there will be no fixed repayment schedule. Up until the maturity date, the Company has the option to convert the revolving credit facility to a non-revolving facility, repayable in quarterly instalments over two years.

The Company has chosen this type of credit facility because it provides flexibility with no scheduled repayment terms. Covenants for the facility require that the Company maintain certain financial ratios. The Company was in compliance with these covenants throughout the year and at year end. The Company expects to be in compliance with these covenants for the foreseeable future.

The Company has an interest rate swap agreement to hedge interest rate risk whereby the Company will exchange the three-month bankers' acceptance floating interest rate for a fixed interest rate during the term of the agreement which expires July 4, 2006.

(from left) Steve Zimmerman, Terry Evans and Bill Cowan, The Morning Show Team, K-ROCK 97.3, Edmonton, Alberta

Lisa Marshall, Morning Show Co-Host, Classic Rock C103, Moncton, New Brunswick, rappels down Assumption Place in aid of Easter Seals

BJ Burke of BJ and the Q Morning Crew, Q104, Halifax, Nova Scotia

The notional amount of the swap totals $5.0 million (2004 – $15.0 million). 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 fair value of the interest rate swap agreement at year end is a net payable of $8,000 (2004 – $145,000) and has not been recognized in the accounts as the interest rate swap qualifies for hedge accounting. An agreement having a notional amount of $10.0 million expired in July 2005; the accounting impact of the expiry was not significant.

On February 27, 2006, the Company entered into two new interest rate swap agreements. A nominal amount of $20.0 million expires February 27, 2009 and another $5.0 million expires February 27, 2011. These agreements qualify for hedge accounting.

Dividends declared

This year the Board of Directors declared a total of $0.30 per share in dividends on each of its Class A Subordinate Voting Shares and Class B Common Shares. A $0.15 per share dividend was payable on August 31, 2005 to all shareholders of record as at August 15, 2005 and a $0.15 per share dividend was paid January 31, 2006 to shareholders of record at the close of business on December 30, 2005.

Other liabilities

Other liabilities have increased by a net amount of $7.0 million. $2.6 million of the increase is due to deferred tenant inducements while the remainder is due to an increase in the Company's commitments to fund Canadian Talent Development. The Company's increased commitment to fund Canadian Talent Development is a result of the business and licence acquisitions completed in 2005 and the significant commitments put forward in the newly awarded licences.

Capital budget

The capital budget for 2006 approximates $5.0 million. $1.1 million is budgeted for the launch of new stations; $0.7 million for the integration costs in Winnipeg, while the balance relates to upgrades throughout the organization to be completed in 2006. The Company upgrades its broadcast equipment on a continuous basis to improve operating efficiencies.

Contractual obligations

The Company has various contractual obligations that are recorded as liabilities in the consolidated financial statements. Other items such as operating leases, purchase and acquisition commitments are not recognized as liabilities. The following table summarizes significant contractual obligations and commitments as at December 31, 2005 and the future periods in which the obligations are expected to be paid. In addition, the table reflects the timing of principal payments on outstanding borrowings. Additional details regarding these obligations are provided in the notes to the consolidated financial statements, as referenced in the table.

	2006	2007	2008	2009	2010	Thereafter	**Total**
Long-term debt (note 5)	$ 23	13,508	26,523	13,254	–	–	**53,308**
Canadian Talent Development commitments (note 6)	2,087	2,461	2,299	2,347	1,105	2,035	**12,334**
Operating leases (note 15(a))	3,183	2,689	2,124	1,754	1,507	11,482	**22,739**
Non-controlling interest purchase commitment (note 15(a))	–	–	–	5,552	–	5,552	**11,104**
Business acquisition (note 15(b))	1,800	–	–	–	–	–	**1,800**
Total contractual obligations	$ 7,093	18,658	30,946	22,907	2,612	19,069	**101,285**

Long-term debt and Canadian Talent Development commitments are recorded as liabilities on the Company's balance sheet. All of the other commitments are disclosed in the notes to the consolidated financial statements.

The minimum required principal repayments for long-term debt are determined under the assumption the Company exercises the option to convert to a non-revolving term as described in the Liquidity and Capital Resources section. Long-term debt will increase by a further $1.8 million if the pending business acquisition that is before the CRTC, as described earlier, is approved.

In accordance with a purchase and sale agreement, the Company is committed to acquire 50% of a broadcasting property's non-controlling interest in April 2009 for $5.6 million. The remaining half becomes due in April 2012.

The Company also has obligations with respect to its employee benefit plans, as discussed in note 7 to the consolidated financial statements. The Supplementary Retirement Pension Arrangements (SRPAs) provide benefits above and beyond that which can be provided under the Income Tax Act, and therefore are not pre-funded. As a result, the Company's annual funding obligation approximates $0.5 million. There are no similar obligations under the Company's Basic Plan as it is fully funded.

Capital employed

Year end assets amounted to $213.5 million, up from $155.7 million at December 31, 2004. Increased broadcast licences of $29.0 million, capital assets of $4.1 million and goodwill of $3.6 million, the result of business and licence acquisitions and new station launches, accounted for over half of the increase. The remainder of the increase is primarily a result of other capital asset additions of $8.7 million, and an overall increase in current assets.

The capital structure consisted of 38.8% equity ($82.9 million) and 61.2% debt ($130.6 million) at year end. Total bank debt as a percentage of equity has increased to 66.6% from 18.1% in 2004 due to the business and licence acquisitions this year. The total bank debt to EBITDA ratio is 3.0 to 1.0.

Share repurchases

The Company repurchased 448,400 (2004 – 407,500) of its outstanding Class A Subordinate Voting Shares for a total cost of $6.5 million (2004 – $4.7 million), pursuant to a Normal Course Issuer Bid. Subsequent to year end, the Company received approval under a Normal Course Issuer Bid to repurchase up to 498,235 Class A Subordinate Voting Shares and 62,913 Class B Common Shares. This bid expires January 29, 2007.

Executive stock option plan

The Company has reserved 1,564,506 Class A Subordinate Voting Shares pursuant to the executive stock option plan of which 115,756 remain available for issuance at December 31, 2005. During the year, the Company issued 21,200 (2004 – 232,000) Class A Subordinate Voting Shares for proceeds of $0.2 million (2004 – $1.9 million) pursuant to the executive stock option plan described in note 8. During the year, 100,000 (2004 – 200,000) options were granted at a weighted average exercise price of $13.80 (2004 – $11.43). The weighted average number of shares outstanding at December 31, 2005 is 11,435,000 (2004 – 11,911,000). As of February 27, 2006, there are 9,965,000 Class A Subordinate Voting Shares and 1,258,000 Class B Common Shares outstanding. The Company has 883,800 outstanding stock options, of which 706,300 are vested, for Class A Subordinate Voting Shares at prices ranging from $7.30 to $13.80. Subsequent to year end, 115,000 stock options were granted at a price of $16.53, of which 15,000 options vested on the date of grant.

Accounting policies

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The Company's accounting policies remained unchanged in 2005, except for the newly adopted policy described in Note 1(e) "Deferred tenant inducements", explained as follows. In common with many lease agreements, the Company receives tenant inducements in exchange for making long-term commitments for leased premises. These inducements may be in the form of rent-free periods, reduced rent, or the provision of leasehold improvements. These inducements are being recognized as reduced rental expense on a straight-line basis over the term of the lease.

The Company also considered the impact of the Canadian Institute of Chartered Accountants' (CICA) new recommendations on *Consolidation of Variable Interest Entities (VIEs),* which are entities that have insufficient equity at risk to finance their operations without additional subordinated financial support and/or entities whose equity investors lack one or more of the specified essential characteristics of a controlling financial interest. These recommendations provide a framework for identifying VIEs and determining when a company should include the assets, liabilities and results of operations of VIEs in its consolidated financial statements. The Company has determined that it did not and does not have any VIEs and therefore these new recommendations had no impact on the Company's financial position and results of operations for the year.

Critical accounting estimates

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

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

Shannon Tyler, of the Big Early Morning Show, Big Earl 96.3, Edmonton, Alberta

(from left) Mark Maheu, Executive Vice President and COO, Newcap Radio, Ken Baker, Mayor of Lloydminster, and Mike Keller, General Manager, Newcap TV, at the launch of Newcap TV, Lloydminster, Alberta

Vince Gallant, VOCM News, St. John's, Newfoundland and Labrador

Accounts receivable

The Company makes a provision for doubtful accounts based on a market-by-market and client-by-client basis to provide for possible uncollectible accounts. This requires judgment on the part of local station management and prior collection history.

