Newfoundland Capital Corporation Limited
2006 Annual Report

# SOUND
## foundation

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+3

**BUILDING THE BUSINESS**

In 2006 three new stations were launched: Ocean 100 FM and K-ROCK in Charlottetown, Prince Edward Island and KOOL FM in Bonnyville, Alberta

+4

**GENERATING GROWTH**

Newcap received four new FM licences in 2006: Calgary, Fort McMurray and Lac LaBiche, Alberta and Charlottetown, Prince Edward Island

+$13m

**CREATING VALUE**

Revenue increased 17% in 2006, driven by new business and licence acquisitions as well as newly launched stations

+$7m

**SUPPORTING OUR COMMUNITIES**

Newcap provided over $7 million in support to charitable organizations throughout Canada

**CORPORATE PROFILE**

Newfoundland Capital Corporation Limited owns and operates Newcap Radio, one of Canada's leading radio broadcasters with 75 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 47 FM and 28 AM licences spanning the country and employs over 800 radio professionals in Canada.

Newcap Radio delivers creative, compelling and engaging radio programs to millions of listeners in Canada. This year we focused on laying the foundation for the future. It is our commitment to building a strong and competitive organization and generating growth in all our markets that will create value for each of our stakeholders.

# BUILDING
## the business

Promoting innovation to stay competitive is at the heart of our operating philosophy. Our radio stations must be ready to change and evolve. Rigorous market research ensures we have the best information available when making programming decisions.

Pictured above:
**Jen Traplin** and **Chelsea Miller**
Storytellers
LiVE 88.5 FM
Ottawa, Ontario

## LAUNCHING NEW STATIONS

Three new FM stations were launched in 2006. A successful launch involves extensive market research, development of innovative promotions and the cooperation of radio professionals across the country.

Pictured above (from left):
**Rob Johnson**
Program Director
105.5 K-ROCK FM
**Gerard Murphy**
Program Director
Ocean 100 FM
Charlottetown,
Prince Edward Island

CKGY & CIZZ FM
LLOYD FM
MAGIC 99.9
CKSA CILR HANK-FM

## ACQUIRING NEW STATIONS

Newcap explores all high quality acquisition opportunities across Canada. To build our radio network we are actively sourcing prospects in underserved small, medium and large markets.

## DEVELOPING OUR TALENT

We have over 800 talented employees. Our radio professionals have the creative freedom to make the programming decisions that best serve the needs of their listeners.

Pictured above (from left):
**Carrie-Ann Tantalo** and
**Ross Learmonth**
The Big Breakfast with
Ross & Carrie-Ann
Big Daddy 103.9 FM
Sudbury, Ontario

# GENERATING
## growth

To achieve growth in our portfolio we review opportunities for expansion, convert AM licences to FM whenever possible and maximize revenue from our advertising customers.

Pictured above:
**BJ Wilson**
Morning Show Host
FUEL 90.3 FM
Calgary, Alberta

## ENGAGING MORE LISTENERS

Reaching out to listeners involves the development of promotions and programs that are uniquely suited to the local community's needs.

Pictured above:
**Brad Michaels**
Host of Afternoons with Brad Michaels
99.1 Hits FM
St. John's, Newfoundland and Labrador

## CONVERTING AMs TO FMs

Converting an AM station to FM creates significant upside potential by increasing the listener base and advertising revenue.

## ACQUIRING NEW ADVERTISERS

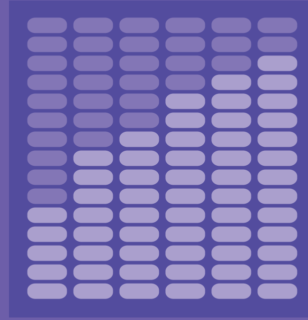
In 2006 we completed a nationwide sales training program to enhance our product and service offering to advertisers. Our focus is to develop long-term, sustainable relationships with our clients by providing superior results.

Pictured above (from left):
**Steve Newman** and **Leanne Cail**
Account Managers
Ocean 100/K-ROCK
Charlottetown, Prince Edward Island

# CREATING
## value

We will reach our financial targets by fostering the relationships we have developed with our listeners, employees and advertisers.

Pictured above:
**Jennifer Evans**
General Manager
Ocean 100 / K-ROCK
Charlottetown, Prince Edward Island



## INCREASING ADVERTISING REVENUE

Newcap has developed a coordinated sales approach with the objective of maximizing advertising revenue and focusing on national campaigns.

Pictured above:
**Janet Johanson**
Account Manager
california 103/FUEL 90.3
Calgary, Alberta

## DELIVERING TO SHAREHOLDERS

Newcap is committed to creating value through share price growth by investing in cash accretive radio licences and maximizing the performance of existing radio assets.

## SUPPORTING OUR LOCAL COMMUNITY

Our radio professionals work with a diverse range of organizations including hospitals, food banks and children's charities. Hundreds of organizations benefit from the Company's donation of air-time.

Pictured above:
**Kenny B**
Host of The Traffic Jam
Hot 89.9
Ottawa, Ontario

# REPORTING
## our progress

Pictured above (from left):
**Robert G. Steele**
President and Chief Executive Officer
**Harry R. Steele**
Chairman

# MESSAGE
TO SHAREHOLDERS

Newcap Radio continues to deliver on its promise of developing dynamic, compelling and engaging radio programming in communities across Canada. Our theme in 2006 was developing a Sound Foundation for the future: Building, Generating, Creating and Supporting. These four elements underpin much of our work this year.

## DOUBLE EBITDA BY 2009

Our efforts across the country are to fulfill our commitment of doubling the Company's EBITDA to $30 million by the end of 2009. Our operating plans were developed to deliver on this promise, a promise which will be achieved through a combination of organic growth from existing properties and the expansion of the Company through new licence awards and acquisitions. We are pleased to report that in 2006 we took significant steps to laying the solid foundation we need to achieve our goal.

The Company's operating performance reflects the building process that has occurred. In 2006, consolidated revenue growth of 17%, or $13.4 million, was driven primarily by new business and licence acquisitions and newly launched stations. Earnings before interest, taxes, depreciation and amortization (EBITDA) was $23.0 million or 26% improved from last year. We continue to generate positive cash flow from operating activities and the Board of Directors once again declared dividends of $0.30 per share in 2006.

**+3**

**NEW STATION LAUNCHES**
Newcap launched two new stations in Charlottetown, Prince Edward Island and one in Bonnyville, Alberta.

## BUILDING

This past year we continued expanding our portfolio of properties. Newcap launched two FM radio stations in Charlottetown, Prince Edward Island in the summer of 2006. We converted our AM station CHTN to the FM band and re-launched it as Ocean 100 FM. We also launched a new rock-formatted station, K-ROCK 105.5 FM. We are happy to report that with the release of the first rating survey in the Charlottetown market in nearly 10 years, K-ROCK debuted at #1 and Ocean 100 FM debuted at #2. In March 2006, Newcap was also awarded a new Adult Hits station in Bonnyville, Alberta which was launched in May.

We continue to expand our presence in Winnipeg, Manitoba with the purchase and integration of a heritage station, the multilingual and multicultural CKJS-AM. The station is housed with our Winnipeg FM station, country formatted HANK-FM.

The Company enjoyed several new licence awards from the Canadian Radio-television and Telecommunications Commission ("CRTC") in 2006, the biggest of which was the approval of a new FM licence in Calgary, Alberta. This new licence was an extremely important achievement for the Company as it adds a second FM for Newcap in Calgary, one of the most profitable radio markets in Canada. The new station will provide expanded audience share and additional operating economies of scale. Also in Alberta, Newcap was awarded a new FM licence in Fort McMurray, an area that has been growing at a record pace.

## GENERATING

Much of our work last year was geared to increasing the asset value of our radio portfolio by fully integrating the new licence acquisitions and new station launches into our operating platform. The Company also targeted revenue generation in markets where competition has increased as a result of new licences being issued by the CRTC. The Company increased sales training with its staff to help each salesperson be more effective and also developed several non-traditional advertising initiatives that have been very successful in creating new revenue streams for our stations.

## CREATING

The Company continues to focus on creating returns for shareholders and 2006 was no exception. The key to our success is to be an innovative content creator. Over the past year the Company continued to break new ground in the area of programming and content creation. From the country's first Triple A (adult album alternative) station to Canada's first Alternative Country format, Newcap prides itself on paying attention to listeners and anticipating what they want to hear on the radio.

**+17%**

**REVENUE INCREASE**

Total revenue improved by 17% in 2006, driven primarily by new business and licence acquisitions and newly launched stations.

## FINANCIAL HIGHLIGHTS

| (millions of dollars except share information) | 2006 | 2005 | 2004 |
|---|---|---|---|
| **OPERATIONS** | | | |
| Revenue | $ **93.9** | 80.6 | 66.5 |
| EBITDA (defined on page 33) | **23.0** | 18.2 | 15.2 |
| Net income | **12.0** | 6.0 | 10.2 |
| **FINANCIAL POSITION** | | | |
| Total assets | $ **216.3** | 213.5 | 155.7 |
| Long-term debt | **53.8** | 53.3 | 15.1 |
| Shareholders' equity | **90.9** | 82.9 | 86.2 |
| Market capitalization | **195.6** | 187.0 | 147.2 |
| **PER SHARE INFORMATION** | | | |
| Net income – basic | $ **1.07** | 0.53 | 0.85 |
| Dividends declared | **0.30** | 0.30 | 0.10 |
| Book value | **8.12** | 7.34 | 7.36 |
| Share price (closing price December 31) | | | |
| NCC.A | **17.40** | 16.50 | 12.50 |
| NCC.B | **18.00** | 17.00 | 13.00 |
| Number of shares outstanding (thousands) | | | |
| Class A Subordinate Voting Shares | **9,941** | 10,040 | 10,467 |
| Class B Common Shares | **1,258** | 1,258 | 1,258 |

"Much of our work last year was geared to increasing the asset value of our radio portfolio by fully integrating the new licence acquisitions and new station launches into our operating platform."

## SUPPORTING

Newcap is quickly establishing itself as a recognized leader in Canadian radio for its support of new, emerging Canadian artists. These talented artists are largely unknown to the public, yet they have the potential to become some of the most important Canadian music stars of tomorrow. Newcap is providing a supportive, helping hand through airplay and promotion efforts in every market in which the Company operates. The highlight of our support is the Newcap-created "Making of the Band" initiative that started in Ottawa and will now include Calgary. Newcap has pledged or paid $30 million to develop and support new, Canadian music artists through the funding of Canadian Talent Development.

Our support to charitable organizations is unwavering. Newcap is proud to have worked with over 600 non-profit organizations across Canada this past year, ranging from children's charities to food banks and hospitals. The relationships we have developed with these organizations are a direct result of our committed employees who sponsor and assist those in need.

**+600**

**CHARITABLE ORGANIZATIONS ASSISTED**

Newcap worked with over 600 organizations and contributed in excess of $7 million in support. This support included announcements on Newcap Radio stations, product donations and cash to charitable causes across Canada.

## OUTLOOK 2007

As many of our readers will know, Newcap has gone through an accelerated development curve over the past few years. Although we continue to seek out new business and licence opportunities, and we are in a strong financial position to do so, our focus in 2007 is to maximize organic growth. We have implemented company-wide programs to increase revenue, reduce expenses and maximize returns. We are on track to achieving our goal of doubling EBITDA by the end of 2009, and we expect our new licence acquisitions to contribute to our revenue and EBITDA growth throughout 2007. Next year we anticipate a successful and profitable year based on the foundation we have created this year.

We have a wonderful and dedicated team of radio professionals working for Newcap in markets large and small throughout Canada. We are very proud of each and every person that has made a valuable contribution to our Company's success in 2006.

Newcap and its employees have clear and focused objectives and we are dedicated to achieving them. We are proud of our record of achievement and we will continue to work diligently Building, Generating, Creating and Supporting communities we serve across the country.

(signed)

**Robert G. Steele**
President and
Chief Executive Officer

(signed)

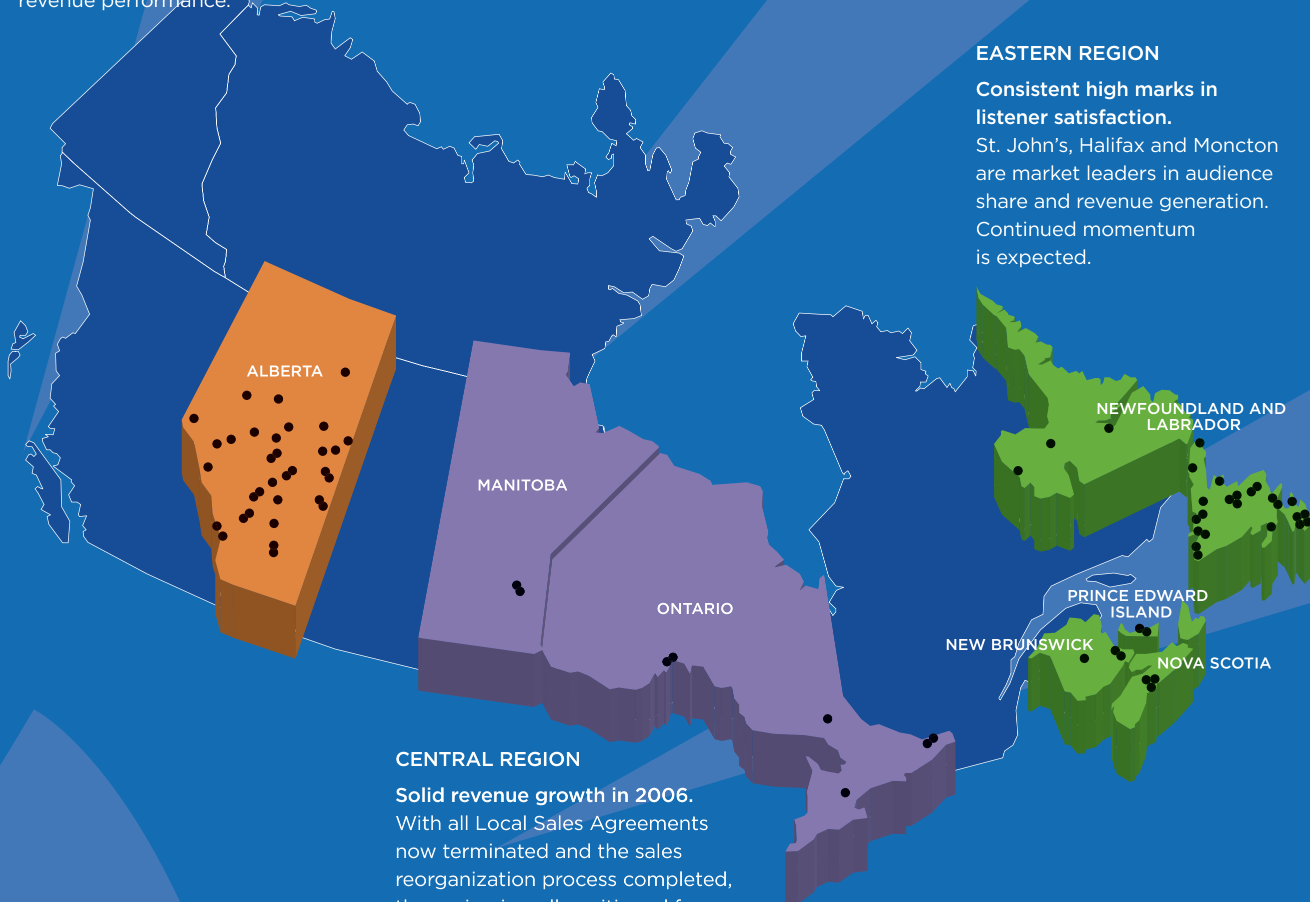
**Harry R. Steele**
Chairman

WESTERN REGION

**A key area of growth for Newcap in 2007.**
With three station start-ups underway and the reorganization of the Alberta group complete, the region is poised for strong revenue performance.

