Newfoundland Capital Corporation Limited

2007 annual report

Always...

NewCap RADIO

Corporate profile

Newfoundland Capital Corporation Limited (the "Company") owns and operates Newcap Radio ("Newcap"), one of Canada's leading radio broadcasters with 76 licences across the country. 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 49 FM and 27 AM licences spanning the country and employs over 850 radio professionals in Canada.

Focus on radio

Newcap's sole operating focus is to develop profitable, cash accretive radio stations. All of our resources are dedicated to creating quality content.

A top licence holder

As one of the largest licence holders in the country we offer an attractive proposition to our national advertisers.

Dedicated leadership

We have locally-focused radio operators that lead the way in all of the markets we serve.

Room to grow

Approximately half of the outstanding licences are in the hands of regional media companies or small independents. This provides Newcap with potential acquisition opportunities.

We are competitively positioned for growth now and in the future.

(from left) **Zack Bell,** Morning Show Co-Host and **Colin McKay,** Morning Show Host, K-Rock 105.5, Charlottetown

Value creation in our portfolio

In the last two years we've witnessed a rapid evolution in the radio business with the departure of major radio operators from the competitive landscape. Newcap Radio has been in the business for over 20 years, acquiring CHTN in Charlottetown, our first station, in 1986. While the competitive dynamics are changing, we remain confident in our ability to adapt, thanks to our unwavering focus on delivering the best radio product to our listening communities. We do so proudly as Canada's largest pure-play radio enterprise.

It's early to judge the impact of recent radio consolidation, but we know the Canadian Radio-television and Telecommunications Commission ("CRTC") favours increasing competition and will continue to approve more licences. Although anticipating changes in competitive dynamics is critical to our planning process, it does not alter our fundamental view of our radio operations. There is tremendous room to grow.

Increasing our portfolio's asset value and ensuring stable cash flows for shareholders depends on a team of proactive leaders, leaders who are not complacent in their local markets. Our drive to improve continuously and enhance our radio operations is critical to increasing the value of our portfolio over time, and it is the theme of this Annual Report.

Newcap's performance reflects our key operating objective: maximizing the return of existing radio assets. In 2007, consolidated revenue grew by 5% or $4.9 million. Of this total, approximately half was generated from organic growth. Earnings before interest, taxes, depreciation and amortization ("EBITDA") in the broadcasting segment finished strongly with a $3.4 million or 15% improvement over last year. All of that growth was organic, a testament to the achievement of our 2007 goal to maximize returns on our existing asset base. 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 2007.

Maximizing the return of existing radio assets

We can create year over year growth in existing radio stations through various means, each of which is reflected in Market Focus stories throughout this Annual Report.

We will continually improve content and programming, even if a station has a long history of success in its market, as demonstrated by VOCM in Newfoundland and Labrador. We can increase ratings by developing groundbreaking promotional initiatives such as the "LiVE 88.5 Big Money Shot", a talent contest for Ottawa's best live band. Converting AM stations to strong FM contenders can also drive incremental revenue growth, as it has in Charlottetown, PEI with the new Ocean 100.

Equally important to external, listener-based initiatives is our ability to develop strong, cohesive teams and trade best practices coast to coast. In Red Deer, we acquired a strong radio platform and made it even stronger by leveraging our regional knowledge and influence to the station's benefit. Another example of sustaining organic growth comes from Moncton, New Brunswick. Our two stations demonstrate growth year after year, consistently posting one of the highest EBITDA margins. Our ongoing success in Moncton reflects both leadership, and a team that understands how to maximize cost synergies available to a two-station platform.

Focusing on organic growth expands markets and grows cash flows to the portfolio, and minimizes the effects of new competition.

Letter to shareholders: focused on

Revenue-enhancing initiatives across our portfolio generated strong organic growth, thanks to our dynamic team of radio professionals who are acutely tuned to their local operations.

New conversions and launches

This was a strong year for AM to FM conversions and new station launches, adding to our success with growing organic operations.