Property and equipment

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

Impairment of long-lived assets

Long-lived assets primarily include property and equipment. An impairment loss is recognized when the carrying value of an asset exceeds its fair value which is the sum of the undiscounted cash flows expected from its use and eventual disposition. The Company tests the recoverability of its long-lived assets regularly or more frequently when events or circumstances indicate that the carrying values may not be recoverable. While the Company believes that no provision for impairment is required, management must make certain estimates regarding the Company's profit projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in charging future results with an impairment loss.

Broadcast licences and goodwill

The Company performs asset impairment assessments for broadcast licences and goodwill on an annual basis, or on a more frequent basis when circumstances indicate impairment may have occurred. The Company has selected December 31 as the date it performs annual impairment testing. The assessments used to test for impairment are based on discounted cash flows which are derived from internal company profit projections that include assumptions about growth rates and other future events. Industry information is used to estimate appropriate discount rates used in the calculation of discounted cash flows. No provision for impairment is required.

The fair value of the Company's broadcast licences and goodwill is subject to adverse changes if the Company experiences declines in cash flow, negative industry or economic trends or if future performance does not meet management's expectations.

Employee future benefit plans

In valuing its defined benefit pension assets and obligations, the Company uses the projected benefit method pro-rated on services and best estimate assumptions. These assumptions include the discount rate on plan liabilities, the expected long-term rate of return on plan assets and the rate of compensation increase. The Company reviews these estimates annually with its actuaries and compares them to industry practices to ensure estimates are reasonable. Any changes to assumptions could affect the valuation of the Company's defined benefit pension assets and obligations.

Stock-based compensation

Note 8(b) of the consolidated financial statements summarizes the assumptions used in computing the fair value of stock-based compensation expense. These assumptions were determined using comparable available market and historical data. The Company believes the assumptions used are reasonable based on currently available information; however, to the extent that the assumptions prove to be different, future results could vary.

Income taxes

Future income tax assets and liabilities are measured using the substantively enacted tax rates which are expected to be in effect when the differences are expected to be recovered, settled or reversed. Future income tax assets are recognized to the extent that it is more likely than not that the benefits will be realized. To determine the provision for income taxes, certain assumptions are made, including filing positions on certain items and the ability to realize future tax assets. In the event the outcome differs from management's assumptions and estimates, the effective tax rate in future periods could be affected.

Off-balance sheet transactions

The Company does not have any material off-balance sheet transactions.

Related party transactions

Inter-company balances and transactions of the Company's subsidiaries are eliminated upon consolidation. Related party transactions during the year were reviewed and there were no material transactions requiring separate disclosure in the notes to the financial statements.

Disclosure controls and procedures

As at December 31, 2005, under the supervision of, and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, an evaluation of the effectiveness of the Company's disclosure controls and procedures was undertaken. Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operating effectiveness of the disclosure controls and procedures were effective as at December 31, 2005 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

Risks and opportunities

The Company is subject to a number of risks and uncertainties, the more significant of which are discussed below. Additional risks and uncertainties not presently known to the Company may impact its financial results in the future.

Dependency on advertising revenue

The Company's revenue is derived primarily from the sale of advertising directed at retail consumers. This revenue fluctuates depending on the economic conditions of each market and the Canadian economy as a whole. The Company takes steps to mitigate this risk by retaining a degree of geographic and sectoral diversification.

Other media compete for advertising dollars, such as print, television, direct mail, and on-line services. In many instances, these competitors are targeting the same advertisers as radio broadcasters and advertising dollars are often shifted between the different media. While there is no assurance that the Company's radio stations will maintain or increase their share of the advertising dollars, the Company does attempt to reduce any loss to other media by creating long-term relationships with customers and providing an innovative, high-quality product.

General competition

The Company faces competition in some of its markets which impacts the Company's audience and revenue share and the level of promotional spending required to remain competitive. Any changes to the competitive state of these markets could adversely affect the Company's financial results. The Company takes steps to mitigate these risks by constantly modifying its product and performing market research to ensure it is meeting the needs of its listener base. The Company operates in many markets where it is the sole commercial radio service provider.

New market entrants

The Company is facing new competition in two of its significant markets – Edmonton and Halifax. In the Edmonton market, four new licences with formats of modern rock, urban, smooth jazz and Aboriginal, were awarded in 2004. The Company strategically changed the format of one of its FM stations to cater to a different, more broad-based audience. This change is expected to mitigate reduction in listeners and target a more valuable advertising demographic. News-talk stations were launched in Halifax and Moncton in 2005 but have not impacted the Company's listener base or revenue share. The other two new Halifax stations are expected to be launched in early 2006 and are not expected to have a significant impact on the Company's market share or revenue. As with all its other markets, the Company is confident it can compete effectively with new competition.

Impact of regulation

The Company is regulated by the CRTC under the Broadcasting Act. Although this regulatory body provides a stable operating environment, the Company's financial results may be affected by changes in regulations, policies and decisions made by the Commission. The current regulations with respect to the maximum number of broadcast licences held in any one market, the percentage of foreign ownership, the required level of Canadian content and other aspects of the regulations could change in the future. The Company actively monitors the regulatory environment to ensure it is aware of all risks and opportunities.

The licencing process creates a significant barrier to entry which provides a degree of protection for the Company in its existing markets. This also makes it difficult to enter new markets because a company either needs to be awarded a new licence (through the public process) or pay significant funds for existing stations in a market.

Regulatory rulings – Local Management Agreements

In late 1999, the CRTC ruled that Local Management Agreements (LMAs) would no longer be allowed without prior approval. An LMA is an agreement between two or more licencees relating to aspects of the management, administration or operation of two or more stations within the same market. The Company has notified the CRTC that it has voluntarily disbanded all of its LMAs as of May 30, 2004.

Regulatory rulings – Local Sales Agreements

On January 31, 2005, the CRTC released Public Notice 2005-10 that contained a new interpretation of broadcast regulations governing Local Sales Agreements (LSAs) between radio broadcasters in the same market. These arrangements benefited the radio industry by achieving efficiencies in smaller markets. The Company had LSAs in Halifax, Charlottetown and Sudbury that were affected by Public Notice 2005-10. The licences in those markets had been renewed, containing a "condition of licence" that the agreements be terminated by May 31, 2005. Management complied with the CRTC's Public Notice 2005-10 and all conditions were satisfied within the

Tom Shock, Afternoon Drive Host, 92.3 FRED-FM Fredericton, New Brunswick

(from left) Kirk MacKinnon and Kerri Wynne MacLeod, The Morning Team, with Program Director Gerard Murphy, 720 CHTN, Charlottetown, Prince Edward Island

Randy LeMay, General Manager, Edmonton Radio Group, Edmonton, Alberta

appropriate time frame in the affected markets. Management took steps to minimize reductions in operating efficiencies that were experienced by stations in the affected markets.

Regulatory rulings – Satellite subscription-based music services

In Public Notice 2005-61 the CRTC approved satellite subscription-based music services. These services will broadcast in markets across Canada and will be able to offer a broad range of spoken word and music programming channels for a monthly fee. The impact on conventional local radio broadcasters is not expected to be significant as a result of restrictions imposed by the CRTC which preclude the satellite services from offering local programming content and broadcasting local advertisements.

Regulatory environment – Radio tariffs

The Company is subject to certain fees, which in aggregate are approximately 6% of radio broadcasting revenue. Licence fees are payable to the CRTC, while copyright fees are payable to the Society of Composers, Authors and Music Publishers of Canada (SOCAN), the Neighbouring Rights Collective of Canada (NRCC), the Canadian Musical Reproduction Rights Agency (CMRRA) and the Society for Reproduction Rights of Authors, Composers and Publishers in Canada (SODRAC) based on rates set by the Copyright Board of Canada. The CMRRA/SODRAC fee came into effect in 2003 (retroactive to January 1, 2001) when the Copyright Board rendered its decision on new reproduction fees based on broadcasting revenue. The structure of the fees is graduated based on the level of revenue for each broadcast licence that uses reproduction to air music, which is generally the case with most radio stations.

A Copyright Board hearing with respect to a renewal of the SOCAN and NRCC fees took place in 2004. The Company had a representative testify at the hearing in support of the Canadian Association of Broadcasters' (CAB) position. As previously disclosed by the Company in its third quarter results, on October 14, 2005, the Copyright Board of Canada rendered its decision that increased the royalties that commercial radio stations will pay to SOCAN and to the NRCC for their use of music. For revenue per broadcast licence of $1.25 million and lower, the SOCAN rate remains unchanged at 3.2% of revenue. For revenue in excess of $1.25 million, the rate increases to 4.4% of revenue. The NRCC rate remains unchanged for amounts below $1.25 million, however, increases from 1.44% to 2.1% for revenue in excess of this threshold. These rate increases are retroactive to January 1, 2003. The Company began making a provision for possible rate increases in 2004 and has recorded an obligation based on the ruling up to and including the end of December 2005.