EASTERN REGION

**Consistent high marks in listener satisfaction.**
St. John's, Halifax and Moncton are market leaders in audience share and revenue generation. Continued momentum is expected.




CENTRAL REGION

**Solid revenue growth in 2006.**
With all Local Sales Agreements now terminated and the sales reorganization process completed, the region is well positioned for operating earnings growth.

# WORKING
## towards the future

With 75 radio licences in our portfolio and stations operating in small, medium and large markets across Canada, no other radio broadcaster can reach as many diverse communities as Newcap.

# SETTING OUR OBJECTIVES

Our goal is to double EBITDA from $15.2 million to $30.4 million by the end of 2009. We will reach our goal with the efforts of a committed management team and through clear and focused objectives.

## 1. GROW BY ACQUISITION

We seek accretive and value-enhancing acquisitions.

### OUR 2006 TARGETS

- A focus on accretive acquisitions
- Approval of purchase agreement by the CRTC
- Integration of new business acquisition into current operations

### OUR 2006 RESULTS

- Approval by the CRTC of the purchase of CKJS-AM in Winnipeg, Manitoba
- Completion of a successful integration program at the Winnipeg stations

### WHAT WE PLAN IN 2007

- A review and assessment of all high quality acquisition opportunities

## 2. GROW BY NEW LICENCES

We carefully review every CRTC call for radio applications and apply when appropriate.

### OUR 2006 TARGETS

- Approval of FM licence applications before the CRTC
- Conversion of AM licence to FM in Charlottetown, Prince Edward Island
- A proactive approach to exploring licencing prospects
- Integration of new licences into current operations

### OUR 2006 RESULTS

- Approval from the CRTC for four new FM licences: Calgary, Fort McMurray and Lac LaBiche, Alberta and Charlottetown, Prince Edward Island
- Conversion of Charlottetown, Prince Edward Island AM licence to FM
- Conversion to full-station status in Bonnyville, Alberta
- Eleven licence applications before the CRTC including Medicine Hat, Alberta, Regina and Saskatoon, Saskatchewan, Sudbury, Ontario and Halifax, Nova Scotia

### WHAT WE PLAN IN 2007

- A proactive approach to exploring licencing prospects
- Focus on new station launches, particularly Calgary, Alberta
- Conversion of AM licences to FM in Halifax, Nova Scotia, and St. Paul, Brooks, Wainwright and Stettler, Alberta, subject to CRTC approvals
- Conversion of Edson, Alberta licence from AM to FM

## 3. MAXIMIZE RETURN OF EXISTING RADIO ASSETS

Generating organic growth and delivering creative programming at each of our stations is critical to our success.

### OUR 2006 TARGETS

- Monetizing and exploiting new media opportunities and platforms
- Continuation of regionalization plans
- More investment in national sales training program

### OUR 2006 RESULTS

- Development of new media platforms including internet advertising and streaming media
- Coordinated national effort to sell on-line advertisements
- Successful reorganization of the Alberta group
- Continued progress with the national sales training program

### WHAT WE PLAN IN 2007

- A focus on operations, organic revenue growth and operating margin expansion
- Development of targeted programming to accommodate specific listener audiences
- Development of innovative community promotions

# MS Society of Canada

**"WE ARE PROUD OF THE LONG-STANDING PARTNERSHIP BETWEEN NEWCAP RADIO AND THE MS SOCIETY."**

Multiple sclerosis (MS) is a disease that randomly attacks the central nervous system. As of today, there is no identified cause or cure for MS.

Q104 FM and KOOL FM in Halifax have provided invaluable support for our bike tour and Super Cities WALK with Public Service Announcements, event management and onsite atmosphere. Their promotions teams contributed to our fundraising efforts and encouraged listeners to join in.

Our partnership goes beyond the support of these two signature fundraising events. Shauna MacKinnon, On-air Host, often attends our events, performs hosting duties, and has joined the bike tour herself.

We know how much competition there is for corporate support and are extremely grateful for the enthusiastic partnership that we have developed with Q104 FM and KOOL FM. We consider this a true partnership and look forward to many more years together.

**Fiona Gibb**
Director, Community Giving & Campaigns
MS Society of Canada
Halifax, Nova Scotia

# SUPPORTING
## our communities

Our employees generously give their time to raise money and awareness for a variety of charitable efforts across the country. Our dedication to helping non-profit organizations across Canada is demonstrated by the strong partnerships we have developed.

Pictured above:
**Tim Dunlop**
Special Events
MS Society of Canada
Halifax, Nova Scotia

Pictured below:
**Liz Ballendine**
Director of Development
Missing Children Society of Canada
Calgary, Alberta

# Missing Children Society of Canada

**"WE ARE IMPRESSED BY NEWCAP'S PROFESSIONALISM, ATTENTION TO DETAIL, AND GENUINE INTEREST IN HELPING CHARITIES IN ANY WAY THEY CAN."**

The Missing Children Society of Canada is dedicated to the search for abducted and runaway children.

Over the last five years, Newcap has been a huge help to the Missing Children Society of Canada (MCSC) by allowing us to promote and publicize our cause for free through their radio station california 103 FM. Newcap has run Public Service Announcements and conducted interviews both with MCSC staff and the searching parents we help. They have also been supportive of a number of our special events, including gala dinners and golf tournaments.

We are proud of our ongoing relationship with Newcap.

**Liz Ballendine**
Director of Development
Missing Children Society of Canada
Calgary, Alberta

# The Ottawa Food Bank

**"YOUR COMMITMENT TO MAKING A DIFFERENCE IN YOUR COMMUNITY IS NOTHING SHORT OF INSPIRING."**

The Ottawa Food Bank currently supports more than 40,000 people a month through programs at 125 agencies throughout the Ottawa area. Thanks to extraordinary community support from Newcap, the Food Bank is able to deliver 12 tons of food to these agencies each and every day. We are so fortunate to have found a friendship with Newcap Ottawa. Your support really does make a difference.

Initiatives like the "Live Holiday Food Drive" and the annual "Hot 89.9 Hunger at Home Food Drive" were virtually unheard of until Newcap Ottawa stepped up to the plate. Newcap Ottawa has created a remarkable opportunity to generate awareness of the ongoing fight against community hunger while allowing community and corporate sponsors to shine.

We are grateful and look forward to working with Newcap for a long time to come.

**Peter Tilley**
Executive Director
The Ottawa Food Bank
Ottawa, Ontario

Pictured below:
**Jacinthe Irvin**
Volunteer Coordinator
The Ottawa Food Bank

Pictured above:
**Derek Delouche**
Executive Director
The Children's Wish Foundation
St. John's, Newfoundland and Labrador

# The Children's Wish Foundation

**"NEWCAP EMPLOYEES ARE PRESENT WHEN AND WHERE WE NEED THEM."**

The Children's Wish Foundation is an organization dedicated to fulfilling a favorite wish for children afflicted with a high risk, life-threatening illness.

In addition to generously donating air-time to promote Foundation activities, VOCM in St.John's, Newfoundland and Labrador also provided office space for our organization in the first 12 years. Newcap employees are present when and where we need them, whether volunteering as a board member, for special events and fundraisers, or recruiting volunteers province-wide.

Newcap has gone above and beyond in the past with the most recent example being last year's meeting with Rex Goudie and four of our wish children, organized by HITS 99.1. Most charities only dream of having a corporate sponsor like Newcap.

As a result of this partnership, the Foundation enjoys one of the highest profiles in the not-for-profit sector in the province and for that we say "thank you".

**Derek Delouche**
Executive Director
The Children's Wish Foundation
St. John's, Newfoundland and Labrador

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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# MEASURING
## our performance

The purpose of the Management's Discussion and Analysis ("MD&A") is to provide readers with additional 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 23, 2007, and related Notes contained in this 2006 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. Certain comparative figures have been reclassified in order to conform with the basis of presentation adopted in fiscal 2006.

Management's discussion and analysis of financial condition and results of operations contain 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.

# Our business

## Newfoundland Capital Corporation Limited (the "Company") is one of Canada's leading radio broadcasters with 75 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.

### CORPORATE OVERVIEW

The Company has 47 FM and 28 AM licences spanning the country and employs over 800 radio professionals in Canada.

The primary source of the Company's revenue is derived from the sale of advertising airtime. The Company's sales team generates local revenue while agencies and national sales representatives are responsible for national sales. Revenue is dependent on fluctuations in the local and Canadian economies, competition from other broadcasters for listener base, other advertising media and government broadcasting regulations.

The shares of the Company trade on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.

**Hal Gardiner,** News Director, california 103 FM, Calgary, Alberta

**Michelle Myrick,** Executive Director, VOCM Cares Foundation and K-ROCK Children's Trust Fund, St. John's, Newfoundland and Labrador

### 2006 SUMMARY OF RESULTS

The following highlights summarize the significant accomplishments in 2006:

- Revenue increased by $13.4 million, or 16.6%, to $93.9 million;
- Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"[1]) of $23.0 million is 26.3% better than last year, or $4.8 million higher, primarily driven by net investment gains on the short-term portfolio of $8.7 million recognized in other income;
- Net income of $12.0 million is $5.9 million higher than last year;
- Dividends aggregating $0.30 on Class A Subordinate Voting and Class B Common shares were declared;
- An AM licence was purchased in Winnipeg, Manitoba, complementing an existing FM station in that market;
- The Company launched two FM licences in Charlottetown, Prince Edward Island, and one in Bonnyville, Alberta; and
- The Company was awarded new FM radio licences in Lac LaBiche, Fort McMurray, Bonnyville and Calgary, Alberta.

### OUR VALUES

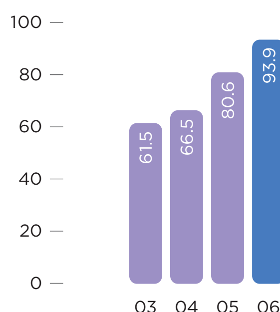
The Company seeks to be the leading radio broadcaster in each of its markets. To accomplish this, the Company is committed to developing sustainable relationships with each of its stakeholders including shareholders, customers, listeners, employees and the local communities it serves.

The Company strongly believes that its success depends on what it values most: talent, growth and community. It seeks to:

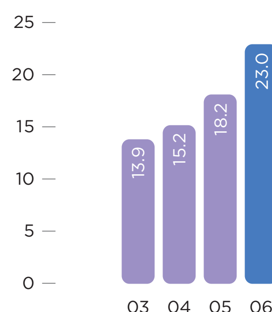
- Encourage and promote the development of its radio professionals;
- Sustain the long-term growth of its portfolio of radio assets; and
- Support local community efforts.

(1) Refer to page 33, Non-GAAP measure, for the reconciliation of EBITDA to net income.

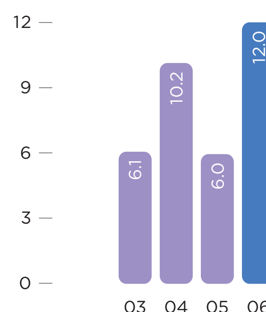
**Revenue**
(millions $)



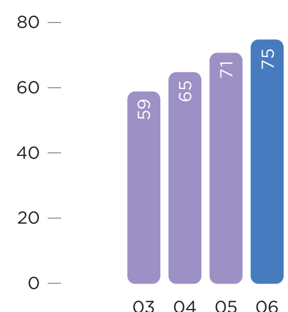

**EBITDA**
(millions $)




**Net Income**
(millions $)




**Number of Radio Station Licences**



# Our industry

Radio in Canada continues to be part of the daily routine with 70% of Canadians listening to the radio on their drive to work, school or shopping. Demand for radio advertising is steadily increasing because it is one of the most effective ways to immediately reach a targeted demographic.

## INDUSTRY OVERVIEW

The broadcasting industry is regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC"); it is the agency responsible for awarding new licences to broadcasters and for renewing existing licences. It is the licence that enables a broadcaster to generate revenue by airing advertisements. Licences generally have a term of seven years and broadcasters apply to the CRTC for renewal at the end of the term. Unless a business commits a serious breach of a condition of licence imposed by the CRTC, the licence is normally renewed.

The critical driver of earnings growth in this industry is the ability to generate the most radio advertising dollars possible by capturing the largest share of tuning in a market. Successful broadcasters achieve this by providing creative radio programming, delivering effective marketing and promotional campaigns for advertisers, contributing to the communities they serve, and being acutely aware of customer needs. The desired result is to lead the competition and capture market share, which determines a radio station's revenue potential. Most mid-size and major radio markets are surveyed by a rating service, Bureau of Broadcast Measurement ("BBM"), to determine how much of the listening public tune in to one station over another. The higher a station is rated, the more attractive that station becomes to local and national advertisers, translating into increased revenue.

## COMPETITION

In recent years, there has been an increase in the number of new licences awarded by the CRTC. The threat of new entrants has become more pervasive and radio stations must now, more than ever, maintain a competitive edge to attract and retain local and national advertising customers. The advent of alternative advertising media is another external factor facing the industry.

## INDUSTRY FACTS AND FIGURES

Despite the environmental challenges, radio continues to be an important and desirable means of advertising. In 2006, radio advertising accounted for over 14.0% of the estimated $9.7 billion spent in Canada on major media advertising.

- Canadians spend one third of their daily media time with radio;
- Radio continues to be a primary source of local, breaking news in most communities during bad weather, local emergencies and other time sensitive events; and
- Radio advertising grew 5.0% in 2006 and this positive trend is projected to continue in 2007.