In 2007 we were awarded the right to convert three stations from AM to FM in Carbonear, Newfoundland and Labrador, Halifax, Nova Scotia and Edson, Alberta. “The Fox” was successfully launched in Edson in July and the Carbonear station was launched in early 2008. Other station launches include our new FM station in Lac La Biche, “Big Dog 103.5”, which was launched in December and plays Classic Hits. Also launched was Calgary’s FUEL-FM, playing Classic Alternative and expanding our reach in a significant radio marketplace.

This year the CRTC approved the operation of two new FMs in Sydney and Kentville, Nova Scotia, expected to launch in Spring 2008.

Supporting our musicians and our communities

Radio broadcasters such as Newcap play a major role in the future success of Canadian musicians. More important than the promotion of known artists is our leadership role in supporting the development of new, emerging Canadian artists, who often have little resources for promotion. We contribute millions of dollars each year to various Canadian Content Development (“CCD”) initiatives and are proud of our engagement with them for initiatives such as the “LiVE 88.5 Big Money Shot”.

Community outreach remains a core value. Newcap is proud to continue building relationships with hundreds of non-profit organizations across Canada, ranging from children’s charities to food banks and hospitals. The relationships we’ve developed with these organizations are a direct result of our committed employees who donate their time to sponsor and assist those in need.

Outlook 2008

In 2008, we will continue to build on our foundation of a strong radio franchise across Canada by providing creative and engaging programming to our audiences. We will dedicate the resources necessary for intensive and targeted local research, continue with personnel development and manage costs.

We thank our exceptionally talented and creative team of radio professionals across Canada. We are motivated and encouraged by their ability to perform as a team. Our employees are true leaders in their communities.

Thank you.

(signed:)

Robert G. Steele
President and
Chief Executive Officer

(signed:)

Harry R. Steele
Chairman

organic growth

Newfoundland and Labrador: sustainabl

In 2007, the Newcap stations have been consistently ranked 1st, 2nd, and 3rd in listenership, revenue and community involvement in Newfoundland and Labrador. Their outstanding performance and sustainable growth in sales is the driving force in the success story of Newcap in the province. Over the past decade and a half, Newcap in Newfoundland and Labrador has seen a steady increase in EBITDA, moving from a loss at its inception to being one of the highest contributors to EBITDA despite the economic challenges that exist in some areas of the province. With consistent increases in revenue year after year, Newcap's success in Newfoundland and Labrador comes from passion for the business and a drive to succeed.

e growth in sales

Newcap's Newfoundland and Labrador radio professionals are **driven to lead in their market** and this has manifested itself in the tremendous success of its stations.

(from left)

Chris Hanlon
Account Executive

Anna Brophy
Account Executive

Karen Maher
Sales Assistant

Kathy Roe
Account Executive

Gary Moore
Sales and Marketing Coordinator

In 2007 Newcap in Charlottetown enjoyed an EBITDA that was three times higher than budget, and K-ROCK and Ocean 100 were the top two stations in the Charlottetown market in terms of revenue, profit and community involvement. The stations are proud to have won the prestigious “Marketing Award” presented by the Chamber of Commerce 2007 President’s Excellence Awards. Growth in 2007 was due in part to the conversion of CHTN from AM to FM, creating Ocean 100. Newcap does not take its Charlottetown market for granted. By priding themselves on creativity and staying connected to their community, K-ROCK and Ocean 100 are always trying to reinvent themselves to stay close to their listeners.

(from left)

Scott Chapman
News Director

Jennifer Evans
General Manager

Gerard Murphy
Program Director,
Ocean 100

Blair Rhodes
Promotions
Coordinator

Charlottetown: strong market leadership

The success of Charlottetown's K-ROCK and Ocean 100 are an excellent example of how strong and creative management generates market leadership.

Moncton: two-stati leads to strong margins

The EBITDA margins in Moncton are always among the highest of any station in the Newcap portfolio. By having a combined two-station platform, Newcap is able to create cost synergies which have contributed to making Moncton one of the best examples of a dual market operation within Newcap. In 2007, Newcap attracted well over 50% of the market revenue for Moncton. With a cost-efficient platform and revenue synergies, C103 and XL96 are a source of stability in Newcap's radio portfolio.