Radio industry members are vigorously represented by the CAB to ensure any fees imposed are fair and reasonable. The Company takes an active role by having a member on the Board of the CAB.

Technological developments

With the advent of new or alternative media technologies such as satellite radio, digital radio, the Internet, wireless broadcasting and podcasting, competition for broadcasting advertising revenue and listeners has and will continue to increase. This increased competition could have the impact of reducing the Company's market share, its ratings within a market, or have an adverse effect on advertising revenue locally and nationally. While such technologies could adversely impact operating results, the Company continuously seeks to achieve competitive advantages to stay on top of emerging technologies.

Contingencies – Settlement reached in 2005

In connection with the disposition of the Company's interest in a container terminal ("Halterm") to the Halterm Income Fund (the "Fund") in May 1997, and, in particular, in respect of a long-term management services agreement under which the Company rendered management services to Halterm, the Company agreed in 1997 to indemnify Halterm for any material increases in the base rental fee payable by Halterm to the Halifax Port Corporation (now the Halifax Port Authority) for the first ten years of the first lease renewal term which commenced January 1, 2001. The indemnity was only applicable to the extent, if any, that such increases in the base rental fee result in a reduction in distributions to Fund unitholders to a level below that anticipated in the forecast included in the prospectus for the initial public offering of trust units of the Fund. On February 25, 2005 the Fund filed an Originating Notice and Statement of Claim pursuing a claim of $1,800,000 with respect to this indemnity for 2003 and a claim of $2,300,000 for 2004. Thereafter, the Company filed its Statement of Defence. On October 17, 2005, the Company reached a settlement with Halterm for $3,500,000 for all past, present and future claims.

Potential contingencies

The Company and its subsidiaries are involved in various other legal actions which arise out of the ordinary course and conduct of its business. Management believes any potential liabilities that may result from these actions have been adequately provided for and are not expected to have a material adverse effect on the Company's financial position or its results.

Outlook

Advertising revenue momentum continues to be positive for the first part of 2006. The Company's financial performance will benefit from overall market growth, the integration of the new radio station assets acquired in 2005, and the sustained positive ratings of its stations located in competitive markets.

In terms of integration activities, the Company is presently incorporating the Winnipeg operations into its programming, networking and sales infrastructure. The Thunder Bay, Lloydminster, and Red Deer acquisitions are positively contributing to operating results and shareholder value after successful transition periods. The Company is hopeful that the CRTC will render a favourable decision on the previously disclosed purchase agreement for a second radio licence in Winnipeg, where this acquisition will allow management to benefit from operating synergies in that market.

In addition to the integration of the recent acquisitions, the Company is focused on its two new station start-ups in Fredericton and Ottawa. The Company is also awaiting CRTC decisions on applications in Charlottetown, Calgary and in other markets.

The Company will continue to seek out strategic opportunities to expand its geographic reach. With regard to the new business and licence acquisitions, the Company continues to manage the integration process to ensure minimal disruption to operations.

With the significant investments made this year in new operations, in 2006 the Company will focus on revenue growth and expense management. All the Company's objectives are expected to achieve the broader goal of increasing shareholder value.

Non-GAAP measure

(1) EBITDA is defined as net income excluding depreciation and amortization expense, interest expense, loss on equity accounted investment, settlement, gain on disposal of long-term investments, provision for income taxes and non-controlling interest in subsidiaries' earnings. A calculation of this measure is as follows:

		Year ended December	
(thousands of dollars)		**2005**	2004
Net income	$	**6,032**	10,164
Non-controlling interest in subsidiaries' earnings		**583**	361
Provision for income taxes		**3,888**	3,827
Gain on disposal of long-term investments		**(840)**	(2,451)
Settlement		**3,500**	–
Loss on equity accounted investment		**181**	296
Interest expense		**1,735**	840
Depreciation and amortization expense		**3,164**	2,173
EBITDA	**$**	**18,243**	15,210

This measure is not defined by Generally Accepted Accounting Principles and is not standardized for public issuers. This measure may not be comparable to similar measures presented by other public enterprises. The Company has included this measure because the Company's key decision makers believe certain investors use it as a measure of the Company's financial performance and for valuation purposes. The Company also uses this measure internally to evaluate the performance of management.

Management's responsibility for financial information

The consolidated financial statements and other information in this Annual Report are the responsibility of the management of Newfoundland Capital Corporation Limited. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. When alternative accounting methods exist, management chooses those it deems most appropriate in the circumstances. Management has prepared the financial information presented elsewhere in this report which is consistent with that shown in the accompanying consolidated financial statements.

Management has established and maintains a system of internal control which it believes provides reasonable assurance that, in all material respects, the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility with its Audit and Governance Committee which reviews the consolidated financial statements and the independent auditors' report and reports its findings to the Board for consideration. Upon recommendation from the Audit and Governance Committee, the Board approves the consolidated financial statements for issuance to the Company's shareholders. The Committee meets periodically with management and independent auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that the respective parties are properly discharging their responsibilities. The Audit and Governance Committee recommends the appointment of the Company's auditors, who have full and unrestricted access to the Committee.

On behalf of the shareholders, the consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards. Their opinion is presented hereafter.

signed (Robert G. Steele)

Robert G. Steele
President and
Chief Executive Officer

signed (Scott G.M. Weatherby)

Scott G.M. Weatherby
Chief Financial Officer and
Corporate Secretary

February 27, 2006

Auditors' report

To the shareholders of Newfoundland Capital Corporation Limited

We have audited the consolidated balance sheets of Newfoundland Capital Corporation Limited as at December 31, 2005 and 2004 and the consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

signed (Ernst & Young LLP)

Chartered Accountants
Halifax, Canada

February 27, 2006

As at December 31

Consolidated balance sheets

(thousands of dollars)	2005	2004
Assets		
Current assets		
Short-term investments (market value $12,628; 2004 – $2,657)	$ 11,570	2,560
Receivables	20,733	16,148
Note receivable (note 4)	948	950
Prepaid expenses	1,656	907
Total current assets	34,907	20,565
Property and equipment (note 3)	30,753	18,045
Other assets (note 4)	12,668	15,541
Broadcast licences (note 2)	128,799	99,805
Goodwill (note 2)	3,610	–
Future income tax assets (note 11)	2,770	1,768
	$ 213,507	155,724
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness (note 5)	$ 1,943	519
Accounts payable and accrued liabilities	22,134	13,944
Dividends payable	1,695	1,173
Income taxes payable	7,451	7,151
Current portion of long-term debt (note 5)	23	23
Total current liabilities	33,246	22,810
Long-term debt (note 5)	53,285	15,073
Other liabilities (note 6)	18,759	11,762
Future income tax liabilities (note 11)	14,143	8,963
Non-controlling interest in subsidiaries	11,149	10,868
Shareholders' equity	82,925	86,248
	$ 213,507	155,724

Commitments and contingencies (note 15)
See accompanying notes to consolidated financial statements

On behalf of the Board

signed (H.R. Steele)

H.R. Steele
Director

signed (D.I. Matheson)

D.I. Matheson
Director

For the years ended December 31

Consolidated statements of income

(thousands of dollars except per share data)		**2005**	2004
Revenue		$ **80,563**	66,529
Other income		**2,701**	1,768
		83,264	68,297
Operating expenses		**65,021**	53,087
Depreciation		**2,783**	1,791
Amortization of deferred charges		**381**	382
Operating income		**15,079**	13,037
Interest expense (note 5)		**1,735**	840
Loss on equity accounted investment		**181**	296
Settlement (note 15(c))		**3,500**	–
Gain on disposal of long-term investments (note 4)		**(840)**	(2,451)
		10,503	14,352
Provision for income taxes (note 11)		**3,888**	3,827
		6,615	10,525
Non-controlling interest in subsidiaries' earnings		**583**	361
Net income		$ **6,032**	10,164
Earnings per share (note 12)	– basic	$ **0.53**	0.85
	– diluted	**0.51**	0.84

See accompanying notes to consolidated financial statements

Consolidated statements of shareholders' equity

(thousands of dollars)	**2005**	2004
Retained earnings, beginning of year	$ **40,446**	34,429
Net income	**6,032**	10,164
Dividends declared	**(3,404)**	(1,173)
Repurchase of capital stock (note 9)	**(4,633)**	(2,974)
Retained earnings, end of year	**38,441**	40,446
Capital stock (note 9)	**43,635**	45,300
Contributed surplus (note 9)	**849**	502
Total shareholders' equity	$ **82,925**	86,248