## TRENDS IN OUR INDUSTRY – How it affects our business

### 1. HEIGHTENED COMPETITION

**There is increased competition from new licences issued by the CRTC.**

The threat of new entrants in a market emphasizes the need for constant innovation through programming changes and when necessary, format changes.

### 2. NATIONAL CAMPAIGNS

**National campaigns are the fastest growing part of the advertising mix.**

Revenue growth in medium and large markets requires a focus on national advertising campaigns.

### 3. LOCAL PROGRAMMING

**Locally relevant programming is the most effective means of reaching the community.**

Listeners are increasingly interested in getting local news, information and entertainment, rather than generic, centrally produced content for a geographically wide audience.

### 4. NEED FOR SCALE

**Operating at the regulatory cap maximizes revenue and operating synergies.**

Benefits of scale come from capturing the largest possible listener share, co-locating premises, sharing staff and promotional efforts and leveraging sales efforts across multiple stations.

# Our strategy

## Increasing shareholder value is the principal goal of the Company: in 2004 the Company announced that it intended to double EBITDA by the end of 2009 to $30 million. The best way to achieve this is by expanding the Company's portfolio and maximizing returns from existing assets.

### LONG TERM STRATEGY

- **Pursue new business and licence acquisitions**
  The Company actively seeks value-enhancing new business and licence acquisitions. In 2006, it successfully completed the purchase of CKJS-AM, a multicultural and multilingual radio station in Winnipeg, Manitoba.
- **Increase our presence across all markets through the CRTC process**
  Management is awaiting decisions on presentations made to the CRTC for new FM licences in Medicine Hat, Alberta and Regina and Saskatoon, Saskatchewan. A new licence in Saskatchewan would present the Company with its first venture in this province. The Company currently has eleven licence applications before the CRTC including Sudbury, Ontario and Halifax, Nova Scotia.
- **Maximize return of existing radio assets**
  Growing the Company organically is the basis for long-term sustainability. The Company made significant strides in expanding the business in 2005 and 2006, completing 5 acquisitions and launching 9 FM licences. The focus in 2006 was on building a sound operating foundation to position each station for long-term success. With the foundation now firmly established, increasing revenue and controlling costs to generate strong organic results will be the Company's chief objective in 2007.

### SHORT TERM STRATEGY

The Company's financial performance is a function of its ability to seek-out accretive investments, combine them with existing operations and generate solid margins. The operating foundation that management lays in the first year of newly launched stations is the driver for future organic results.

- **Launch new FM licences**
  The Company is diligently working to launch the new FM licences awarded by the CRTC in 2006, all of which are in Alberta: Lac LaBiche, Fort McMurray and Calgary. Calgary has one of Canada's most vibrant economies making the licence award an important achievement for the Company, and one with significant revenue upside. The new licence, in combination with the Company's existing FM licence there is expected to contribute significantly to future earnings. Management expects to launch this station in March 2007.
- **Target programming to particular listening audiences**
  The Company faces increased competition in Edmonton, Alberta, where four new radio stations were launched. Halifax, Nova Scotia is now home to three new competitors. Targeting programming to specific listening audiences is critical to mitigating new competition because the potential revenue a station can generate is tied to its market share. Demographics and the needs of market listeners are continuously studied to ensure that programming is relevant.

## KEY PERFORMANCE DRIVERS – How we execute on our strategy

### 1. INDUSTRY GROWTH

**Competing effectively within our industry environment.**
Performance in the radio industry depends on proactively addressing changes in the competitive environment. Achieving our corporate objectives is a function of enhancing our service offering while closely monitoring trends in our local markets.

### 2. LISTENER SATISFACTION

**Making informed and swift programming decisions.**
We employ rigorous market intelligence to ensure our radio product is focused on the needs of our listeners. In areas where radio market surveys are not available we perform our own research.

### 3. COMMUNITY PARTICIPATION

**Developing productive relationships with local charitable organizations.**
We measure our community participation based on dollars raised for causes we support, product donations, event attendance, on-air Public Service Announcements and radio airtime provided.

### 4. EMPLOYEE RETENTION

**Motivating and developing each radio professional.**
Stock purchase plans, employee development programs and a highly organized integration process allow us to track the commitment and growth of our employees. We are proud of the fact that almost two thirds of our employees are shareholders in the Company.

## CORPORATE DEVELOPMENTS

The corporate developments below should be considered when reviewing the "Consolidating Operating Review" section.

### 2006 ACQUISITIONS AND APPROVALS OF NEW LICENCES BY THE CRTC

- January 18, 2006 – awarded a new FM radio licence in Lac La Biche, Alberta. This is the first commercial radio station to serve this community and is expected to launch in 2007.
- March 10, 2006 – awarded full-station status, from repeater status, in Bonnyville, Alberta which allows the Company to originate and broadcast from that community. KOOL-FM, featuring contemporary hits, was launched in May.
- March 23, 2006 – the CRTC approved the purchase of CKJS Limited which holds the CKJS-AM broadcast licence in Winnipeg, Manitoba. The transaction was completed April 30, 2006 for aggregate consideration of $2.3 million.
- March 24, 2006 – awarded an FM radio licence in Charlottetown, Prince Edward Island and a conversion of the Company's existing station, CHTN-AM, from an AM to FM signal. The new FM stations, Ocean-FM and K-ROCK, were successfully launched in June and July, respectively.
- August 2, 2006 – The CRTC awarded the Company a new FM licence in Calgary, Alberta. The new station, 90.3 on the FM band, will be a perfect complement to the existing station, california 103 and is expected to be launched in March 2007.
- November 15, 2006 – awarded a new FM radio licence to broadcast in Fort McMurray, Alberta. Management will begin planning for this launch in this fast growing community in 2007.

As a result of these new broadcast licences, the Company has committed to fund Canadian Talent Development ("CTD") in the amount of $8.7 million over a seven year period.

### 2005 ACQUISITIONS AND APPROVALS OF NEW LICENCES BY THE CRTC

- January 31, 2005 – the Company acquired the assets of Shortell's Limited and its related companies in Lloydminster, Alberta, including three radio and two television broadcasting licences and an outdoor advertising business.
- May 30, 2005 – the Company acquired the broadcasting assets of Big Pond Communications (2000) Inc. in Thunder Bay, Ontario, the primary asset being an FM radio licence.
- September 26, 2005 – the Company acquired 100% of the common shares of 4323041 Canada Inc. entitling it to the property, assets, licences and rights in connection with the operation of two FM radio licences in Red Deer, Alberta.
- December 5, 2005 – the Company acquired the remaining 80.1% of the common shares of CKVN Radiolink System Inc., having initially acquired 19.9% 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 Company launched four FM radio broadcast licences in Alberta throughout 2005, a new FM licence in Fredericton, New Brunswick in July, and one in Ottawa, Ontario at the end of December.

The results of the above incremental operations have been included in the consolidated financial statements since the respective acquisition and launch dates.

## SELECTED FINANCIAL HIGHLIGHTS

Growth in assets and revenue between 2004 and 2006 is largely due to new licences and acquisitions. These are some of the other significant factors that affected results between 2004 and 2006:

- 2004 – the Company disposed of its interest in Optipress Inc. which resulted in a gain on disposal of $2.5 million;
- 2005 – the Company paid a $3.5 million settlement to Halterm Limited pursuant to an indemnity claim; and,
- 2006 – the Company recognized net gains of $8.7 million on short-term investments.

| (thousands of dollars, except share data) | 2006 | 2005 | 2004 |
|---|---|---|---|
| Revenue | $ 93,937 | 80,563 | 66,529 |
| Net income | 11,967 | 6,032 | 10,164 |
| Earnings per share | | | |
| Net income | | | |
| – basic | 1.07 | 0.53 | 0.85 |
| – diluted | 1.04 | 0.51 | 0.84 |
| Total assets | $216,287 | 213,507 | 155,724 |
| Long-term debt | 53,771 | 53,285 | 15,073 |
| Outstanding shares (thousands) | | | |
| Class A Subordinate Voting Shares | 9,941 | 10,040 | 10,467 |
| Class B Common Shares | 1,258 | 1,258 | 1,258 |
| Dividends declared | | | |
| Class A Subordinate Voting Shares | $ 0.30 | 0.30 | 0.10 |
| Class B Common Shares | 0.30 | 0.30 | 0.10 |

## CONSOLIDATED OPERATING REVIEW

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

### REVENUE

| | | | Growth | |
|---|---|---|---|---|
| (thousands of dollars) | 2006 | 2005 | Total | Organic |
| **Revenue** | | | | |
| Broadcasting | $ 90,643 | 77,503 | 17.0% | 3.4% |
| Corporate and other | 3,294 | 3,060 | 7.6% | 7.6% |
| | $ 93,937 | 80,563 | 16.6% | 3.6% |

Consolidated revenue of $93.9 million improved by 16.6% or $13.4 million over last year. The vast majority of growth came from the broadcasting segment. Revenue from broadcasting of $90.6 million was $13.1 million ahead of last year and this increase was driven by the revenue stream associated with the

**Wendy Watson,** General Manager, Big Daddy 103.9 FM, Sudbury, Ontario

**Sharon Mallon** and **Danny Hooper,** CFCW Morning Show, Edmonton, Alberta

**Leanne Sharpe,** Morning Show Co-host, 99.1 Hits FM, St. John's, Newfoundland and Labrador

**Jay Calnan,** Creative Supervisor, Q104, KOOL 96dot5 and 780 KIXX, Halifax, Nova Scotia

new business and licence acquisitions and the newly launched stations. Organic growth of 3.4% is expected to climb in 2007 now that most of the incremental operations have been integrated with current assets. This is demonstrated by the 2006 fourth quarter results showing total broadcasting revenue growth of 14.2%, of which 9.0% relates to organic increases.

Organically, 2006 showed some decreases in revenue in certain markets where the Company faced competition by new entrants. As previously disclosed, four new stations were launched in Edmonton; two of which targeted the same audience as the Company's CKRA-FM youth-based top 40 format. To mitigate the effects of new competition, management re-launched CKRA as a country-music station in early 2006. This new station caters to a more broad-based audience and positions the Company for higher revenue and increased margins in the future. Recent surveys showed increases in the market share of this station and management is encouraged by the results. The Company's other FM station in Edmonton, CIRK-FM, had slipped slightly in the ratings in the earlier part of 2006 but by year end, it regained its top-three station ranking in the important 25-54 demographic. Stations in other markets across the country have performed well, helping to offset weaker results in other areas. Stations in Eastern Canada showed solid revenue results throughout the year ranking ahead of competition in many of the surveyed markets. Rural Alberta stations have undergone upgrades in recent years and are contributing positively to revenue.

In 2006, management delivered on its goal to successfully integrate its acquisitions and new station start-ups while generating strong incremental growth rates. The foundation has now been established for these operations to contribute to the Company's organic results in future.

Corporate and other revenue is 7.6% ahead of last year. Increased revenue in hotel operations is the principal reason for the increase.

### OTHER INCOME

Other income increased by $7.0 million due to the net gains realized on the short-term investment portfolio.

### OPERATING EXPENSES

Operating expenses of $80.6 million were $15.5 million higher than last year. The expenses associated with the integration of acquisitions and new station launches accounted for over one-half of this increase. The Company, having faced new competition in certain of its markets, spent more on marketing expenses in the first half of this year; however, by the end of the year, these expenditures were more in line with traditional spending trends. Operating expenses were affected by a $0.8 million non-cash stock-based compensation expense related to the extension of the expiry date of certain stock options. In addition, a $1.3 million incentive was awarded to the Chairman of the Board of Directors in recognition of his performance managing the short-term investment portfolio which realized significant gains in the year. Variable costs associated with higher revenue and inflation were the other reasons for the higher operating expenses.

### EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA")

| | | | Growth | |
|---|---|---|---|---|
| (thousands of dollars) | 2006 | 2005 | Total | Organic |
| **EBITDA** | | | | |
| Broadcasting | $ 23,372 | 22,366 | 4.5% | (3.3%) |
| Corporate and other | (327) | (4,123) | 92.1% | 92.1% |
| | $ 23,045 | 18,243 | 26.3% | 16.6% |
| **% of Revenue** | | | | |
| Broadcasting | 25.8% | 28.9% | (3.1%) | (3.4%) |
| Total | 22.2% | 21.9% | 0.3% | 0.3% |

Broadcasting EBITDA increased by $1.0 million or 4.5% over last year. Despite the increase in broadcasting revenue, operating expenses were higher, as described above under the heading "Operating Expenses". Attention on organic margins and cost control will be the focus in 2007.

On a consolidated basis, EBITDA of $23.0 million is 26.3% ahead of last year. The majority of this increase is a result of the net investment gains recognized in Corporate and other EBITDA.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense is $0.6 million higher compared to 2005; a result of an increased depreciable asset base due to acquisitions and new station launches.

### INTEREST EXPENSE

Higher average debt levels resulting from the recent business and licence acquisitions and station launches, along with higher interest rates, are the reasons for the doubling of interest expense over last year.

### ACCRETION OF OTHER LIABILITIES

Accretion of other liabilities of $1.0 million arose from the discounting of Canadian Talent Development commitments ("CTD") included in other liabilities. The expense last year was under $0.1 million.

### LOSS ON EQUITY ACCOUNTED INVESTMENT

The Company recognizes its proportionate share of income or loss of the equity-accounted investment in the Kitchener-Waterloo FM licence. In 2006 and 2005, the Company's share of losses was minimal.

### INCOME TAXES

The effective income tax rate this year is lower than the statutory rate of 38.1% because of two factors: the net capital gains realized from short-term investments were taxed at one-half the normal tax rate and in June 2006, the Company re-measured its future income tax assets and liabilities due to the enactment of lower general corporate tax rates in Canada, resulting in a future income tax recovery of $1.3 million.

### 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 $0.8 million is 42.9% higher than last year's due to better performance of the licences.

### NET INCOME

| | | | Growth | |
|---|---|---|---|---|
| (thousands of dollars) | 2006 | 2005 | $ | % |
| Net income | $ 11,967 | 6,032 | 5,935 | 98.4% |

Net income of $12.0 million doubled last year's $6.0 million. The major contributor to this increase is the 2006 net after-tax gains of $7.1 million.

### SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED EXCEPT TOTALS)

The Company's revenue and operating results vary, depending on the quarter. The first quarter is generally a period of lower retail spending and as a result, advertising revenue is lower. The fourth quarter tends to be a period of higher retail spending. The net loss in the third quarter of 2005 included the Halterm settlement. The gain on disposal of short-term investments positively impacted the 2006 second quarter net income while the third quarter was negatively impacted by a provision for the decline in value of short-term investments.

| | Quarter | | | | |
|---|---|---|---|---|---|
| (thousands of dollars, except share data) | 1st | 2nd | 3rd | 4th | Year |
| **2006** | | | | | |
| **Revenue** | **$ 18,563** | **24,522** | **22,788** | **28,064** | **93,937** |
| **Net income** | **1,167** | **7,506** | **9** | **3,285** | **11,967** |
| **Earnings per share** | | | | | |
| **– basic** | **0.10** | **0.67** | **–** | **0.29** | **1.07** |
| **– diluted** | **0.10** | **0.65** | **–** | **0.28** | **1.04** |
| 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 |

## LIQUIDITY AND CAPITAL RESOURCES

The following table depicts the major sources of cash inflows and outflows in 2005 and 2006.

| (thousands of dollars) | 2006 | 2005 |
|---|---|---|
| **Inflows** | | |
| Funds generated from operations | $ 18,309 | 10,032 |
| Change in working capital | (3,057) | (6,181) |
| Cash generated from operating activities | 15,252 | 3,851 |
| Long-term debt borrowings | 5,030 | 38,235 |
| Disposal of Halterm Income Fund Trust Units | 399 | 2,327 |
| Note receivable | 1,000 | 1,000 |
| Other | 536 | 2,472 |
| | $ 22,217 | 47,885 |
| **Outflows** | | |
| Business and licence acquisitions, including initial deposits | $ (2,296) | (26,281) |
| Property and equipment additions | (4,434) | (8,713) |
| Long-term debt repayments | (4,544) | (23) |
| Repurchase of capital stock | (2,034) | (6,536) |
| Dividends paid | (3,373) | (2,883) |
| Canadian Talent Development commitment payments | (3,117) | (2,034) |
| Other | (2,419) | (1,415) |
| | $ (22,217) | (47,885) |

### CASH FLOWS – 2006

Cash flows from operating activities of $15.3 million are higher than last year's amount by $11.4 million primarily due to the proceeds from disposal of short-term investments which resulted in net gains to the Company of $8.7 million. Cash generated from this gain along with long-term debt borrowings of $5.0 million were used to repay $4.5 million in long-term debt, to pay dividends aggregating $3.4 million, Canadian Talent Development commitments of $3.1 million, to repurchase capital stock for $2.0 million, to finance property and equipment additions of $4.4 million and business and licence acquisitions of $2.3 million.

### CASH FLOWS – 2005

Last year's $3.5 million settlement and lower other income are the main reasons why the $3.9 million cash from operating activities was lower than 2006. Inflows from the long-term debt borrowing of $38.2 million and the $2.3 million proceeds from the sale of Halterm Income Fund Trust Units, combined with the cash from operations, were used to fund $26.3 million of business and licence acquisitions, $8.7 million of property and equipment additions, to repurchase capital stock of $6.5 million and to pay dividends of $2.9 million.

Some of the more significant investments in property and equipment this year were as follows:

- Costs associated with the launch of the new FM licences in Charlottetown;
- Costs required to convert and launch new stations throughout rural Alberta, including upgrades to existing rural Alberta properties;
- Costs associated with the new Calgary FM licence; and,
- General improvements and upgrades throughout the Corporate and other segment.

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.

### CAPITAL STRUCTURE AND DEBT FINANCING

As at December 31, 2006 the Company had $0.8 million of current bank indebtedness outstanding and $53.8 million of long-term debt, of which less than $0.1 million is current. The Company has also issued standby letters of credit totaling $1.5 million in support of certain long-term liabilities. The working capital of $9.2 million at year-end compares favourably to last year's $1.7 million working capital. The primary reasons for this improvement are a $4.0 million decrease in current liabilities and the $3.7 million investment in Halterm Income Fund Units included in current assets as a result of the sale of the units in January 2007. More information on this subsequent event is disclosed in Note 17(a) to the consolidated financial statements.

### CREDIT FACILITY

The Company's syndicated credit facility is a $65.0 million revolving credit facility that is renewed annually. The Company renewed the facility subsequent to year end, which will now mature in April 2008. 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, and expects to be for the foreseeable future.

The Company's credit facility is subject to floating interest rates. On February 27, 2006, the Company entered into two interest rate swap agreements having notional amounts of $20.0 million and $5.0 million, expiring February 27, 2009 and February 27, 2011, respectively. A previously existing swap with a notional value of $5.0 million (2005 – $15.0 million) expired July 4, 2006; the accounting impact of the expiry was not significant. The Company enters into interest rate swap agreements 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 agreements. 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 agreements at year end is a net payable of $0.2 million (2005 – $0.1 million) and has not been recognized in the accounts as the interest rate swaps qualify for hedge accounting.

### CREDIT RISK

Credit exposure on financial instruments arises from the possibility that a counterparty to an instrument in which the Company is entitled to receive payment of an unrealized gain fails to perform. Credit exposure is managed through credit approval and monitoring procedures. The Company does not anticipate any counterparties that it currently transacts with will fail to meet their obligations as the counterparties are Canadian Chartered Banks. At December 31, 2006 and 2005, there was no credit exposure to the Company related to its financial instruments.

### DIVIDENDS DECLARED

For the second year in a row, the Board of Directors declared dividends of $0.30 per share on each of its Class A Subordinate Voting Shares ("Class A shares") and Class B Common Shares. A $0.15 per share dividend was paid on September 15, 2006 to all shareholders of record as at August 31, 2006 and a $0.15 per share dividend was paid January 31, 2007 to shareholders of record at the close of business on December 29, 2006.

### CAPITAL BUDGET

The capital budget for 2007 approximates $7.0 million; $2.9 million to maintain operations and $4.1 million for expansionary projects. The major planned expenditures include:

- $3.2 million in capital improvements throughout the country's radio properties;
- $2.3 million to start-up recently awarded licences not yet in the pre-launch phase;
- $0.9 million in upgrades to, and additions of, capital in the Corporate and other segment; and
- $0.6 million to launch the new FM radio station in Calgary, Alberta.

The Company continuously upgrades its broadcast equipment to improve operating efficiencies.

## CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's significant contractual obligations and commitments as at December 31, 2006 and the future periods in which the obligations are expected to be paid. The table also shows the timing of principal repayments on outstanding borrowings. Additional details regarding these obligations are provided in the Notes to the consolidated financial statements, as referenced in the table.

| (thousands of dollars) | | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter | Total |
|---|---|---|---|---|---|---|---|---|
| Long-term debt (Note 5) | $ | 23 | 13,525 | 26,871 | 13,375 | – | – | 53,794 |
| Canadian Talent Development commitments (Note 6) | | 2,571 | 2,348 | 2,455 | 1,413 | 1,161 | 1,145 | 11,093 |
| Operating leases (Note 16(a)) | | 2,924 | 2,213 | 1,816 | 1,530 | 1,586 | 10,309 | 20,378 |
| Non-controlling interest purchase commitment (Note 16(a)) | | – | – | 5,830 | – | – | 5,830 | 11,660 |
| Canadian Talent Development commitments – subsequent event (Note 17(c)) | | 496 | 506 | 572 | 646 | 730 | 1,750 | 4,700 |
| Total contractual obligations | $ | 6,014 | 18,592 | 37,544 | 16,964 | 3,477 | 19,034 | 101,625 |

The Company records long-term debt and Canadian Talent Development ("CTD") commitments on the balance sheet except for the discounted $4.7 million CTD commitment which will be recorded subsequent to year end when the new Calgary, Alberta FM radio station is launched.

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. Subsequent to year end, the Company's long-term debt was reduced by the $14.5 million proceeds from the disposal of its investment in Halterm Income Fund which is described in Note 17(a) of the consolidated financial statements.

The purchase commitment of $5.8 million in 2009 represents half of Standard Radio Inc.'s non-controlling interest which the Company is committed to acquire on April 29, 2009. The remaining half becomes due April 29, 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.

## FINANCIAL CONDITION

### CAPITAL EMPLOYED

Assets of $216.3 million are $2.8 million higher than last year. This increase is explained by the Winnipeg, Manitoba acquisition whereby broadcast licences were increased by $1.6 million and goodwill by $0.7 million.

### CAPITAL STRUCTURE

The capital structure consisted of 42.0% equity ($90.9 million) and 58.0% debt ($125.4 million) at year end. Total bank debt as a percentage of equity has decreased to 60.0% from 66.6% in 2005 due to a decrease in current bank debt and increased equity. The total bank debt to EBITDA ratio, calculated in accordance with the Company's credit facility, is 3.6 to 1.0.

**Tony Angelo,** Afternoon Drive Host, VOCM, St. John's, Newfoundland and Labrador

From left: **Amal Wahab "Newman"** and **Joelle Worrell,** FRED FM News, Fredericton, New Brunswick

**Stephen Peck,** Newcap General Manager, Calgary, Alberta

**Sherri K,** Host of K-ROCK Afternoon Drive, Charlottetown, Prince Edward Island

### SHARE REPURCHASES

During the year, the Company repurchased a total of 119,400 (2005 – 448,400) of its outstanding Class A shares for a total cost of $2.0 million (2005 – $6.5 million), pursuant to Normal Course Issuer Bids. 74,900 shares were repurchased pursuant to the Normal Course Issuer Bid that was in effect until January 27, 2006, while the remaining 44,500 shares were repurchased pursuant to the Normal Course Issuer Bid that was in effect until January 29, 2007. Subsequent to year end the Company received approval under a Normal Course Issuer Bid to repurchase up to 497,012 Class A shares and 62,913 Class B Common Shares. This bid expires January 29, 2008.

### OUTSTANDING SHARE DATA

The weighted average number of shares outstanding at December 31, 2006 is 11,210,000 (2005 – 11,435,000). As of this date, there are 9,941,000 Class A Subordinate Voting Shares and 1,258,000 Class B Common Shares outstanding.

## EXECUTIVE COMPENSATION

### EXECUTIVE STOCK OPTION PLAN

The Company has reserved 1,564,506 Class A shares pursuant to the executive stock option plan of which 756 remain available for issuance at December 31, 2006. The Company has 978,750 outstanding stock options, of which 778,750 are vested, for Class A shares at prices ranging from $7.30 to $16.53. During the year, the Company granted 115,000 options (2005 – 100,000) at a weighted average exercise price of $16.53 (2005 – $13.80), pursuant to the executive stock option plan described in Note 8(b) to the consolidated financial statements. Year-to-date, the Company issued 20,050 (2005 – 21,200) Class A shares for proceeds of $0.2 million (2005 – $0.2 million). In addition to the above activities surrounding the Company's executive stock option plan, in May, the shareholders voted to extend certain options subject to expire, held by the President and Chief Executive Officer resulting in a non-cash charge to income in the amount of $0.8 million. Total compensation expense related to stock options for the year was $1.3 million (2005 – $0.4 million).

### STOCK APPRECIATION RIGHTS PLAN

On January 26, 2006, the Company adopted a stock appreciation rights plan ("SAR Plan") and granted 425,000 rights at a reference price of $16.53. These rights vest gradually, beginning in 2009. Total compensation expense for the year related to the SAR plan was $0.1 million (2005 – nil). More information is contained in Note 8(c) to the consolidated financial statements. On July 11, 2006, the Company entered into an agreement to hedge its obligations under the SAR Plan using an equity total return swap agreement to reduce the volatility in cash flow and earnings due to possible future increases in the Company's share price. This swap qualifies for hedge accounting. Gains or losses realized on the quarterly settlement dates of the swap are recognized in income in the same period as the SAR Plan compensation expense, based on graded vesting. Because the swap qualifies for hedge accounting, the unrealized portion of gains and losses are not recorded. Further information on this financial instrument can be found in Note 10(b) of the consolidated financial statements.

## 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 2006, except for two new policies adopted entitled "Stock appreciation rights" and "Derivative financial instruments". The new accounting policies adopted are described in Note 1(i) and Note 1(j) to the consolidated financial statements, respectively, and are as follows:

### STOCK APPRECIATION RIGHTS

A stock appreciation rights plan ("SAR Plan"), a form of stock-based compensation, was formalized in January 2006. The Company uses the fair value method to account for compensation costs associated with the SAR Plan, based on graded vesting. Compensation expense is measured at the amount by which the quoted market value of the Company's Class A shares on the Toronto Stock Exchange exceeds the reference price as specified under the SAR Plan. More information is contained in Note 8(c) to the consolidated financial statements.

#### DERIVATIVE FINANCIAL INSTRUMENTS – EQUITY TOTAL RETURN SWAP

In July 2006, the Company entered into an equity total return swap contract. It is used to manage exposures to fluctuations in the Company's stock-based compensation expense because the cost of the SAR Plan varies with changes in the market price of the underlying Class A shares. In order to qualify for hedge accounting, such a financial instrument must be identified as a hedge of the item to which it relates and there must be reasonable assurance that it is and will continue to be an effective hedge. At the inception of the hedge and on an ongoing basis, the Company formally assesses and documents whether the hedging relationship is effective in offsetting changes in cash flows of the hedged item. Gains or losses realized on the quarterly settlement dates of the equity total return swap that qualifies for hedge accounting are recognized in income in the same period as the SAR Plan compensation expense. Unrealized gains and losses are not recorded. If at any time, the hedge is effective, but not perfectly effective, there is no requirement to recognize the ineffectiveness in net income since the instrument qualifies for hedge accounting. If the hedge is terminated or de-designated at any time, mark-to-market accounting applies until such time the hedge is re-designated. More information is contained in Note 10(b) to the consolidated financial statements.

#### CHANGE IN DATE FOR ANNUAL IMPAIRMENT TESTING OF INTANGIBLE ASSETS

In addition to the new accounting policies, the accounting policy regarding impairment assessment of broadcast licences and goodwill has been modified in its application. The annual date for impairment assessment was changed from December 31 to August 31. The Company has concluded that no provision for impairment was required as a result of the assessment performed as at August 31, 2006. For further details on this accounting policy, refer to Note 1(g) to the consolidated financial statements.

## NEW ACCOUNTING POLICIES TO BE ADOPTED IN 2007

#### FINANCIAL INSTRUMENTS, HEDGES AND COMPREHENSIVE INCOME

In April 2005, the Canadian Institute of Chartered Accountants released three new Handbook sections dealing with financial instruments and hedging. All three sections are effective for years beginning on or after October 1, 2006; the Company will adopt these policies effective January 1, 2007.

#### 3855 FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

This Handbook Section expanded on Section 3850 *Financial Instruments – Disclosure and Presentation* by prescribing when and how a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet based on its categorization. In addition, it specifies how gains and losses arising from financial instruments are to be presented. The impact of this new Section is expected to be minimal based on the Company's assessment and categorization of its financial instruments.