Our Moncton market is a **model for organic growth** - two mature stations with high ratings and operating margins.

(from left)

Dave Ostler
Sales Manager

Maryse Arseneau
Account Executive/
Newcap Radio
Creative Awards

Ruth Wilbur
Sales Assistant

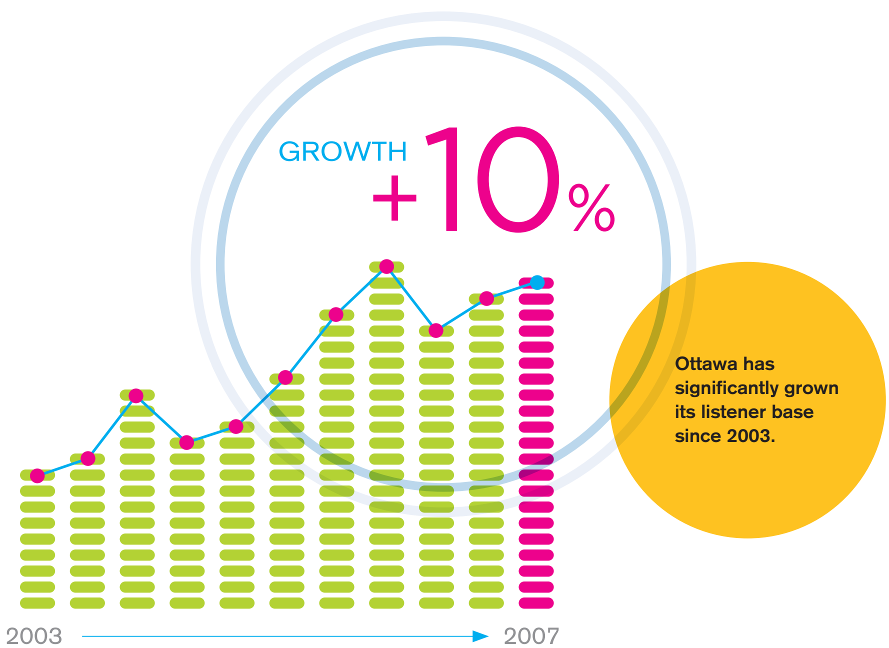
Cathy Airey
Office Manager

Michelle Leblanc
Sales Assistant

on platform

Despite breaking into a major market with fierce competition from Canada's broadcasting giants, Newcap has grown substantially in Ottawa. In just five short years Newcap has gone from having little presence and influence in Ottawa, to dominating the youth market. Currently, nearly 1 in 3 people in Ottawa listen to either Hot 89.9 or LiVE 88.5, reaching nearly half of the population under 40, a key demographic in terms of spending power. Creative marketing, intensive programming and content development strategies have led to increased ratings for Hot 89.9 and LiVE 88.5. With their 2007 sales 18% higher than 2006, much of Newcap's success in Ottawa is attributed to the commitment to finding the right market and tailoring the product to the needs of the listeners.