See accompanying notes to consolidated financial statements

For the years ended December 31

Consolidated statements of cash flows

(thousands of dollars)	2005	2004
Operating activities		
Net income	**$ 6,032**	10,164
Items not involving cash		
Depreciation and amortization	**3,164**	2,173
Future income taxes (note 11)	**648**	629
Gain on disposal of long-term investments (note 4)	**(840)**	(2,451)
Employee defined benefit plans	**107**	(539)
Non-controlling interest in subsidiaries' earnings	**583**	361
Other	**338**	303
	10,032	10,640
Change in non-cash working capital relating to operating activities (note 13)	**(6,181)**	2,439
	3,851	13,079
Financing activities		
Change in bank indebtedness	**1,424**	(1,391)
Long-term debt borrowings	**38,235**	6,000
Long-term debt repayments	**(23)**	(17,577)
Issuance of capital stock (note 9)	**180**	1,869
Repurchase of capital stock (note 9)	**(6,536)**	(4,684)
Dividends paid	**(2,883)**	(1,190)
Canadian Talent Development commitment payments	**(2,034)**	(1,782)
Other	**(244)**	(188)
	28,119	(18,943)
Investing activities		
Note receivable	**1,000**	1,000
Property and equipment additions	**(8,713)**	(2,496)
Initial investment in business and licence acquisition (note 2)	**(356)**	–
Deposit for business and licence acquisitions (note 2)	**(200)**	(500)
Business and licence acquisitions (note 2)	**(25,725)**	–
Proceeds from disposition of equity investment (note 4)	**–**	11,295
Investment in Halterm Income Fund Trust Units (note 4)	**(268)**	(2,631)
Proceeds from disposal of Halterm Income Fund Trust Units (note 4)	**2,327**	–
Deferred charges	**(903)**	(48)
Other	**868**	(756)
	(31,970)	5,864
Cash, beginning and end of year	**$ –**	–

See accompanying notes to consolidated financial statements

December 31, 2005 and 2004

Notes to the consolidated financial statements

1. Summary of significant accounting policies

The Company is incorporated under the Canada Business Corporations Act and its shares are traded on the Toronto Stock Exchange. Its primary activity is radio broadcasting.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, the more significant of which are as follows:

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries as well as its proportionate share of assets, liabilities, revenues and expenses of jointly controlled companies.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could be different from those estimates.

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

(b) Investments

Short-term investments consist of shares of publicly traded companies and are valued, on an aggregate basis, at the lower of cost and market value at the balance sheet date. Investments in companies over which the Company exercises significant influence are accounted for by the equity method. Other long-term investments are accounted for at cost. Individual investments are written down to net realizable value when there has been a decline in value that is other than temporary.

(c) Property and equipment

Property and equipment are recorded at cost and are depreciated over their estimated useful lives using the declining balance method at the following rates:

	Radio	Corporate and other
Buildings	5%	5% – 15%
Equipment	7.5% – 20%	14% – 20%

Investment tax credits related to the acquisition of property and equipment are deducted from the cost of the related assets.

(d) Deferred charges

Deferred charges relate to pre-operating costs which are expenditures incurred prior to the commencement of commercial operations of new broadcasting licences. They are amortized over the remaining period of the initial licence term, which is approximately five years. In addition, deferred charges include costs related to outstanding broadcast licence applications which will either be reclassified as broadcast licences if the applications are successful or charged to earnings if unsuccessful.

(e) Deferred tenant inducements

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

(f) Acquisitions, broadcast licences and goodwill

The cost of acquiring businesses is allocated to the fair value of the related net identifiable tangible and intangible assets acquired using the purchase method. Identifiable intangible assets acquired consist primarily of broadcast licences. The excess of the cost of the acquired businesses over the fair value of the related net identifiable tangible and intangible assets acquired is allocated to goodwill. To receive approval of an acquisition involving broadcast licences, the Canadian Radio-television and Telecommunications Commission (CRTC) may require a commitment to fund Canadian Talent Development over and above the prescribed annual requirements. These obligations are considered to be part of the cost of the acquired businesses and are recognized as a liability upon acquisition.

1. Summary of significant accounting policies *(continued)*

Costs related to the award of new broadcast licences pursuant to applications to the CRTC are capitalized as indefinite life intangibles. In rendering its decision to award new broadcast licences, the CRTC may require the Company to commit to fund Canadian Talent Development during the initial term of the licence over and above the prescribed annual requirements. These obligations are considered to be part of the costs related to the award of new broadcast licences and are recognized as a liability upon the launch of the new broadcast licence.

Broadcast licences are considered indefinite life intangibles and are therefore not amortized but are tested for impairment annually, or more frequently if events or circumstances indicate an impairment may have occurred. The method used to assess if there has been a permanent impairment in the carrying value of these assets is based on projected discounted cash flows which approximates fair value. Fair values are compared to the carrying values and an impairment loss, if any, is recognized for the excess of carrying value over fair value.

(g) Employee future benefit plans

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

The Company matches employee contributions under the defined contribution plan. The Company's portion is recorded as compensation expense as contributions are made to the plan.

The defined benefit pension obligations are valued using the projected benefit method pro-rated on services and best estimate assumptions of expected plan investment performance, salary escalation and retirement ages. Pension plan assets are valued at market value. Long-term expected rate of return and the market value of assets are used to calculate the expected return on assets. Past service costs and the excess of the aggregate net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year are amortized over the average remaining service period of active employees of 10 years (2004 – 10 years).

(h) Stock-based compensation

The Company has a share purchase plan for which the Company matches a portion of employees' payments toward the purchase of its Class A Subordinate Voting Shares. The Company's portion is recorded as compensation expense when contributions are made to the plan.

The Company has an executive stock option plan. The proceeds from the exercise of stock options are credited to capital stock when options are exercised. When stock options are granted, compensation expense is recognized over the vesting period and is measured using the fair value based method. This method requires that the fair value of awards of stock options be expensed and credited to contributed surplus over the related vesting period. As stock options are exercised, the related contributed surplus amounts are removed from contributed surplus and credited to capital stock.

(i) Financial instruments

The carrying amounts of the Company's primary financial instruments recognized in the balance sheet approximate fair values except where fair value exceeds cost for investments and for derivatives which are disclosed elsewhere in these financial statements. The Company is subject to normal credit risk with respect to its receivables and it maintains a provision for potential credit losses. A large customer base and geographic dispersion minimize this risk.

The Company enters into interest rate swap agreements to hedge interest rate risk. The Company's policy is not to utilize interest rate swaps for trading or speculative purposes and only enters into agreements with Canadian chartered banks. The Company formally designates its swap agreements as hedges of specifically identified cash flows. The Company believes these agreements are effective as hedges as it formally assesses, both at the hedge's inception and on an ongoing basis, whether the swaps are highly effective in offsetting changes in interest rates. The Company uses the change in fair value method for measuring effectiveness.

Gains and losses on terminations of interest rate swap agreements are deferred and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of income at the time of extinguishment.

(j) Revenue recognition

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

The Company, from time to time, exchanges airtime for products and services. These transactions have been recorded at the fair value of the product given up or product received. The Company has recorded revenue of $1,794,000 (2004 – $1,165,000) and operating expenses of $1,909,000 (2004 – $1,165,000) pursuant to non-monetary transactions.

1. Summary of significant accounting policies *(continued)*

(k) Income taxes

The Company uses the liability method of accounting for income taxes. Future income tax assets and liabilities are the cumulative amount of tax applicable to temporary differences between the carrying amount of assets and liabilities and their values for tax purposes. Future income tax assets and liabilities are measured using the substantively enacted tax rates which are expected to be in effect when the differences are expected to be recovered, settled or reversed. Changes in future income taxes related to a change in substantively enacted tax rates are recognized in income in the period of the change. The Company recognizes the benefits of capital and non-capital loss carryforwards as future tax assets when it is more likely than not that the benefits will be realized.

(l) Earnings per share

Basic earnings per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share amounts are calculated using the weighted average number of shares that would have been outstanding had the relevant outstanding stock options been exercised at the beginning of the year, or their respective grant dates, if later.

2. Business and licence acquisitions

The Company acquired the assets of Shortell's Limited ("Shortell's") and its related companies, in Lloydminster, Alberta on January 31, 2005. The assets included three radio and two television broadcasting licences and an outdoor advertising business.

On May 30, 2005, the Company acquired the broadcasting assets of Big Pond Communications (2000) Inc. ("Big Pond") in Thunder Bay, Ontario, the primary asset being an FM radio licence.

On September 26, 2005, the Company acquired 100% of the common shares of 4323041 Canada Inc. ("4323041") entitling it to the property, assets, licences and rights of 4323041 used in connection with the operation of two FM radio licences in Red Deer, Alberta.

On December 5, 2005, the Company acquired 80.1% of the common shares of CKVN Radiolink System Inc. ("CKVN"). The initial 19.9% was acquired in February 2005. This acquisition entitles the Company to the broadcast licence, net assets and rights used in connection with an FM radio licence in Winnipeg, Manitoba.