#### 3865 HEDGES

This Section applies to designated hedging relationships and builds on current GAAP guidance by specifying how hedge accounting is applied and what disclosures are required. In particular, derivatives must be recorded on the balance sheet at fair value; off-balance sheet accounting is no longer permitted. Gains and losses from any ineffectiveness in hedging relationships must now be identified, measured and recorded in income immediately. This was not previously required. The Section also specifies how gains and losses arising from hedges are to be presented.

The impact of adopting this new accounting policy is that in future, should any of the designated hedging relationships become ineffective at any given time, the gain or loss would be recorded in income immediately. In the past, there was no requirement to record this. At year end, the Company concluded that its hedging instruments, as described in Note 1(j) to the consolidated financial statements, were effective. The Company assesses effectiveness on an ongoing basis. Future events or circumstances could result in a change in the assessment of effectiveness giving rise to adjustments that can only be measured at that time. The Company's designated hedges meet the new conditions for hedge accounting as defined Section 3865; therefore, hedge accounting is appropriate going forward.

#### 1530 COMPREHENSIVE INCOME

This Section requires an entity to temporarily record certain gains and losses arising from changes in fair value of financial instruments outside the income statement as a component of shareholders' equity entitled Accumulated Other Comprehensive Income. The items to be recorded here are not normally included in earnings, such as gains and losses on derivatives designated as cash flow hedges. The Company has cash flow hedges; interest rate swaps and a total equity return swap. Certain gains and losses on these financial instruments will now be temporarily recorded in Comprehensive Income. Should at any time a derivative be deemed ineffective, that portion will be charged to income immediately as per Section 3865 described above.

The impact of this Section on future results is dependent on the changes in fair value at future measurement dates which cannot be determined at this time. Beginning January 1, 2007, the Company will report two new items in the consolidated financial statements – Comprehensive Income and Accumulated Other Comprehensive Income. The amounts to be recorded on January 1, 2007 for accumulated losses not previously recorded are:

- $0.1 million related to the total equity return swap; and
- $0.2 million related to the interest rate swaps.

#### 3251 EQUITY

The changes in Section 3251 are regarding the reporting and disclosure of equity and changes in equity consistent with the new requirements of 1530 *Comprehensive Income*. This Section is also effective for years beginning on or after October 1, 2006 and will be adopted by the Company January 1, 2007.

### HARMONIZING CANADIAN GAAP WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Accounting Standards Board ("AcSB") approved its strategic plan for financial reporting in Canada. For publicly reportable enterprises, Canadian GAAP will converge with International Financial Reporting Standards ("IFRS") over a five year period between 2006 and 2011 after which Canadian GAAP will be replaced altogether by IFRS. The Company will continue to monitor the effects of this transition.

## 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.

### 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 and deferred charges. 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 on a regular basis 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. For the year ended December 31, 2005, the Company conducted its annual impairment test as at year end; however, in 2006 and going forward, the Company has selected August 31 as the date it performs its annual impairment analysis. 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, except for the interest rate swaps and the total equity return swap described earlier.

## 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 part of the Form 52-109 certification, the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") must certify that they are responsible for establishing and maintaining disclosure controls and procedures and that they have designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities and that they have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by these annual filings. As at December 31, 2006, under the supervision of, and with the participation of the Company's management, including the CEO and the CFO, an evaluation of the effectiveness of the Company's disclosure controls and procedures was undertaken. The Company's Disclosure Committee assists with this evaluation. Additionally, the Disclosure Committee is kept apprised of any material information affecting the Company so that it may discuss and evaluate such information to make a determination as to the appropriateness and timing of public release, if any.

The CEO and the CFO, based on their evaluation, concluded that the design and operating effectiveness of the disclosure controls and procedures were effective as at December 31, 2006 to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

As part of the Form 52-109 certification, the CEO and the CFO must also certify that they are responsible for establishing and maintaining internal control over financial reporting and have designed such internal control over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

As at December 31, 2006, the CEO and the CFO, based on their evaluation, concluded that the design of internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

## CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During fiscal 2006, there were no changes in internal controls over financial reporting that are likely to have, or had, a material effect on the Company's internal controls over financial reporting.

## 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 from the sale of advertising airtime 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 often shift 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 mitigate any loss to other media by creating long-term relationships with customers and providing innovative, high-quality campaigns.

### 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 environment 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 is sheltered from the effect of competition in many of its small markets as it is the sole station serving those communities.

### NEW MARKET ENTRANTS

The CRTC has been awarding an increasing number of new FM licences in highly contested markets. The Company has benefited from this trend by being the recipient of some of these new licences but it has also been negatively affected by new competition in some places. In the last two years, the Company has benefited from licence awards in larger markets such as Ottawa, Ontario and most recently in Calgary, Alberta. In both markets, the Company operated an existing stand-alone FM station. Adding a second FM licence has several benefits including leverage with advertisers, economies of scale and makes it significantly less vulnerable to competitors in highly contested markets.

Conversely, in 2005, four new licences were launched in Edmonton, Alberta. This new competition caused the Company to change the format of one of its FM stations to cater to a different audience segment. This format change happened in early 2006 and targets a more valuable advertising demographic (Adults 25-54) than the station it replaced. In light of these new entrants and their impact on market share, the Company embarked on an aggressive promotional and marketing campaign in 2006. While new entrants did have an impact on the Company's market share, by the end of 2006, results from an independent ratings' survey were encouraging and showed improvement over ratings achieved in the earlier part of the year. Management is confident its format change will lead to more success in 2007 and that it can effectively compete in this market. The Halifax, Nova Scotia market is now home to three

**Jennifer Tulk,** VOCM News, St. John's, Newfoundland and Labrador

**Lisa B,** Morning Show Co-host, Q104, Halifax, Nova Scotia

**Cyndi Welton,** Senior Accounting Manager, Corporate Office, Dartmouth, Nova Scotia

**Dave Steen,** Production Coordinator, The Giant and Magic 99.9, Thunder Bay, Ontario

new radio stations. Management is carefully monitoring the effect, if any, of these new entrants and has applied to the CRTC to convert its AM station (CFDR-AM) to FM.

In all markets where competition is a factor, the Company continuously studies the market, including demographic trends and the needs of both customers and listeners, to have reasonable assurance that the programming offered is tailored to the requirements of the audience.

### 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.

In December, the results of the radio policy review were released by the CRTC. Canadian content rules and limitations on number of licences that can be held in markets remained unchanged. Certain Canadian Talent Development fees will increase beginning in 2007 but the effect of these increases is not significant. Finally, the CRTC has set tests that must be met when applying for licences in markets with populations below 250,000. More specifically, the broadcaster must outline the economic viability of a new licence in that market. The CRTC may determine that the economic test is not met and therefore, no licence will be awarded. This poses advantages and disadvantages to broadcasters. The advantage is that it may preserve market share in certain instances by limiting the threat of new competition. However, it could also limit the ability to grow by obtaining new licences in smaller markets.

### 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 markets. These arrangements benefited the radio industry by achieving efficiencies in smaller markets. The Company had LSAs in Halifax, Nova Scotia, Charlottetown, Prince Edward Island, and Sudbury, Ontario that were affected by Public Notice 2005-10. The licences in those markets contained a "condition of licence" that the agreements be terminated by May 31, 2005. Management complied with the conditions.

This decision had an impact on operating efficiencies; however, management took steps to mitigate any further negative effect. It applied and was awarded a favourable decision by the CRTC on the conversion of its AM station to an FM station in Charlottetown and it was awarded a second FM station. These stations are currently ranked first and second in that market. In Halifax, the local management team successfully protected its market share. The Company has applied for a second FM licence in Sudbury which would allow it to enjoy operating efficiencies that were lost on the disbanding of the LSA.

### REGULATORY RULINGS – SATELLITE SUBSCRIPTION-BASED MUSIC SERVICES

In Public Notice 2005-61 the CRTC approved satellite subscription-based music services. These services broadcast in markets across Canada and offer a broad range of spoken word and music programming channels for a monthly fee. The impact on conventional local radio broadcasters has not been significant to date as a result of restrictions imposed which preclude the 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 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.

As previously disclosed by the Company in 2005, the Copyright Board of Canada rendered its decision thereby increasing the royalties that commercial radio stations pay to SOCAN and NRCC for their use of music. For revenues per broadcast licence of $1.25 million and lower, the SOCAN rate remained unchanged at 3.2% of revenue ("the 2002 rate"). For revenues in excess of $1.25 million, the rate increased to 4.4% of revenue. The NRCC rate remained unchanged for amounts below $1.25 million, however, increased from 1.44% ("the 2002 rate") to 2.1% for revenue in excess of this threshold. These rate increases were retroactive to January 1, 2003 and payable on a monthly basis over a two year period ending in December, 2007.

The Canadian Association of Broadcasters ("CAB") launched an appeal stating that these fees were not justified. On October 19, 2006, the Federal Court of Appeal set aside the 2005 decision because the reasons for the fee increases were found to be inadequate. As a result of this decision, the 2002 rates will continue until the Copyright Board complies with the decision of the Court of Appeal and the monthly retroactive payments have been halted beginning December 1, 2006 until a final Tariff is determined at a re-hearing that will take place in 2007. The outcome is unknown at this time.

### REGULATORY ENVIRONMENT – CRTC LICENCE FEES

Since 2001, the CRTC has levied Part II licence fees on all Canadian broadcasters. Broadcasters have been paying these fees in protest. On December 15, 2006, the Federal Court rendered a decision stating that the Part II licence fees are an illegal tax. Reimbursement of the fees has not been ordered due to some uncertainty in the law partly due to a pending decision in another case relating to the recovery of illegal taxes. The Company has paid $2.7 million in CRTC Part II fees since 2001. The annual cost savings would be in excess of $0.6 million based on current licence holdings if the Company is no longer required to pay these Part II fees. The outcome of this issue is unknown at this time.

### MEDIA TECHNOLOGY

With the advent of new or alternative media technologies such as satellite radio, digital radio, the Internet, wireless broadcasting and pod casting, 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 by keeping abreast of emerging technologies and enhancing its service offering to advertisers.

### 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 $1.8 million with respect to this indemnity for 2003 and a claim of $2.3 million for 2004. Thereafter, the Company filed its Statement of Defence. On October 17, 2005, the Company reached a settlement with Halterm for $3.5 million for all past, present and future claims and this was recorded in October 2005.

### 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.

## WHAT'S NEXT

The Company's main focus in 2006 was to integrate the 2005 and 2006 new business acquisitions and the newly launched radio stations into current operations. This foundation-building year is expected to promote future organic growth. In 2007, the Company will focus on the following areas:

- Accelerate organic EBITDA growth by increasing revenue and controlling costs;
- Launch the new FM station in Calgary. Management expects significant revenue and operating synergies now that the Company operates two FM radio stations in one of the country's most lucrative radio markets;
- Continue to apply to the CRTC for new licences across the country;
- Actively seek out business and licence acquisition opportunities;
- Selectively convert AM licences to FM; and
- Remain actively involved in the local communities the Company serves.

Advertising revenue in the radio industry is projected to grow by 5% in 2007. The Company's financial performance is expected to benefit from this industry growth.

The Company is awaiting the CRTC decisions on its applications for FM licences in Medicine Hat, Alberta, Saskatoon and Regina, Saskatchewan, as well as the conversion from AM to FM in Halifax, Nova Scotia. In addition to these, the Company will be participating in hearings during 2007 for other new FM licences, including Sudbury, Ontario.

As new business and licence acquisition opportunities present themselves, the Company will investigate them and act on those it sees as being accretive to shareholder value. Incremental results have been strong in 2006. This demonstrates that management seeks out the right investment opportunities, successfully integrates them into the Company's operating platform and begins earning positive results in a timely manner. This same investment criteria will be applied in any and all future endeavours.

2006 was a year of developing a sound business foundation for the future. Management's expectation for 2007 and going forward is to continue to build value organically and through new licence opportunities. The end result will be to meet the Company's ultimate goal which is to provide shareholders with ever-growing value.

## NON-GAAP MEASURE

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

| | Years ended December 31 | |
|---|---|---|
| (thousands of dollars) | 2006 | 2005 |
| Net income | $ 11,967 | 6,032 |
| Non-controlling interest in subsidiaries' earnings | 833 | 583 |
| Provision for income taxes | 2,326 | 3,888 |
| Settlement | – | 3,500 |
| Gain on disposal of long-term investment | (168) | (840) |
| Loss on equity accounted investment | 11 | 181 |
| Accretion of other liabilities | 1,022 | 68 |
| Interest expense | 3,309 | 1,667 |
| Depreciation and amortization expense | 3,745 | 3,164 |
| **EBITDA** | $ 23,045 | 18,243 |

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**
President and
Chief Executive Officer

(signed)

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

February 23, 2007

# 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, 2006 and 2005 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, 2006 and 2005 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 23, 2007

# CONSOLIDATED BALANCE SHEETS

As at December 31

| (thousands of dollars) | 2006 | 2005 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Short-term investments (market value $12,404; 2005 – $12,628) | $ 12,404 | 11,570 |
| Receivables | 20,783 | 20,733 |
| Note receivable (Note 4) | 927 | 948 |
| Prepaid expenses | 610 | 1,656 |
| Other asset (Notes 4 and 17(a)) | 3,704 | – |
| Total current assets | 38,428 | 34,907 |
| **Property and equipment** (Note 3) | 32,392 | 30,753 |
| **Other assets** (Note 4) | 8,069 | 12,668 |
| **Broadcast licences** (Note 2) | 131,267 | 128,799 |
| **Goodwill** (Note 2) | 4,337 | 3,610 |
| **Future income tax assets** (Note 11) | 1,794 | 2,770 |
| | $ 216,287 | 213,507 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Bank indebtedness (Note 5) | $ 802 | 1,943 |
| Accounts payable and accrued liabilities | 19,459 | 22,134 |
| Dividends payable | 1,680 | 1,695 |
| Income taxes payable | 7,236 | 7,451 |
| Current portion of long-term debt (Note 5) | 23 | 23 |
| Total current liabilities | 29,200 | 33,246 |
| **Long-term debt** (Note 5) | 53,771 | 53,285 |
| **Other liabilities** (Note 6) | 17,083 | 18,759 |
| **Future income tax liabilities** (Note 11) | 13,631 | 14,143 |
| **Non-controlling interest in subsidiaries** | 11,680 | 11,149 |
| **Shareholders' equity** | 90,922 | 82,925 |
| | $ 216,287 | 213,507 |

Commitments and contingencies (Note 16)
Subsequent events (Note 17)
See accompanying notes to the consolidated financial statements

On behalf of the Board

(signed) (signed)