The transactions were financed by the Company's credit facility and were accounted for using the purchase method. The results of operations have been included in the consolidated financial statements since the respective acquisition dates.

During the year, the Company launched four stations in Alberta, one in Ontario and one in New Brunswick. Upon the launch of these stations, the Company became obligated to fund Canadian Talent Development commitments of $5,793,000 over a period of seven years. These costs have been capitalized as broadcast licences.

The following table summarizes the estimated fair value of all the assets acquired and liabilities assumed at the dates of acquisition as well as the accounting for the new licences. The allocation of the purchase price is subject to change as a result of certain post-closing matters.

(thousands of dollars)	Shortell's	Big Pond	4323041	CKVN	New licences	Total
Working capital	$ 848	(325)	440	(932)	(307)	(276)
Property and equipment	2,706	225	1,089	81	–	4,101
Other assets	205	–	–	–	–	205
Broadcast licences	9,676	2,198	9,245	2,051	5,793	28,963
Goodwill	1,223	–	1,668	719	–	3,610
Total assets acquired	14,658	2,098	12,442	1,919	5,486	36,603
Future income tax liabilities	–	–	(3,099)	(430)	–	(3,529)
Other liabilities	(444)	(78)	(228)	(57)	(5,486)	(6,293)
Net assets acquired	14,214	2,020	9,115	1,432	–	26,781
Deposit for business and licence acquisitions	(500)	–	(200)	–	–	(700)
Initial investment	–	–	–	(356)	–	(356)
Cash consideration	$ 13,714	2,020	8,915	1,076	–	25,725

2. Business and licence acquisitions *(continued)*

An intangible long-term agreement, expiring in August 2011, valued at $205,000 is included in other assets. Amortization is being charged on a straight-line basis over the term of the agreement. Goodwill of $917,000 has been capitalized for tax purposes.

When broadcast licences are acquired, the acquirer becomes obligated to fund Canadian Talent Development. These obligations aggregating $6,778,000 are included in other liabilities with the current portion of $485,000 included in working capital. A $1,166,000 provision for professional fees and restructuring costs (employee relocation and involuntary termination costs) related to the acquisitions is included in working capital of which $653,000 remains payable at December 31, 2005.

3. Property and equipment

(thousands of dollars)	Cost	Accumulated depreciation	Net book value
2005			
Land	**$ 2,235**	**–**	**2,235**
Buildings	**6,241**	**1,724**	**4,517**
Equipment	**37,169**	**13,168**	**24,001**
	$ 45,645	**14,892**	**30,753**
2004			
Land	$ 1,767	–	1,767
Buildings	5,557	1,855	3,702
Equipment	25,670	13,094	12,576
	$ 32,994	14,949	18,045

4. Other assets

(thousands of dollars)	**2005**	2004
Investment in Halterm Income Fund Trust Units	**$ 3,911**	5,164
Employee share purchase and other loans	**3,073**	3,117
Investment tax credits recoverable	**1,673**	2,363
Deferred charges, net of amortization	**1,864**	1,295
Note receivable, net of current portion of $948 (2004 – $950)	**828**	1,591
Accrued pension benefit asset (note 7(b))	**1,103**	1,125
Other	**216**	886
	$ 12,668	15,541

During 2004, the Company sold its 1,411,800 shares of Optipress Inc. for proceeds of $11,295,000 and recognized a gain on disposal of $2,451,000.

The investment in Halterm Income Fund Trust Units is recorded at cost. This represents 10% of the outstanding trust units, with a market value of $6,644,000. During the year, the Company sold 308,108 units for proceeds of $2,327,000 resulting in a gain on disposal of investment of $840,000.

Employee share purchase and other loans are payable on demand and bear interest at rates ranging from nil to prime minus 1%. The share purchase loans have a pledge of the related shares purchased as collateral with a market value of $8,085,000 (2004 – $6,125,000).

The note receivable is non-interest bearing and matures in 2007. It is repayable in annual instalments of $1,000,000, which have been discounted at interest rates ranging from 11.5% to 11.8%.

5. Bank indebtedness and long-term debt

(thousands of dollars)	2005	2004
Revolving term credit facility of $65 million, renewable annually, maturing April 2006, bearing interest at prime (5%; 2004 – 4.25%)	**$ 53,000**	15,000
Other mortgages and loans bearing interest at prime plus 1%, maturing to 2009	**308**	96
	53,308	15,096
Less: Current portion	**23**	23
	$ 53,285	15,073

Subsequent to year end, the Company renewed its credit facility which will now mature in April 2007. As a result, no portion of the revolving facility has been classified as current. If the Company renews its facility annually under the same terms and conditions, there will be no fixed repayment schedule. Up until the maturity date, the Company has the option to convert the revolving credit facility to a non-revolving facility, repayable in quarterly instalments over two years.

Minimum required principal repayments under the assumption the Company exercises the option to convert to a non-revolving term, are as follows: 2006 – $23,000; 2007 – $13,508,000; 2008 – $26,523,000; and 2009 – $13,254,000.

Bank indebtedness bears interest at prime and is due on demand. 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 revolving term credit facility.

Interest expense included $1,475,000 for interest on long-term debt (2004 – $794,000).

6. Other liabilities

(thousands of dollars)	2005	2004
Deferred tenant inducements	**$ 2,649**	–
Accrued pension benefit liability (note 7(b))	**5,863**	5,778
Canadian Talent Development commitments related to broadcast licences awarded and acquired, net of current portion of $2,087 (2004 – $1,707)	**10,247**	5,984
	$ 18,759	11,762

The scheduled payments for the Canadian Talent Development commitments over the next five years are as follows: 2006 – $2,087,000; 2007 – $2,461,000; 2008 – $2,299,000; 2009 – $ 2,347,000; 2010 – $1,105,000 and thereafter $2,035,000. The current portion is included in accounts payable and accrued liabilities.

The Company has issued letters of credit totaling $1.9 million in support of certain of these liabilities.

7. Employee future benefit plans

(a) Defined contribution pension plan

The Company maintains a defined contribution employee pension plan covering the majority of its employees. The Company's contributions to the defined contribution plan are based upon percentages of gross salaries. The Company's contributions to the plan during 2005 were $1,037,000 (2004 – $884,000).

(b) Defined benefit plans

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

The most recent actuarial valuation of the pension plan was December 31, 2003, and the next required valuation will be December 31, 2006.

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

December 31, 2005 and 2004

7. Employee future benefit plans *(continued)*

(b) Defined benefit plans *(continued)*

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted average assumptions as of December 31):

	2005		2004	
	Basic plan	**SRPA**	Basic plan	SRPA
Discount rate	**5.0%**	**5.0%**	6.0%	6.0%
Expected long-term rate of return on plan assets	**7.0%**	**N/A**	7.0%	N/A
Rate of compensation increase	**4.0%**	**4.0%**	4.0%	4.0%

The following summarizes the Company's defined benefit plans:

	2005		2004	
(thousands of dollars)	**Basic plan**	**SRPA**	Basic plan	SRPA
Accrued benefit obligations				
Balance – beginning of year	**$ 3,824**	**8,164**	3,251	8,065
Current service cost	**65**	**–**	65	13
Interest cost	**316**	**449**	203	416
Benefits paid	**(604)**	**(501)**	(99)	(495)
Actuarial losses	**686**	**814**	404	165
Balance – end of year	**4,287**	**8,926**	3,824	8,164
Plan assets				
Fair value – beginning of year	**5,037**	**–**	4,503	–
Actual return on plan assets	**820**	**–**	629	–
Employee contributions	**4**	**–**	4	–
Benefits paid	**(604)**	**–**	(99)	–
Fair value – end of year	**5,257**	**–**	5,037	–
Funded status – plan surplus (deficit)	**970**	**(8,926)**	1,213	(8,164)
Unamortized net actuarial loss	**285**	**3,106**	73	2,437
Unamortized past service costs	**1,182**	**–**	1,339	–
Unamortized transitional asset	**(1,334)**	**(43)**	(1,500)	(51)
Accrued benefit asset (liability)	**$ 1,103**	**(5,863)**	1,125	(5,778)

The accrued pension benefit asset is included under other assets (note 4) and the accrued pension benefit liability is included under other liabilities (note 6).

Elements included in the benefit plan expense recognized in the year are as follows:

	2005		2004	
(thousands of dollars)	**Basic plan**	**SRPA**	Basic plan	SRPA
Current service cost, net of employee contributions	**$ 61**	**–**	61	13
Interest cost	**316**	**449**	203	416
Actual return on plan assets	**(820)**	**–**	(629)	–
Difference between expected return and actual return on plan assets	**475**	**–**	317	–
Amortization of past service costs	**157**	**–**	157	5
Amortization of net actuarial losses (gains)	**–**	**145**	–	(411)
Amortization of transitional assets	**(167)**	**(8)**	(167)	(9)
Defined benefit plan expense (income)	**$ 22**	**586**	(58)	14

7. Employee future benefit plans *(continued)*

(b) Defined benefit plans *(continued)*

Plan assets, measured as at December 31, consist of:

	2005		2004	
	Basic plan	**SRPA**	Basic plan	SRPA
Equity funds	**70%**	**N/A**	68%	N/A
Fixed income funds	**27%**	**N/A**	26%	N/A
Money market funds	**3%**	**N/A**	6%	N/A
	100%	**N/A**	100%	N/A

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

8. Stock-based compensation plans

(a) Share purchase plan

Compensation expense for the Company's share purchase plan was $293,000 (2004 – $193,000) and is included in operating expenses.

(b) Executive stock option plan

The Company has reserved 1,564,506 Class A Subordinate Voting Shares pursuant to the executive stock option plan of which 115,756 remain available for issuance at December 31, 2005. The exercise price per share is determined by the Board of Directors at the time the option is granted but cannot be less than either the closing price of the shares on the last trading date preceding the date of the grant or the average closing price of the preceding twenty trading days. The expiry date of the options is established by the Board of Directors, not to exceed ten years from the date of the grant. Options either vest on the date they are granted or vest over time in the following manner: twenty-five percent vest on the date of granting and twenty-five percent vest on each of the three succeeding anniversary dates.

The following summarizes the Company's outstanding stock options which expire at varying dates from 2006 to 2010 and have a weighted average remaining contractual life of 2.60 years (2004 – 3.34 years).

	2005		2004	
	Number	**Price***	Number	Price*
Balance, beginning of year	**805,000**	**$ 9.05**	862,000	$ 8.18
Granted	**100,000**	**13.80**	200,000	11.43
Exercised	**(21,200)**	**8.47**	(232,000)	8.05
Expired	**–**	**–**	(25,000)	7.25
Balance, end of year	**883,800**	**9.60**	805,000	9.05
Total options vested	**706,300**	**8.90**	613,750	8.51

* weighted average exercise price

Range of exercise price	**Number of options outstanding at December 31, 2005**	**Weighted average remaining life**	**Price***	**Number of options exercisable at December 31, 2005**	**Price***
$ 7.30 – 8.00	**310,000**	**2.47**	**$ 7.91**	**310,000**	**$ 7.91**
8.40 – 8.95	**273,800**	**1.32**	**8.66**	**271,300**	**8.66**
11.20 – 11.66	**200,000**	**3.66**	**11.43**	**100,000**	**11.43**
13.80	**100,000**	**4.34**	**13.80**	**25,000**	**13.80**
	883,800	**2.60**	**9.60**	**706,300**	**8.90**

* weighted average exercise price

8. Stock-based compensation plans *(continued)*

(b) Executive stock option plan *(continued)*

The compensation expense related to stock options for 2005 was $405,000 (2004 – $264,000) and is recorded in operating expenses. The fair value was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2005	2004
Weighted average risk-free interest rate	**3.25%**	3.50%
Dividend yield	**0.72%**	0.90%
Weighted average volatility factors of the expected market price of the Company's Class A Subordinate Voting Shares	**27.9%**	25.3%
Weighted average expected life of the options	**4.8 years**	5.0 years
Weighted average fair value per option	**$ 3.83**	$ 3.40

9. Capital stock

(thousands)	Issued shares	**2005**	2004
Capital stock (unlimited number authorized at no par value):			
Class A Subordinate Voting Shares (2004 – 10,467)	10,040	**$ 42,724**	44,389
Class B Common Shares (2004 – 1,258)	1,258	**911**	911
		$ 43,635	45,300

The Company has also authorized an unlimited number of Class A and Class B Preferred Shares of which none are outstanding.

The Class A Subordinate Voting Shares carry one vote per share and the Class B Common Shares carry ten votes per share. In the event of a vote to change any right, privilege, restriction or condition attached to either the Class A Subordinate Voting Shares or Class B Common Shares, the Class B Common Shares are entitled to one vote per share. In addition, the ten votes attaching to each Class B Common Share shall be decreased to one vote 180 days following the acquisition of Class B Common Shares pursuant to a take-over bid where the ownership of Class B Common Shares, after the acquisition, exceeds 50%. In all other respects, these shares rank equally.

The outstanding Class B Common Shares are convertible to Class A Subordinate Voting Shares at the option of the shareholder, on a one-for-one basis.

During the year, the Company repurchased 448,400 (2004 – 407,500) of its outstanding Class A Subordinate Voting Shares for a total cost of $6,536,000 (2004 – $4,684,000), pursuant to a Normal Course Issuer Bid. As a result of these share repurchases, capital stock was reduced by $1,903,000 (2004 – $1,710,000) and retained earnings reduced by $4,633,000 (2004 – $2,974,000). Subsequent to year end the Company received approval under a Normal Course Issuer Bid to repurchase up to 498,235 Class A Subordinate Voting Shares and 62,913 Class B Common Shares. This bid expires January 29, 2007.

During the year, the Company issued 21,200 (2004 – 232,000) Class A Subordinate Voting Shares for proceeds of $180,000 (2004 – $1,869,000) pursuant to the executive stock option plan described in note 8.

During the year, capital stock was increased and contributed surplus was decreased by $58,000 (2004 – $322,000) related to stock options exercised during the year. Contributed surplus was increased by $405,000 (2004 – $264,000) related to compensation expense.

10. Financial instruments

The Company has an interest rate swap agreement to hedge interest rate risk on a portion of its long-term debt whereby the Company will exchange the three-month bankers' acceptance floating interest rate for a fixed interest rate during the term of the agreement which expires July 4, 2006. The notional amount of the swap totals $5,000,000 (2004 – $15,000,000). 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 fair value of the interest rate swap agreement at year end is a net payable of $8,000 (2004 – $145,000) and has not been recognized in the accounts as the interest rate swap qualifies for hedge accounting. An agreement having a notional amount of $10,000,000 expired in July 2005; the accounting impact of the expiry was not significant.

On February 27, 2006, the Company entered into two new interest rate swap agreements. A nominal amount of $20,000,000 expires February 27, 2009 and a nominal amount of $5,000,000 expires February 27, 2011. These agreements qualify for hedge accounting.

11. Provision for income taxes

The Company's provision for income taxes is derived as follows:

(thousands of dollars, except percentages)		2005	2004
Income before income taxes and non-controlling interest	$	**10,503**	14,352
Combined federal and provincial statutory income tax rate		**36.3%**	35.7%
Provision based on the statutory income tax rate	$	**3,813**	5,123
Increase (decrease) due to:			
Future income tax recovery relating to the origination and reversal of temporary differences		**–**	(819)
Non-taxable portion of capital gains		**(388)**	(554)
Stock-based compensation		**154**	101
Loss on equity accounted investment		**34**	106
Large corporations tax and other		**275**	(130)
	$	**3,888**	3,827
Comprised of:			
Current taxes	$	**3,240**	3,198
Future income taxes		**648**	629
	$	**3,888**	3,827

The significant items comprising the Company's net future income tax liability are as follows:

(thousands of dollars)		2005	2004
Future income tax assets			
Tax loss carryforwards	$	**3,544**	1,994
Investment, at equity		**90**	–
Employee benefit plans		**1,652**	1,607
Future income tax liabilities			
Property and equipment		**(1,815)**	(1,734)
Broadcast licences and goodwill		**(14,844)**	(9,062)
Net future income tax liability	$	**(11,373)**	(7,195)
Comprised of:			
Long-term future income tax assets	$	**2,770**	1,768
Long-term future income tax liabilities		**(14,143)**	(8,963)
	$	**(11,373)**	(7,195)

Included in the above net income tax liability are future income tax assets of $3,544,000 resulting from unused net capital and non-capital tax losses. The non-capital tax losses of $9,642,000 at year end are available to reduce future income taxes otherwise payable. If unused, the non-capital tax losses will expire as follows: $1,302,000 in 2009; $2,140,000 in 2010; $6,000 in 2011; $2,927,000 in 2014 and $3,267,000 in 2015.