**H.R. Steele** — Director

**D.I. Matheson** — Director

## CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31

| (thousands of dollars except per share data) | | 2006 | 2005 |
|---|---|---|---|
| Revenue | | $ 93,937 | 80,563 |
| Other income | | 9,667 | 2,701 |
| | | 103,604 | 83,264 |
| Operating expenses | | 80,559 | 65,021 |
| Depreciation | | 3,300 | 2,783 |
| Amortization of deferred charges | | 445 | 381 |
| **Operating income** | | 19,300 | 15,079 |
| Interest expense (Note 5) | | 3,309 | 1,667 |
| Accretion of other liabilities (Note 2) | | 1,022 | 68 |
| Loss on equity accounted investment | | 11 | 181 |
| Gain on disposal of long-term investment (Note 4) | | (168) | (840) |
| Settlement (Note 15) | | – | 3,500 |
| | | 15,126 | 10,503 |
| Provision for income taxes (Note 11) | | 2,326 | 3,888 |
| | | 12,800 | 6,615 |
| Non-controlling interest in subsidiaries' earnings | | 833 | 583 |
| **Net income** | | $ 11,967 | 6,032 |
| **Earnings per share** (Note 12) | – basic | $ 1.07 | 0.53 |
| | – diluted | 1.04 | 0.51 |

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31

| (thousands of dollars) | 2006 | 2005 |
|---|---|---|
| Retained earnings, beginning of year | $ 38,441 | 40,446 |
| Net income | 11,967 | 6,032 |
| Dividends declared | (3,358) | (3,404) |
| Repurchase of capital stock (Note 9) | (1,525) | (4,633) |
| Retained earnings, end of year | 45,525 | 38,441 |
| Capital stock (Note 9) | 43,304 | 43,635 |
| Contributed surplus (Note 9) | 2,093 | 849 |
| **Total shareholders' equity** | $ 90,922 | 82,925 |

See accompanying notes to the consolidated financial statements

## CONSOLIDATED
## STATEMENTS OF CASH FLOWS

For the years ended December 31

| (thousands of dollars) | 2006 | 2005 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 11,967 | 6,032 |
| Items not involving cash | | |
| Depreciation and amortization | 3,745 | 3,164 |
| Future income taxes (recovery) (Note 11) | (165) | 648 |
| Executive stock-based compensation plans (Note 8) | 1,362 | 405 |
| Accretion of other liabilities (Note 2) | 1,022 | 68 |
| Gain on disposal of long-term investment (Note 4) | (168) | (840) |
| Non-controlling interest in subsidiaries' earnings | 833 | 583 |
| Other | (287) | (28) |
| | 18,309 | 10,032 |
| Change in non-cash working capital relating to operating activities (Note 13) | (3,057) | (6,181) |
| | 15,252 | 3,851 |
| **Financing Activities** | | |
| Change in bank indebtedness | (1,141) | 1,424 |
| Long-term debt borrowings | 5,030 | 38,235 |
| Long-term debt repayments | (4,544) | (23) |
| Issuance of capital stock (Notes 8 and 9) | 163 | 180 |
| Repurchase of capital stock (Note 9) | (2,034) | (6,536) |
| Dividends paid | (3,373) | (2,883) |
| Canadian Talent Development commitment payments | (3,117) | (2,034) |
| Other | (302) | (244) |
| | (9,318) | 28,119 |
| **Investing Activities** | | |
| Note receivable | 1,000 | 1,000 |
| Property and equipment additions | (4,434) | (8,713) |
| Initial investment in business and licence acquisition (Note 2) | – | (356) |
| Deposit for business and licence acquisitions (Note 2) | – | (200) |
| Business and licence acquisitions (Note 2) | (2,296) | (25,725) |
| Investment in Halterm Income Fund Trust Units (Note 4) | – | (268) |
| Proceeds from disposal of Halterm Income Fund Trust Units (Note 4) | 399 | 2,327 |
| Deferred charges | (976) | (903) |
| Other | 373 | 868 |
| | (5,934) | (31,970) |
| **Cash, beginning and end of year** | $ – | – |

See accompanying notes to the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and 2005

## 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:

| | Broadcasting | 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 to seven 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) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, consisting of property and equipment and deferred charges, are tested for impairment whenever there have been events or circumstances that indicate that their carrying value may not be recoverable. If the carrying value of a long-lived asset intended for use exceeds the sum of undiscounted cash flows expected from its use and eventual disposition, an impairment loss is recognized, measured as any excess of the carrying value over the fair value.

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (G) 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.

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.

Goodwill and broadcast licences are 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. For the year ended December 31, 2005, the Company conducted its annual impairment test as at year end; however, in 2006 and going forward, the Company has selected August 31 as the date it performs its annual impairment analysis. For the years ended December 31, 2006 and 2005, the Company has concluded that no provision for impairment of broadcast licences or goodwill is required.

### (H) 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 (2005 – 10 years).

### (I) 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 ("Class A 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.

A stock appreciation rights plan ("SAR Plan"), a form of stock-based compensation, was formalized in January 2006. The Company uses the fair value method to account for compensation costs associated with the SAR Plan, based on graded vesting. Compensation expense is measured at the amount by which the quoted market value of the Company's Class A shares on the Toronto Stock Exchange exceeds the reference price as specified under the SAR Plan. More information is contained in Note 8(c) to the consolidated financial statements.

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (J) 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.

In July 2006, the Company entered into an equity total return swap contract. It is used to manage exposures to fluctuations in the Company's stock-based compensation expense because the cost of the SAR Plan varies with changes in the market price of the underlying Class A shares. In order to qualify for hedge accounting, such a financial instrument must be identified as a hedge of the item to which it relates and there must be reasonable assurance that it is and will continue to be an effective hedge. At the inception of the hedge and on an ongoing basis, the Company formally assesses and documents whether the hedging relationship is effective in offsetting changes in cash flows of the hedged item. Gains or losses realized on the quarterly settlement dates of the equity total return swap that qualifies for hedge accounting are recognized in income in the same period as the SAR Plan compensation expense. Unrealized gains and losses are not recorded. If at any time, the hedge is effective, but not perfectly effective, there is no requirement to recognize the ineffectiveness in net income since the instrument qualifies for hedge accounting. If the hedge is terminated or de-designated at any time, mark-to-market accounting applies until such time the hedge is re-designated. More information is contained in Note 10(b) to the consolidated financial statements.

### (K) 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. Effective January 1, 2006, the Company prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") recommendations on *Non-Monetary Transactions* which requires fair value measurement of non-monetary transactions subject to certain exceptions. The Company has recorded revenue of $2,142,000 (2005 – $1,794,000) and operating expenses of $2,093,000 (2005 – $1,909,000) pursuant to non-monetary transactions.

Other income includes gains on disposal of marketable securities, interest, dividends and distributions from the Halterm Income Fund Trust Units. Gains are recognized in revenue in the period the marketable securities are disposed. Interest revenue is recognized on an accrual basis over the term of the interest-bearing instrument. Dividends and trust distributions are recognized as revenue on the declaration date of the respective amounts.

### (L) 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.

### (M) 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

On April 30, 2006, the Company acquired 100% of the common shares of CKJS Limited (“CKJS”) entitling it to the property, assets, broadcast licence and rights of CKJS used in connection with the operation of an AM radio station in Winnipeg, Manitoba.

During 2006, the Company launched two stations in Charlottetown, Prince Edward Island and one in Bonnyville, Alberta. Upon the launch of these stations, the Company became obligated to fund Canadian Talent Development commitments of $835,000 over a period of seven years. These commitments, along with the application costs for these licences, have been capitalized as broadcast licences.

The Company acquired the assets of Shortell’s Limited, 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. 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 entitled the Company to the broadcast licence, net assets and rights used in connection with an FM radio licence in Winnipeg, Manitoba.

During 2005, 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 seven year period. These costs were capitalized as broadcast licences.

The purchase 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 and launch dates.

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) | CKJS | New licences | 2006 | 2005 |
|---|---|---|---|---|
| Working capital | $ (226) | (172) | (398) | (276) |
| Property and equipment | 550 | – | 550 | 4,101 |
| Other assets | 310 | – | 310 | 205 |
| Broadcast licences | 1,630 | 916 | 2,546 | 28,963 |
| Goodwill | 727 | – | 727 | 3,610 |
| Total assets acquired | 2,991 | 744 | 3,735 | 36,603 |
| Future income tax liabilities | (629) | – | (629) | (3,529) |
| Other liabilities | (66) | (744) | (810) | (6,293) |
| Net assets acquired | 2,296 | – | 2,296 | 26,781 |
| Deposits for business and licence acquisitions | – | – | – | (700) |
| Initial investment | – | – | – | (356) |
| Cash consideration | $ 2,296 | – | 2,296 | 25,725 |

Customer-related intangible assets of $310,000 have been included in other assets in 2006 and are being amortized on a straight-line basis over twenty years. An intangible long-term agreement, expiring in August 2011, valued at $205,000 was included in other assets in 2005 and it is being amortized on a straight-line basis over the term of the agreement. Goodwill of $nil (2005 – $917,000) is expected to be deductible for tax purposes.

When broadcast licences are purchased or awarded, the acquirer becomes obligated to fund Canadian Talent Development. These obligations are included in other liabilities and are discounted using the present value of the future minimum payments resulting in accretion expense of $1,022,000 (2005 – $68,000). A $200,000 (2005 – $1,166,000) provision for professional fees and restructuring costs (employee relocation and involuntary termination costs) is included in working capital of which, in aggregate, $364,000 remains payable at year end. Any unspent portion of this provision is adjusted against the value attributed to goodwill or broadcast licences. In 2006 and 2005 the amount by which goodwill or broadcast licences was reduced was not material.

## 3. PROPERTY AND EQUIPMENT

| (thousands of dollars) | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| **2006** | | | |
| **Land** | $ 2,267 | – | 2,267 |
| **Buildings** | 7,151 | 1,944 | 5,207 |
| **Equipment** | 41,061 | 16,143 | 24,918 |
| | $ 50,479 | 18,087 | 32,392 |
| 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 |

## 4. OTHER ASSETS

| (thousands of dollars) | 2006 | 2005 |
|---|---|---|
| Investment in Halterm Income Fund Trust Units | $ – | 3,911 |
| Employee share purchase and other loans | 2,849 | 3,073 |
| Investment tax credits recoverable | 1,363 | 1,673 |
| Deferred charges, net of amortization | 2,002 | 1,864 |
| Note receivable, net of current portion of $927 (2005 – $948) | – | 828 |
| Accrued pension benefit asset (Note 7(b)) | 1,190 | 1,103 |
| Customer-related intangible assets, net of amortization (Note 2) | 303 | – |
| Other | 362 | 216 |
| | $ 8,069 | 12,668 |

The investment in Halterm Income Fund Trust Units, recorded at cost, was sold subsequent to year end and accordingly has been reclassified to current assets. Information on this disposal can be found in Note 17(a). During the year, the Company sold 47,900 units (2005 – 308,108) for proceeds of $399,000 (2005 – $2,327,000) resulting in a gain on disposal of investment of $168,000 (2005 – $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 $8,526,000 (2005 – $8,085,000). As described in Note 17(b), subsequent to year end the employee share purchase loan was repaid.

The Note receivable is non-interest bearing and matures in 2007. $1,000,000 is repayable in 2007 and has been discounted at an interest rate of 11.8%.

## 5. BANK INDEBTEDNESS AND LONG-TERM DEBT

| (thousands of dollars) | 2006 | 2005 |
|---|---|---|
| Revolving term credit facility of $65 million, renewable annually, maturing April 2007, bearing interest at prime (6%; 2005 – 5%) | $ 53,500 | 53,000 |
| Other mortgages and loans bearing interest at prime plus 1%, maturing to 2009 | 294 | 308 |
| | 53,794 | 53,308 |
| Less: Current portion | 23 | 23 |
| | $ 53,771 | 53,285 |

Subsequent to year end, the Company renewed its credit facility which will now mature in April 2008. 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 installments over two years.

## 5. BANK INDEBTEDNESS AND LONG-TERM DEBT (CONTINUED)

Minimum required principal repayments, under the assumption the Company exercises the option to convert to a non-revolving term, are as follows: 2007 – $23,000; 2008 – $13,525,000; 2009 – $26,871,000; and 2010 – $13,375,000.

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 $2,425,000 for interest on long-term debt (2005 – $1,475,000).

## 6. OTHER LIABILITIES

| (thousands of dollars) | 2006 | 2005 |
|---|---|---|
| Canadian Talent Development commitments related to broadcast licences awarded and acquired, net of current portion of $2,571 (2005 – $2,087) | $ 8,522 | 10,247 |
| Accrued pension benefit liability (Note 7(b)) | 5,969 | 5,863 |
| Deferred tenant inducements | 2,489 | 2,649 |
| Stock appreciation rights (Note 8(c)) | 103 | – |
| | $ 17,083 | 18,759 |

The scheduled payments for the Canadian Talent Development commitments over the next five years are as follows: 2007 – $2,571,000; 2008 – $2,348,000; 2009 – $2,455,000; 2010 – $1,413,000; 2011 – $1,161,000 and thereafter $1,145,000. The current portion is included in accounts payable and accrued liabilities.

The Company has issued letters of credit totaling $1,493,000 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 2006 were $1,312,000 (2005 – $1,037,000).

### (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' 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, 2006.

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

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

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Basic Plan | SRPA | Basic Plan | SRPA |
| Discount rate | 5.0% | 5.0% | 5.0% | 5.0% |
| 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% |

# 7. EMPLOYEE FUTURE BENEFIT PLANS (CONTINUED)

**(B) DEFINED BENEFIT PLANS (CONTINUED)**

The following summarizes the Company's defined benefit plans:

| | | 2006 | | 2005 |
|---|---|---|---|---|
| (thousands of dollars) | Basic Plan | SRPA | Basic Plan | SRPA |
| Accrued benefit obligations | | | | |
| Balance – beginning of year | $ 4,287 | 8,926 | 3,824 | 8,164 |
| Current service cost | 67 | – | 65 | – |
| Interest cost | 190 | 413 | 316 | 449 |
| Benefits paid | (622) | (504) | (604) | (501) |
| Actuarial losses | 140 | 29 | 686 | 814 |
| Balance – end of year | 4,062 | 8,864 | 4,287 | 8,926 |
| Plan assets | | | | |
| Fair value – beginning of year | 5,257 | – | 5,037 | – |
| Actual return on plan assets | 838 | – | 820 | – |
| Employee contributions | 4 | – | 4 | – |
| Benefits paid | (622) | – | (604) | – |
| Fair value – end of year | 5,477 | – | 5,257 | – |
| Funded status – plan surplus (deficit) | 1,415 | (8,864) | 970 | (8,926) |
| Unamortized net actuarial loss | (83) | 2,930 | 285 | 3,106 |
| Unamortized past service costs | 1,025 | – | 1,182 | – |
| Unamortized transitional asset | (1,167) | (35) | (1,334) | (43) |
| Accrued benefit asset (liability) | $ 1,190 | (5,969) | 1,103 | (5,863) |

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:

| | | 2006 | | 2005 |
|---|---|---|---|---|
| (thousands of dollars) | Basic Plan | SRPA | Basic Plan | SRPA |
| Current service cost, net of employee contributions | $ 63 | – | 61 | – |
| Interest cost | 190 | 413 | 316 | 449 |
| Actual return on plan assets | (838) | – | (820) | – |
| Difference between expected return and actual return on plan assets | 508 | – | 475 | – |
| Amortization of past service costs | 157 | – | 157 | – |
| Amortization of net actuarial losses | – | 205 | – | 145 |
| Amortization of transitional assets | (167) | (8) | (167) | (8) |
| Defined benefit plan expense (income) | $ (87) | 610 | 22 | 586 |

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

| | | 2006 | | 2005 |
|---|---|---|---|---|
| | Basic Plan | SRPA | Basic Plan | SRPA |
| Equity funds | 67% | N/A | 70% | N/A |
| Fixed income funds | 20% | N/A | 27% | N/A |
| Money market funds | 13% | N/A | 3% | 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 $370,000 (2005 – $293,000) and is included in operating expenses.