12. Earnings per share

(thousands)	2005	2004
Weighted average common shares used in calculation of basic earnings per share	**11,435**	11,911
Incremental common shares calculated in accordance with the treasury stock method	**291**	150
Weighted average common shares used in calculation of diluted earnings per share	**11,726**	12,061

13. Supplemental cash flow information

(thousands of dollars)	2005	2004
Change in non-cash working capital relating to operating activities		
Short-term investments	$ (9,010)	(1,035)
Receivables	(2,568)	(309)
Prepaid expenses	(748)	(232)
Accounts payable and accrued liabilities	5,845	1,503
Income taxes payable	300	2,512
	$ (6,181)	2,439
Interest paid	$ 2,205	804
Income taxes paid	2,249	1,306

14. Segmented information

The Company has one separately reportable segment - broadcasting, which consists of the operations of the Company's radio and television stations. This segment derives its revenue from the sale of broadcast advertising. The reportable segment is a strategic business unit that offers different services and is managed separately. The Company evaluates performance based on earnings before depreciation and amortization. The accounting policies of the segment are the same as those described in the summary of significant accounting policies (note 1). Corporate and other consists of a hotel and the head office functions. Its revenue relates to hotel operations and its other income relates to investment income. Details of segment operations are set out as follows:

(thousands of dollars)	Broadcasting	Corporate and other	Total
2005			
Revenue	**$ 77,503**	**3,060**	**80,563**
Other income	–	**2,701**	**2,701**
	77,503	**5,761**	**83,264**
Operating expenses	**55,137**	**9,884**	**65,021**
Depreciation and amortization	**2,916**	**248**	**3,164**
Operating income (loss)	**$ 19,450**	**(4,371)**	**15,079**
Assets employed	**$ 183,465**	**30,042**	**213,507**
Goodwill	**3,610**	–	**3,610**
Capital expenditures	**8,517**	**196**	**8,713**
2004			
Revenue	$ 63,384	3,145	66,529
Other income	–	1,768	1,768
	63,384	4,913	68,297
Operating expenses	44,409	8,678	53,087
Depreciation and amortization	1,893	280	2,173
Operating income (loss)	$ 17,082	(4,045)	13,037
Assets employed	$ 132,862	22,862	155,724
Capital expenditures	2,289	207	2,496

15. Commitments and contingencies

(a) Operating leases and other

The Company has total commitments of $22,739,000 under operating leases for properties and equipment. Minimum annual payments under these leases are as follows: 2006 – $3,183,000; 2007 – $2,689,000; 2008 – $2,124,000; 2009 – $1,754,000; 2010 – $1,507,000 and thereafter $11,482,000.

In accordance with a purchase and sale agreement, the Company is committed to acquire 50% of a broadcasting property's non-controlling interest in April 2009 for $5,552,000. The remaining half becomes due in April 2012.

(b) Acquisition pending approval

The Company has entered into an agreement to acquire broadcasting assets in Winnipeg, Manitoba for aggregate consideration of $1,800,000. This acquisition is subject to the approval of the CRTC and will be funded with the Company's existing credit facility.

(c) Indemnity

In connection with the disposition of the Company's interest in a container terminal ("Halterm") to the Halterm Income Fund (the "Fund") in May 1997, and, in particular, in respect of a long-term management services agreement under which the Company rendered management services to Halterm, the Company agreed in 1997 to indemnify Halterm for any material increases in the base rental fee payable by Halterm to the Halifax Port Corporation (now the Halifax Port Authority) for the first ten years of the first lease renewal term which commenced January 1, 2001. The indemnity was only applicable to the extent, if any, that such increases in the base rental fee result in a reduction in distributions to Fund unitholders to a level below that anticipated in the forecast included in the prospectus for the initial public offering of trust units of the Fund. On February 25, 2005 the Fund filed an Originating Notice and Statement of Claim pursuing a claim of $1,800,000 with respect to this indemnity for 2003 and a claim of $2,300,000 for 2004. Thereafter, the Company filed its Statement of Defence. On October 17, 2005, the Company reached a settlement with Halterm for $3,500,000 for all past, present and future claims.

(d) Legal claims

The Company and its subsidiaries are involved in various legal actions which arise out of the ordinary course and conduct of its business. Management believes any potential liabilities that may result from these actions have been adequately provided for and are not expected to have a material adverse effect on the Company's financial position or its results.

Corporate governance

Newfoundland Capital Corporation recognizes the importance of good corporate governance for the effective management of the Company. We believe that meeting and exceeding current standards of practice for transparency, integrity and duty of care are fundamental to the long-term success of our Company.

Corporate governance activities

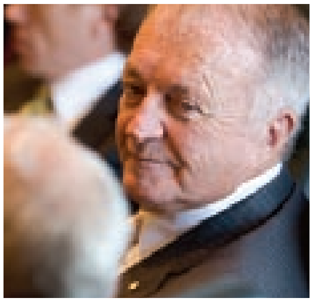
Our Board of Directors is committed to providing strong leadership in matters relating to our strategic direction and business operations. This year was a particularly important one for the Board as it made significant efforts to align its corporate governance practices with the Canadian Securities Administrators (CSA) National Instrument 58-101, and the associated National Policy 58-201, which require the Company to disclose its corporate governance practices. We are also in compliance with Multilateral Instrument 52-110 on Audit Committees. The Board is committed to continuously improving corporate governance practices.

Some of the more important activities completed by the Board in the past two years that exemplify our commitment to transparency, integrity, and duty of care are as follows:

- A Policy on Corporate Governance that formalizes the principal corporate governance applications and practices of the Company.
- The development and roll-out of a written Code of Business Conduct and Ethics (Code), an initiative led by the Board. The overall goal of the Code is to deter wrongdoing and promote honest and ethical conduct throughout our organization. The Code applies to all directors, officers and employees of the Company and, where applicable, third parties engaged to represent the Company.
- The development of a whistleblower policy and a procedure that meets current standards of practice for this issue. The whistleblower policy and procedure is included in the Code.
- The formation of a Disclosure Committee composed of management and Board Members to reasonably ensure that communications with the investing community meet the standards of timely, factual and accurate information. A formal policy on Corporate Disclosure, Confidentiality and Insider Trading support this Committee's activities.
- Defined mandates for the Board of Directors and its Committee, the Chairperson, Committee Chair, the CEO and the CFO.

For further details on our corporate governance practices and to read the Code of Business Conduct and Ethics, please visit our web site at www.ncc.ca.

Board of directors



Craig L. Dobbin, O.C.[1]
St. John's, Newfoundland and Labrador, Director since 1994
Executive Chairman, CHC Helicopter Corporation

Craig Dobbin is Executive Chairman of CHC Helicopter Corporation, a public company traded on the Toronto and New York Stock Exchanges. CHC is the world's largest provider of global helicopter transportation. Mr. Dobbin is Honorary Consul General of Ireland for Newfoundland and Labrador and a Member of the Canadian Council of Chief Executives. Mr. Dobbin was appointed an Officer of the Order of Canada in 1992.

David I. Matheson, Q.C.[1]
Toronto, Ontario, Director since March 2004 (and between 1986 and 1998)
Counsel, McMillan Binch Mendelsohn LLP

David Matheson, as a counsel with McMillan Binch Mendelsohn LLP, a leading Canadian law firm, practices in a wide range of corporate, securities, governance, international and investment law matters. He serves as counsel to and as a director for Canadian public, private and charitable corporations, and chairs and serves on audit, governance, compensation and other board committees for various public companies. Mr. Matheson is a recipient of the Queen's Jubilee Medal and the Government of Ontario Volunteer Award.

Harry R. Steele, O.C.
Dartmouth, Nova Scotia, Director since 1972
Chairman of the Board of Directors

Harry Steele was Chairman and Chief Executive Officer of Newfoundland Capital Corporation Limited from 1993 to 2002. Prior to 1993, and since the inception of the Company, Mr. Steele served as President. In 2002, Mr. Steele stepped down as CEO and presently continues in his role as Chairman of the Board. Mr. Steele was appointed an Officer of the Order of Canada in 1992.

Robert G. Steele
Halifax, Nova Scotia, Director since 1997
President and Chief Executive Officer

Robert Steele was appointed President and Chief Executive Officer of Newfoundland Capital Corporation Limited on May 1, 2002. Since March 1, 2001 he had assumed the role of President and Chief Operating Officer. Prior to joining the company, Mr. Steele built one of the most diversified auto dealerships in Atlantic Canada. Mr. Steele is currently serving as a member of the Board of Directors of the Halifax Metro Chamber of Commerce. He is also a member of Advancement Nova Scotia, an advocacy organization designed to help build a stronger provincial economy.

Donald J. Warr, F.C.A.[1]
St. John's, Newfoundland and Labrador, Director since 1995
Partner, Blackwood & Warr

Don Warr is partner in a Newfoundland accounting firm, Blackwood & Warr, Chartered Accountants. He obtained his designation as a Chartered Accountant in 1970. Prior to starting his own practice in 1992, Mr. Warr was a tax partner with a large national accounting firm. Mr. Warr is past president of the Newfoundland Institute of Chartered Accountants and was awarded the designation of F.C.A. in 1983 for outstanding service to the profession and the community.