### (B) EXECUTIVE STOCK OPTION PLAN

The Company has reserved 1,564,506 Class A shares pursuant to the executive stock option plan of which 756 remain available for issuance at December 31, 2006. 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 manners: (i) twenty-five percent vest on the date of granting and twenty-five percent vest on each of the three succeeding anniversary dates; and (ii) vest equally over five years.

The following summarizes the Company's outstanding stock options which expire at varying dates from 2006 to 2011 and have a weighted average remaining contractual life of 1.91 years (2005 – 2.60 years).

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Number | Price* | Number | Price* |
| Balance, beginning of year | 883,800 | $ 9.60 | 805,000 | $ 9.05 |
| Granted | 115,000 | 16.53 | 100,000 | 13.80 |
| Exercised | (20,050) | 8.14 | (21,200) | 8.47 |
| Balance, end of year | 978,750 | 10.45 | 883,800 | 9.60 |
| Total options vested | 778,750 | 9.39 | 706,300 | 8.90 |

* weighted average exercise price

| Range of exercise price | Number of options outstanding at December 31, 2006 | Weighted average remaining life | Price* | Number of options exercisable at December 31, 2006 | Price* |
|---|---|---|---|---|---|
| $ 7.30 – 8.00 | 295,000 | 1.48 | $ 7.91 | 295,000 | $ 7.91 |
| 8.40 – 8.95 | 268,750 | 2.17 | 8.66 | 268,750 | 8.66 |
| 11.20 – 11.66 | 200,000 | 2.56 | 11.43 | 150,000 | 11.43 |
| 13.80 | 100,000 | 3.34 | 13.80 | 50,000 | 13.80 |
| 16.53 | 115,000 | 4.07 | 16.53 | 15,000 | 16.53 |
| | 978,750 | 1.91 | 10.45 | 778,750 | 9.39 |

* weighted average exercise price

The compensation expense related to stock options for 2006 was $1,259,000 (2005 – $405,000) and is recorded in operating expenses. The compensation expense in 2006 includes a non-cash charge of $791,000 relating to the extension of the expiry date of certain options.

The fair value was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

| | 2006 | 2005 |
|---|---|---|
| Weighted average risk-free interest rate | 4.01% | 3.25% |
| Dividend yield | 1.74% | 0.72% |
| Weighted average volatility factors of the expected market price of the Company's Class A Subordinate Voting Shares | 23.4% | 27.9% |
| Weighted average expected life of the options | 4.8 years | 4.8 years |
| Weighted average fair value per option | $ 3.80 | $ 3.83 |

### (C) STOCK APPRECIATION RIGHTS PLAN

On January 26, 2006, the Company granted 425,000 stock appreciation rights at a reference price of $16.53. The rights vest at a rate of 50% at the end of year three, 25% at the end of year four and 25% at the end of year five. The rights are exercisable as they vest. At the date of exercise, cash payments are made to the holders based on the difference between the market value of the Company's Class A shares and the reference price. All rights granted under this plan expire on the sixtieth day following the fifth anniversary of the grant date. For the year ended December 31, 2006, the compensation expense related to the rights was $103,000 (2005 – nil).

# 9. CAPITAL STOCK

| | (thousands) | (thousands of dollars) | |
|---|---|---|---|
| | Issued shares | 2006 | 2005 |
| Capital stock (unlimited number authorized at no par value): | | | |
| Class A Subordinate Voting Shares (2005 – 10,040) | 9,941 | $ 42,393 | 42,724 |
| Class B Common Shares (2005 – 1,258) | 1,258 | 911 | 911 |
| | | $ 43,304 | 43,635 |

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

The Class A 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 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 shares at the option of the shareholder, on a one-for-one basis.

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

During the year, the Company repurchased a total of 119,400 (2005 – 448,400) of its outstanding Class A shares for a total cost of $2,034,000 (2005 – $6,536,000), pursuant to Normal Course Issuer Bids. 74,900 shares were repurchased pursuant to the Normal Course Issuer Bid that was in effect until January 27, 2006, while the remaining 44,500 shares were repurchased pursuant to the Normal Course Issuer Bid that was in effect until January 29, 2007. As a result of these share repurchases, capital stock was reduced by $509,000 (2005 – $1,903,000) and retained earnings by $1,525,000 (2005 – $4,633,000). Subsequent to year end the Company received approval under a Normal Course Issuer Bid to repurchase up to 497,012 Class A shares and 62,913 Class B Common Shares. This bid expires January 29, 2008.

During the year, the Company granted 115,000 options (2005 – 100,000) at a weighted average exercise price of $16.53 (2005 – $13.80), pursuant to the executive stock option plan described in Note 8. 15,000 of the granted options vested on the date of grant and the balance vests equally at the end of every year for five years. The options granted expire January 26, 2011. Year-to-date, the Company issued 20,050 (2005 – 21,200) Class A shares for proceeds of $163,000 (2005 – $180,000).

During the year, capital stock was increased and contributed surplus was decreased by $15,000 (2005 – $58,000) related to stock options exercised during the year. Contributed surplus was increased by $1,259,000 (2005 – $405,000) related to compensation expense.

# 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

### (A) INTEREST RATE RISK MANAGEMENT

On February 27, 2006, the Company entered into two interest rate swap agreements having notional amounts of $20,000,000 and $5,000,000, expiring February 27, 2009 and February 27, 2011, respectively. A previously existing swap with a notional value of $5,000,000 (2005 – $15,000,000) expired July 4, 2006; the accounting impact of the expiry was not significant. The Company enters into interest rate swap agreements 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 agreements. 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 agreements at year end is a net payable of $204,000 (2005 – $8,000) and has not been recognized in the accounts as the interest rate swaps qualify for hedge accounting. An agreement having a notional amount of $10,000,000 expired in July 2005.

# 10. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (B) SHARE PRICE VOLATILITY RISK MANAGEMENT

On July 11, 2006, the Company entered into a cash-settled equity total return swap agreement to manage its exposure to fluctuations in its stock-based compensation costs related to the SAR Plan. Compensation costs associated with the SAR Plan fluctuate as a result of changes in the market price of the Company's Class A shares. The Corporation entered into this swap for a total of 425,000 notional Class A shares with a hedged price of $17.55. The swap expires July 2011; however, the Company may elect to terminate the agreement prior to that date if the Class A share market price is equal to or less than the SAR Plan reference price of $16.53. The swap is settled on every quarterly settlement date. If the Company's share price is in excess of the hedged price on the settlement date, the Company is entitled to receive the difference per share, and if the Company's share price is less than the hedged price, the Company is obligated to pay the difference per share. A settlement date can automatically be triggered if during any 24 hour trading period, the share price drops by 10% or more. In this event, the Company must cash settle on that date based on that day's share price; however, on the quarterly settlement date, if the share price has rebounded, the Company is reimbursed an amount equal to the difference between the hedged price and the share price which triggered the automatic settlement.

The swap includes an interest and dividend component. Interest is accrued and payable by the Company on quarterly settlement dates. Any dividends paid on the Class A shares are reimbursed to the Company on the quarterly settlement dates. This swap qualifies for hedge accounting. Gains or losses realized on the quarterly settlement dates of the swap are recognized in income in the same period as the SAR Plan compensation expense, based on graded vesting. Because the swap qualifies for hedge accounting, the unrealized portion of gains and losses are not recorded; the fair value of the unrecognized portion was a net payable of $46,000. The recognized portion at year end was a net loss of $18,000.

### (C) CREDIT RISK MANAGEMENT

Credit exposure on financial instruments arises from the possibility that a counterparty to an instrument in which the Company is entitled to receive payment of an unrealized gain fails to perform. Credit exposure is managed through credit approval and monitoring procedures. The Company does not anticipate any counterparties that it currently transacts with will fail to meet their obligations as the counterparties are Canadian Chartered Banks. At December 31, 2006 and 2005, there was no credit exposure to the Company related to its financial instruments.

# 11. PROVISION FOR INCOME TAXES

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

| (thousands of dollars, except percentages) | 2006 | 2005 |
|---|---|---|
| Income before income taxes and non-controlling interest | $ 15,126 | 10,503 |
| Combined federal and provincial statutory income tax rate | 38.1% | 38.1% |
| Provision based on the statutory income tax rate | $ 5,763 | 4,002 |
| Increase (decrease) due to: | | |
| Future income tax recovery relating to the reduction of corporate income tax rates | (1,332) | – |
| Future income tax recovery relating to the origination and reversal of temporary differences | (977) | – |
| Non-taxable portion of capital gains | (1,668) | (388) |
| Stock-based compensation | 521 | 154 |
| Subsidiary rate differential | (61) | (189) |
| Loss on equity accounted investment | 2 | 34 |
| Large corporations tax and other | 78 | 275 |
| | $ 2,326 | 3,888 |
| Comprised of: | | |
| Current taxes | $ 2,491 | 3,240 |
| Future income taxes (recovery) | (165) | 648 |
| | $ 2,326 | 3,888 |

In June 2006, the Federal government enacted a decline in the general corporate income tax rate from 22% to 19% which will be phased in over a period between January 1, 2008 and January 1, 2010. Certain Provincial governments have also reduced general corporate income tax rates. As a result, in June future income tax assets and liabilities were re-measured using the newly enacted tax rates that are expected to be in effect when the related future tax assets and liabilities are settled. This has resulted in a non-cash future income tax recovery of $1,332,000 netted against the provision for income taxes.

## 11. PROVISION FOR INCOME TAXES (CONTINUED)

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

| (thousands of dollars) | 2006 | 2005 |
|---|---|---|
| Future income tax assets | | |
| Tax loss carryforwards | $ 3,887 | 3,544 |
| Investment, at equity | 75 | 90 |
| Employee benefit plans | 1,662 | 1,652 |
| Future income tax liabilities | | |
| Property and equipment | (1,930) | (1,815) |
| Other | (358) | – |
| Broadcast licences and goodwill | (15,173) | (14,844) |
| Net future income tax liability | $ (11,837) | (11,373) |
| Comprised of: | | |
| Long-term future income tax assets | $ 1,794 | 2,770 |
| Long-term future income tax liabilities | (13,631) | (14,143) |
| | $ (11,837) | (11,373) |

Included in the above net income tax liability are future income tax assets of $3,887,000 resulting from unused non-capital tax losses. The non-capital tax losses of $12,235,000 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; $2,146,000 in 2010; $2,545,000 in 2014; $1,549,000 in 2015 and $4,693,000 in 2026.

## 12. EARNINGS PER SHARE

| (thousands) | 2006 | 2005 |
|---|---|---|
| Weighted average common shares used in calculation of basic earnings per share | 11,210 | 11,435 |
| Incremental common shares calculated in accordance with the treasury stock method | 350 | 291 |
| Weighted average common shares used in calculation of diluted earnings per share | 11,560 | 11,726 |

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

| (thousands of dollars) | 2006 | 2005 |
|---|---|---|
| Change in non-cash working capital relating to operating activities | | |
| Short-term investments | $ (834) | (9,010) |
| Receivables | 100 | (2,568) |
| Prepaid expenses | 1,046 | (748) |
| Accounts payable and accrued liabilities | (3,154) | 5,845 |
| Income taxes payable | (215) | 300 |
| | $ (3,057) | (6,181) |
| Interest paid | $ 2,915 | 2,205 |
| Income taxes paid | 2,183 | 2,160 |

## 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 |
|---|---|---|---|
| **2006** | | | |
| **Revenue** | $ 90,643 | 3,294 | 93,937 |
| **Other income** | – | 9,667 | 9,667 |
| | 90,643 | 12,961 | 103,604 |
| **Operating expenses** | 67,271 | 13,288 | 80,559 |
| **Depreciation and amortization** | 3,506 | 239 | 3,745 |
| **Operating income (loss)** | $ 19,866 | (566) | 19,300 |
| **Assets employed** | $ 188,249 | 28,038 | 216,287 |
| **Goodwill** | 4,337 | – | 4,337 |
| **Capital expenditures** | 4,108 | 326 | 4,434 |
| 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 |

## 15. SETTLEMENT

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 and this was recorded in October 2005.

## 16. COMMITMENTS AND CONTINGENCIES

### (A) OPERATING LEASES AND OTHER

The Company has total commitments of $20,378,000 under operating leases for properties and equipment. Minimum annual payments under these leases are as follows: 2007 – $2,924,000; 2008 – $2,213,000; 2009 – $1,816,000; 2010 – $1,530,000; 2011 – $1,586,000 and thereafter $10,309,000.

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 $5,830,000. The remaining 50% becomes due in April 2012.

### (B) 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.

## 17. SUBSEQUENT EVENTS

(A) The Company held 762,000 units in Halterm Income Fund (the "Fund") having a cost base of $3,704,000 as at December 31, 2006. In November 2006 the Fund announced it had entered into a purchase and sale agreement, subject to meeting certain conditions. On January 16, 2007, the Fund declared that the transaction was complete and that unitholders would receive a cash distribution in respect of their total units held. On January 19, 2007, the Company received its distribution of $19.08 per unit amounting to $14,546,000 which resulted in the recognition of a gain on disposal of $10,842,000 (approximately $8,900,000 after tax or $0.79 per share).

(B) Subsequent to year end, an employee share purchase loan in the amount of $2,826,000 was repaid in full.

(C) The Company is obligated to pay $1,000,000 in Canadian Talent Development commitments per year for 7 years with regard to its new FM radio station in Calgary, Alberta which will be launched in 2007. Upon the launch of the station, the Company will recognize this obligation as broadcast licences and other liabilities on a discounted basis using the present value of the future minimum payments which will approximate $4,700,000.