[1] Member of the Audit and Governance Committee

Assets at a glance

Location	Name	Call Letters	Format	AM/FM	Frequency
WESTERN REGION (ALBERTA)					
Athabasca	Cat Country	CKBA	Hot Country	AM	850 kHz
Blairmore	Mountain Radio	CJPR	Hot Country	FM	94.9 MHz
	Mountain Radio	CJEV® Elkford, B.C.	Hot Country	AM	1340 kHz
Brooks	Cat Country Q13	CIBQ	Hot Country	AM	1340 kHz
	The Fox	CIXF	Classic Rock	FM	101.1 MHz
Calgary	California 103 FM	CIQX	Jazz/Blues	FM	103.1 MHz
Camrose	CFCW	CFCW	Country	AM	790 kHz
	CFCW	CFCW	Classic Hits	FM	98.1 MHz
Cold Lake	K-ROCK	CJXK	Classic Rock	FM	95.3 MHz
Drumheller	Cat Country Q91	CKDQ	Hot Country	AM	910 kHz
Edmonton	Big Earl	CKRA	Country	FM	96.3 MHz
	K-ROCK	CIRK	Classic Rock	FM	97.3 MHz
Edson	The Fox Radio Group	CFXE	Classic Hits	AM	970 kHz
	The Fox Radio Group	CFXP®	Classic Hits	FM	95.5 MHz
	The Fox Radio Group	CFXG®	Classic Hits	AM	1230 kHz
Lac La Biche	New[1]		Country	FM	103.5 MHz
Lloydminster	LLOYD FM	CKSA	Country	FM	95.9 MHz
	CKSA	CKSA®	Country	FM	101.3 MHz
	CILR	CILR	Tourist Information	FM	98.9 MHz
	CKSA-TV	CKSA-TV	CBC Network Affiliate	N/A	N/A
	CITL-TV	CITL-TV	CTV Network Sub-affiliate	N/A	N/A
High Prairie	Cat Country	CKVH	Hot Country	AM	1020 kHz
Hinton	The Fox Radio Group	CFXH	Classic Hits	FM	97.5 MHz
Red Deer	Z-99[2]	CIZZ	Classic Rock	FM	98.9 MHz
	KG Country[2]	CKGY	Country	FM	95.5 MHz
Slave Lake	Cat Country KWA[3]	CKWA	Hot Country/Adult Contemporary	FM	92.7 MHz
St. Paul	Cat Country 1310	CHLW	Hot Country	AM	1310 kHz
Stettler	Cat Country Q14	CKSQ	Hot Country	AM	1400 kHz
Wainwright	Cat Country Key 83	CKKY	Hot Country	AM	830 kHz
	Wayne-FM	CKWY	Adult Contemporary	FM	93.7 MHz
Westlock	Cat Country	CFOK	Hot Country	AM	1370 kHz
Wetaskiwin	Cat Country 1440 KJR	CKJR	Hot Country	AM	1440 kHz
Whitecourt	The Rig 96.7	CFXW	Classic Rock	FM	96.7 MHz
EASTERN REGION					
Fredericton, NB	FRED-FM	CFRK	Classic Rock	FM	92.3 MHz
Moncton, NB	C103	CJMO	Classic Rock	FM	103.1 MHz
	XL96	CJXL	Hot Country	FM	96.9 MHz
Halifax, NS	780 KIXX	CFDR	Country Classics	AM	780 kHz
	Q104	CFRQ	Classic Rock	FM	104.3 MHz
	KOOL 96.5 FM	CKUL	Classic Hits	FM	96.5 MHz
Charlottetown, PEI	CHTN	CHTN	Oldies	AM	720 kHz
Carbonear, NL	CHVO	CHVO	Country	AM	560 kHz
Clarenville, NL	CKVO	CKVO	Country	AM	710 kHz
Corner Brook, NL	K-ROCK	CKXX	Classic Rock	FM	103.9 MHz
	K-ROCK	CKXX-1®	Classic Rock	FM	95.9 MHz
	CFCB	CFCB	Country	AM	570 kHz
	CFCB	CFDL®	Country	FM	97.9 MHz
	CFCB	CFNW®	Country	AM	790 kHz
	CFCB	CFNN®	Country	FM	97.9 MHz
Gander, NL	K-ROCK	CKXD	Classic Rock	FM	98.7 MHz
	VOCM Radio Network	CKGA	News/Talk/Country	AM	650 kHz
Goose Bay, NL	Radio Labrador	CFLN	Country	AM	1230 kHz
	Radio Labrador	CFLC®	Country	FM	97.9 MHz
	Radio Labrador	CFLW®	Country	AM	1340 kHz
Grand Falls-Windsor, NL	K-ROCK	CKXG	Classic Rock	FM	102.3 MHz
	K-ROCK	CKXG-1®	Classic Rock	FM	101.3 MHz
	VOCM Network	CKIM®	Country	AM	1240 kHz
	VOCM Radio Network	CKCM	Country	AM	620 kHz
Marystown, NL	CHCM	CHCM	Country	AM	740 kHz
St. John's, NL	Radio Newfoundland	CJYQ	Newfoundland Music	AM	930 kHz
	HITS-FM	CKIX	Contemporary Hit Radio	FM	99.1 MHz
	590 VOCM	VOCM	News/Talk/Country	AM	590 kHz
	K-ROCK	VOCM	Classic Rock	FM	97.5 MHz
	K-ROCK	VOCM-1®	Classic Rock	FM	100.7 MHz
Stephenville, NL	CFCB	CFSX	Country	AM	870 kHz
	CFCB	CFGN®	Country	AM	1230 kHz
	CFCB	CFCV®	Country	FM	97.7 MHz
CENTRAL REGION (ONTARIO AND MANITOBA)					
Kitchener-Waterloo	KICX 99.5	CIKZ	Country	FM	99.5 MHz
Ottawa	Hot 89.9	CIHT	Contemporary Hit Radio	FM	89.9 MHz
	Live 88.5[1]	CILV	Alternative Rock	FM	88.5 MHz
Sudbury	Big Daddy	CHNO	Classic Hits	FM	103.9 MHz
Thunder Bay	CKTG-FM	CKTG	Classic Rock	FM	105.3 MHz
	Magic 99.9[2]	CJUK	Adult Contemporary	FM	99.9 MHz
Winnipeg	Cafe 100[2]	CKFE	Adult Album Alternative	FM	100.7 MHz

®Repeating signal [1]New licence awarded by CRTC in 2005 [2]Purchase approved by CRTC in 2005 [3]The Company received approval to convert this station to FM in 2005

Corporate information

Board of directors

Craig L. Dobbin, O.C.[1]
Executive Chairman
CHC Helicopter Corporation

David I. Matheson, Q.C.[1]
Counsel
McMillan Binch Mendelsohn LLP

Harry R. Steele, O.C.
Chairman
Newfoundland Capital Corporation

Robert G. Steele
President and Chief Executive Officer
Newfoundland Capital Corporation

Donald J. Warr, F.C.A.[1]
Partner
Blackwood & Warr

[1] Member of the Audit and Governance Committee

Officers and management

Harry R. Steele
Chairman

Robert G. Steele
President and Chief Executive Officer

Mark S. Maheu
Executive Vice President and
Chief Operating Officer

Scott G.M. Weatherby
Chief Financial Officer and
Corporate Secretary

Linda A. Emerson
Assistant Secretary

Transfer agent and registrar

The transfer agent and registrar for the shares of the Company is the CIBC Mellon Trust Company at its offices in Halifax and Toronto. For shareholder account inquiries:

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

e-mail: inquiries@cibcmellon.com

or write to:
Newfoundland Capital Corporation
c/o CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, ON M5C 2W9

Investor relations contact

Institutional and individual investors seeking financial information about the Company are invited to contact:

Scott G.M. Weatherby,
Chief Financial Officer and
Corporate Secretary
Telephone: 902-468-7557
e-mail: ncc@ncc.ca
web: www.ncc.ca

Stock exchange listing and symbols

The Company's Class A Subordinate Voting Shares and Class B Common Shares are listed on the Toronto Stock Exchange under the symbols NCC.SV.A and NCC.MV.B. In 2006, the TSX will discontinue its symbol extension program, as a result, in May, the Company's symbols will revert back to the original symbols – NCC.A and NCC.B.

Auditors

Ernst & Young LLP

Bankers

The Bank of Nova Scotia

Annual meeting

The Annual General Meeting of Shareholders will be held at 11:00 am, Tuesday, May 9, 2006, in the Imperial Ballroom, at the Lord Nelson Hotel, 1515 South Park Street, Halifax, Nova Scotia.

GREAT FUTURE

Newfoundland Capital Corporation Limited • 745 Windmill Road • Dartmouth, Nova Scotia, Canada B3B 1C2
www.ncc.ca