# 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. The Board continues to monitor its compliance with Canadian Securities Administrators National Instrument 58-101 and the associated National Policy 58-201 on corporate governance practices and seeks to continuously improve on them. We are required to disclose our corporate governance practices in the Management Information Circular. We also comply with Multilateral Instruments 52-110 on Audit Committees.

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

- All of our Audit and Governance Committee members are independent and financially literate.
- A Policy on Corporate Governance formalizes the principal corporate governance applications and practices of the Company. The Policy is reviewed annually and is continuously revised for new practices and improvements.
- The Board has adopted and recently revised a written Code of Business Conduct and Ethics (Code). 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 Board of Directors has a whistleblower policy and procedure in place that meets current standards of practice. The whistleblower policy and procedure is included in the Code.
- A Disclosure Committee, composed of management and Board Members, ensures 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 supports this Committee's activities and is reviewed annually.
- Mandates have been defined for the Board of Directors and its Committees, the Chairperson, Committee Chair, and the President and Chief Executive Officer. Position descriptions for senior officers, including individuals who perform senior officer functions, are formalized and used to assess their performance. These are reviewed annually and are updated as required.

For further details on our corporate governance practices, please visit our web site at www.ncc.ca.

# ENSURING
## good practices

# BOARD OF DIRECTORS

Newfoundland Capital Corporation is well positioned for the future. The Board of Directors is committed to leading a successful organization and ensuring that the Company's corporate objectives are aligned with the needs of all stakeholders.

### 1. DAVID I. MATHESON, Q.C.*

**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.

### 2. MICHAEL (MICKEY) C. MACDONALD*

**Halifax, Nova Scotia**
Director since November 2006
President, Micco Companies

Mickey MacDonald is a well known entrepreneur whose business interests include Micco Developments, a residential land development company and Micco Leasing, an automotive leasing firm. Mr. MacDonald has won numerous business and personal awards including the 2004 Newfoundland Philanthropist of the Year and the 2005 Nova Scotia Philanthropist of the Year, Halifax Chamber of Commerce Business Person of the Year and he was among the Top 50 CEO's in Atlantic Canada for five years in a row.

### 3. 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.

* Member of the Audit and Governance Committee.

### 4. ROBERT G. STEELE

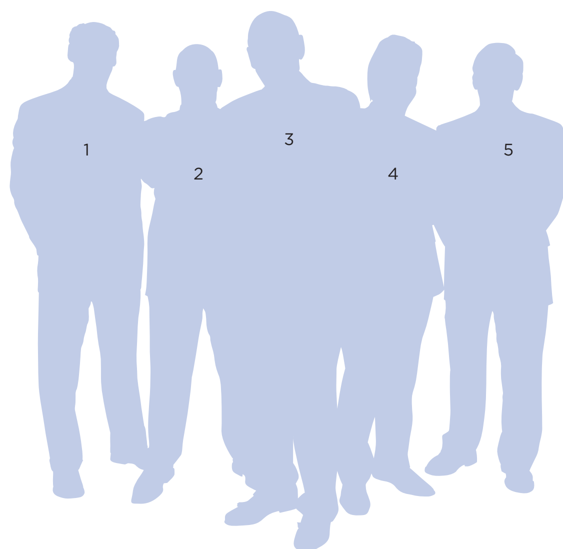
**Halifax, Nova Scotia**
Director since 1997
President and Chief Executive Officer

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.

### 5. DONALD J. WARR, F.C.A.*

**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 was 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.



# ASSETS
AT A GLANCE

| Location | Name | Call Letters | Format | AM/FM/TV | Frequency |
|---|---|---|---|---|---|
| **WESTERN REGION (ALBERTA)** | | | | | |
| Athabasca | The Fox Radio Group | CKBA | Classic Hits | AM | 850 kHz |
| Blairmore | Mountain Radio | CJPR-FM | Hot Country | FM | 94.9 MHz |
| Bonnyville | Kool FM | CJEG-FM | Contemporary Hit Radio | FM | 101.3 MHz |
| Brooks | Q13 | CIBQ | Hot Country | AM | 1340 kHz |
| | The Fox | CIXF-FM | Classic Rock | FM | 101.1 MHz |
| Calgary | FUEL 90.3[1] | CFUL | Triple A | FM | 90.3 MHz |
| | california 103 FM | CIQX | Smooth Jazz/Blues | FM | 103.1 MHz |
| Camrose | CAM-FM | CFCW-FM | Classic Hits | FM | 98.1 MHz |
| | CFCW | CFCW | Full Service Country | AM | 790 kHz |
| Cold Lake | K-ROCK | CJXK | Classic Rock | FM | 95.3 MHz |
| Drumheller | Q91 | CKDQ | Hot Country | AM | 910 kHz |
| Edmonton | Big Earl | CKRA | Country | FM | 96.3 MHz |
| | K-ROCK 97.3 FM | CIRK | Classic Rock | FM | 97.3 MHz |
| Edson | The Fox Radio Group[4] | CFXE | Classic Hits | FM | 94.3 MHz |
| Elkford, BC | Mountain Radio | CJEV® | Hot Country | AM | 1340 kHz |
| Fort McMurray | N/A[5] | N/A | Classic Hits | FM | 100.5 MHz |
| Grande Cache | The Fox Radio Group | CFXG® | Classic Hits | AM | 1230 kHz |
| High Prairie | The Fox Radio Group | CKVH | Hot Country | AM | 1020 kHz |
| Hinton | The Fox Radio Group | CFXH | Classic Hits | FM | 97.5 MHz |
| Jasper | The Fox Radio Group | CFXP® | Classic Hits | FM | 95.5 MHz |
| Lac La Biche | N/A[5] | N/A | Country | FM | 103.5 MHz |
| Lloydminster | CKSA-TV | CBC | CBC Affiliate | TV | |
| | CILR | CILR | Tourism Information | FM | 98.9 MHz |
| | CITL-TV | CTV | CTV Affiliate | TV | |
| | Lloyd-FM | CKSA | Country | FM | 95.9 MHz |
| Red Deer | KG Country | CKGY-FM | Country | FM | 95.5 MHz |
| | Z-99 | CIZZ-FM | Album Oriented Rock | FM | 98.9 MHz |
| Slave Lake | The Fox Radio Group | CKWA | Classic Hits | FM | 92.7 MHz |
| St. Paul | 1310 Cat Country | CHLW | Hot Country | AM | 1310 kHz |
| Stettler | Q14 | CKSQ | Hot Country | AM | 1400 kHz |
| Wainwright | Key 83 Cat Country | CKKY | Hot Country | AM | 830 kHz |
| | Wayne-FM | CKWY | Classic Hits | FM | 93.7 MHz |
| Westlock | The Fox Radio Group | CFOK | Classic Hits | AM | 1370 kHz |
| Wetaskiwin | W 1440 | CKJR | Oldies | AM | 1440 kHz |
| Whitecourt | The Rig 96.7 | CFXW | Rock | FM | 96.7 MHz |
| **CENTRAL REGION** | | | | | |
| Kitchener, ON | KICX 106.7 FM | CIKZ | Country | FM | 106.7 MHz |
| Ottawa, ON | Hot 89.9 | CIHT | Contemporary Hit Radio | FM | 89.9 MHz |
| | LiVE 88.5 | CILV | Alternative Rock | FM | 88.5 MHz |
| Sudbury, ON | Big Daddy | CHNO | Classic Hits | FM | 103.9 MHz |
| Thunder Bay, ON | Magic 99.9 | CJUK | Adult Contemporary | FM | 99.9 MHz |
| | The Giant | CKTG | Classic Rock | FM | 105.3 MHz |
| Winnipeg, MB | HANK-FM | CHNK-FM | Alternative Country | FM | 100.7 MHz |
| | CKJS[2] | CKJS | Multi-cultural | AM | 810 kHz |

| Location | Name | Call Letters | Format | AM/FM/TV | Frequency |
|---|---|---|---|---|---|
| **EASTERN REGION** | | | | | |
| Charlottetown, PE | K-ROCK[1] | CKQK | Classic Rock | FM | 105.5 MHz |
| | Ocean 100[3] | CHTN | Classic Hits | FM | 100.3 MHz |
| Halifax, NS | 780 KIXX | CFDR | Country Classics | AM | 780 kHz |
| | KOOL 96dot5 | CKUL | Classic Hits | FM | 96.5 MHz |
| | Q104 | CFRQ | Current and Classic Rock | FM | 104.3 MHz |
| 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 |
| Baie Verte, NL | VOCM Radio Network | CKIM® | News/Talk/Country | AM | 1240 kHz |
| Carbonear, NL | CHVO | CHVO | Country | AM | 560 kHz |
| Churchill Falls, NL | Radio Labrador | CFLC® | News/Talk/Country | FM | 97.9 MHz |
| Clarenville, NL | CKVO | CKVO | News/Talk/Country | AM | 710 kHz |
| | K-ROCK | VOCM-1® | Classic Rock | FM | 100.7 MHz |
| Corner Brook, NL | CFCB | CFCB | News/Talk/Country | AM | 570 kHz |
| | K-ROCK | CKXX | Classic Rock | FM | 103.9 MHz |
| Deer Lake, NL | CFCB | CFDL® | News/Talk/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 |
| Grand Falls-Windsor, NL | K-ROCK | CKXG | Classic Rock | FM | 102.3 MHz |
| | K-ROCK | CKXG-FM1® | Classic Rock | FM | 101.3 MHz |
| | VOCM Radio Network | CKCM | News/Talk/Country | AM | 620 kHz |
| Goose Bay, NL | Radio Labrador | CFLN | Adult Contemporary | AM | 1230 kHz |
| Marystown, NL | CHCM | CHCM | News/Talk/Country | AM | 740 kHz |
| Port aux Basques, NL | CFCB | CFGN® | News/Talk/Country | AM | 1230 kHz |
| Port au Choix, NL | CFCB | CFNW® | News/Talk/Country | AM | 790 kHz |
| St. Andrew's, NL | CFCB | CFCV® | News/Talk/Country | FM | 97.7 MHz |
| St. Anthony, NL | CFCB | CFNN® | News/Talk/Country | FM | 97.9 MHz |
| St. John's, NL | 590 VOCM | VOCM | News/Talk/Country | AM | 590 kHz |
| | HITS-FM | CKIX | Contemporary Hit Radio | FM | 99.1 MHz |
| | K-ROCK | VOCM-FM | Classic Rock | FM | 97.5 MHz |
| | Radio Newfoundland | CJYQ | Newfoundland Music | AM | 930 kHz |
| Stephenville, NL | CFCB | CFSX | News/Talk/Country | AM | 870 kHz |
| | K-ROCK | CKXX-1® | Classic Rock | FM | 95.9 MHz |
| Wabush, NL | Radio Labrador | CFLW® | News/Talk/Country | AM | 1340 kHz |

® Repeating Signal
[1] New licence awarded by the CRTC in 2006
[2] Purchase approved by the CRTC in 2006
[3] The Company received approval to convert this station to FM in 2006
[4] The Company received approval to convert this station to FM in early 2007
[5] New licence awarded by the CRTC in 2006, some information not available at time of printing

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**DAVID I. MATHESON, Q.C.**
Counsel
McMillan Binch
Mendelsohn LLP

**MICHAEL (MICKEY) C. MACDONALD**
President
Micco Companies

**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.**
Partner
Blackwood & Warr

## OFFICERS AND MANAGEMENT

**HARRY R. STEELE**
Chairman

**ROBERT G. STEELE**
President and
Chief Executive Officer

**MARK S. MAHEU**
Executive Vice President and
Chief Strategist

**DAVID J. MURRAY**
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:
Tel.: 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
Tel: 902-468-7557
e-mail: investorrelations@ncc.ca
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## STOCK EXCHANGE LISTING AND SYMBOLS

The Company's Class A Subordinate Voting Shares and Class B Common Shares are listed on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.

## 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 8, 2007, Baronet Ballroom, at the Delta Halifax Hotel, 1990 Barrington Street, Halifax, Nova Scotia

## **REMEMBERING**
## CRAIG L. DOBBIN, O.C.

Newfoundland Capital Corporation notes with sadness and affection the passing of Craig Laurence Dobbin, a member of our Board (April 25, 1994 to October 7, 2006), the head and founder of CHC Helicopter Corporation, entrepreneur, outdoorsman, and to many of this Company both an inspiration and a deep friend.

**Craig L. Dobbin, O.C.**
September 13, 1935 –
October 7, 2006

Craig Dobbin was singular in the scope of his accomplishments and the reach of his personality. He brought to his business career a combination of adventure, inventiveness and daring. The path he followed was one uniquely carved by himself. His record achievements flowed from an intelligence and character equally unique.

In business he was a perfect illustration of the sometimes loosely-applied description: a self-made man. He began, as he put it himself, during the Convocation at Memorial University awarding him the honorary degree of Doctor of Laws, "literally, at the bottom." The reference was to his early years as a commercial diver who "worked" the waters of St. John's Harbour.

Beginning in the early sixties in real estate, and branching from there by a plan known only to himself, he eventually became the CEO and owner of the world's largest helicopter firm. It is worth noting that with CHC Helicopter Corporation, Craig Dobbin established another milestone: of being the first Newfoundland businessman of whom it may be said that he established, from Newfoundland, a genuine, fully international company.

Within the business community of Atlantic Canada it is not necessary to detail the scope and quality of his business career, merely to make the pointed note that even within a community known for strong leadership and entrepreneurial flair, Craig Dobbin was a standout performer and a standout success.

His personality could not be confined even by the intense demands of starting, developing, expanding and maintaining his business interests. His hobbies and pastimes would claim the energy of an ordinary man. His passion for the outdoors, his love of flying and fishing, gave him a name (and friends) that spanned the continent.

His fishing camps at Long Harbour in Newfoundland and on the great Labrador salmon rivers were often gatherings of business people, politicians, writers, friends and fellow sportsmen. He had high enthusiasms, and he found as much passion in sharing what he loved, as in the enthusiasms themselves. He was an open and generous friend, and a great (and frequently silent) supporter of people in hard moments of their lives, be they friends or not.

Perhaps the overriding character of this exceptional man was his unquenchable love for Newfoundland itself. He was a Newfoundlander in everything he did, most of what he said, and in many of those things he held closest and dearest. Canada was his beloved country, the passion for Newfoundland the fire within the core.

Those that called him friend, among whom the many shareholders and employees of Newfoundland Capital Corporation, miss him greatly, wish him remembered, and in words that are frequently applied but rarely as just as they are in his case, note "that we shall not see his like again."

Craig Dobbin was here... big time!

building generating creating supporting

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