in progra boosts

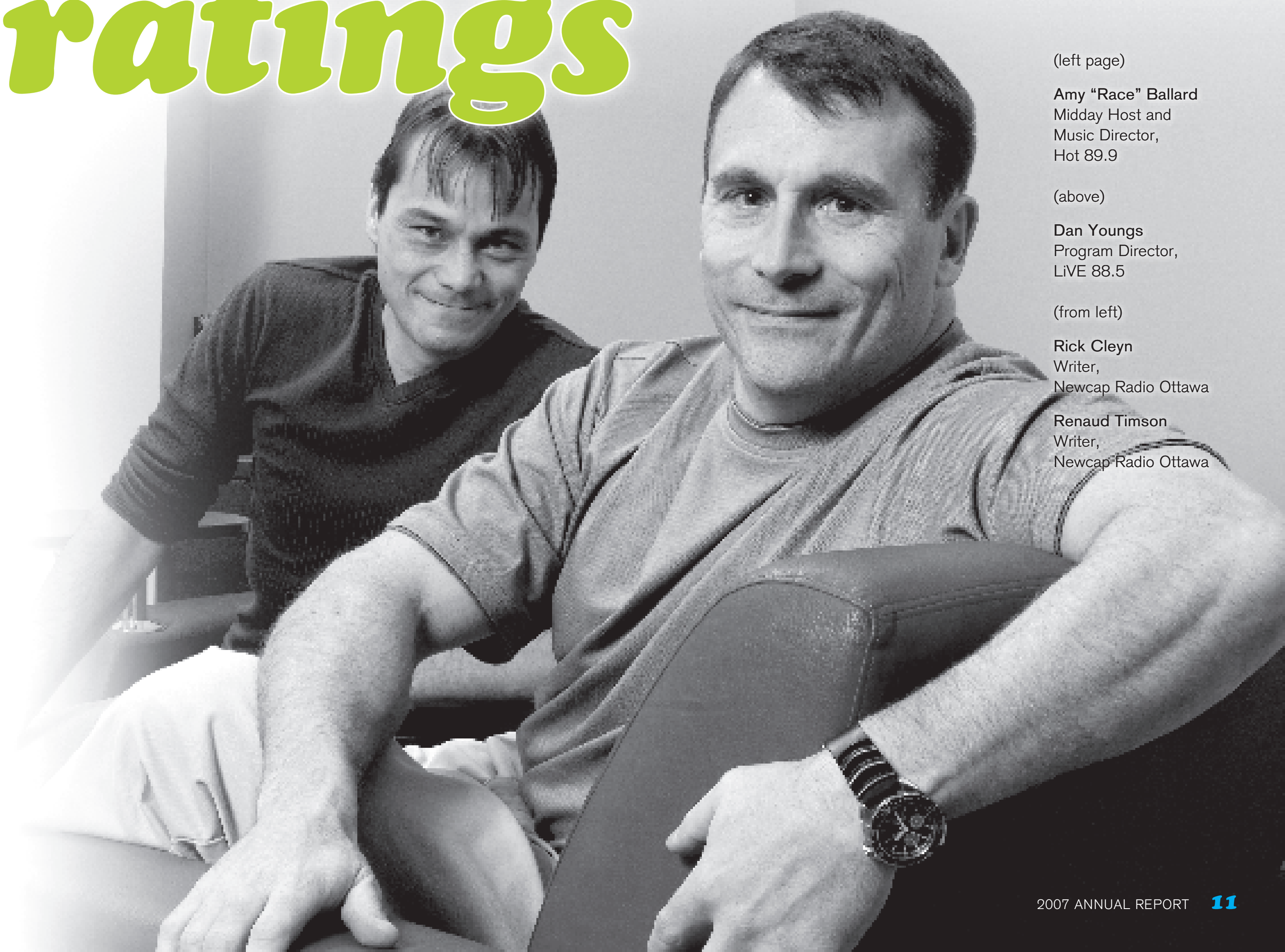


Our **intensive focus on innovative programming** dramatically improved ratings.

Ottawa: intensive effort

mming

ratings



(left page)

Amy "Race" Ballard
Midday Host and
Music Director,
Hot 89.9

(above)

Dan Youngs
Program Director,
LiVE 88.5

(from left)

Rick Cleyn
Writer,
Newcap Radio Ottawa

Renaud Timson
Writer,
Newcap Radio Ottawa

Red Deer: acquisition integration creates growth

In 2007, Z99-FM and KG Country increased sales by 8% and EBITDA by 17% from the previous year. With Red Deer's recent integration into the Newcap platform, very little change to their successful formula was required. Our acquisition criteria considers markets that have strong growth potential, a need for creative content and the ability to leverage the existing Newcap advertising and programming platform. All criteria have been met and exceeded in Red Deer, a market in which integration equals success.

Integrating accretive acquisitions into our operating platform equals immediate growth.

(left page/from left)

Trish Holmes
Promotions Director

R.C. (Ron) Thompson
General Manager

Murray Fuhrer
Creative Director

Brent Young
Program Director

(this page/from left)

Sue Stevenson
News Director

Greg Johnson
Morning Show Host and
Assistant Program Director

Dianne Finstad
Farm and Ranch Director

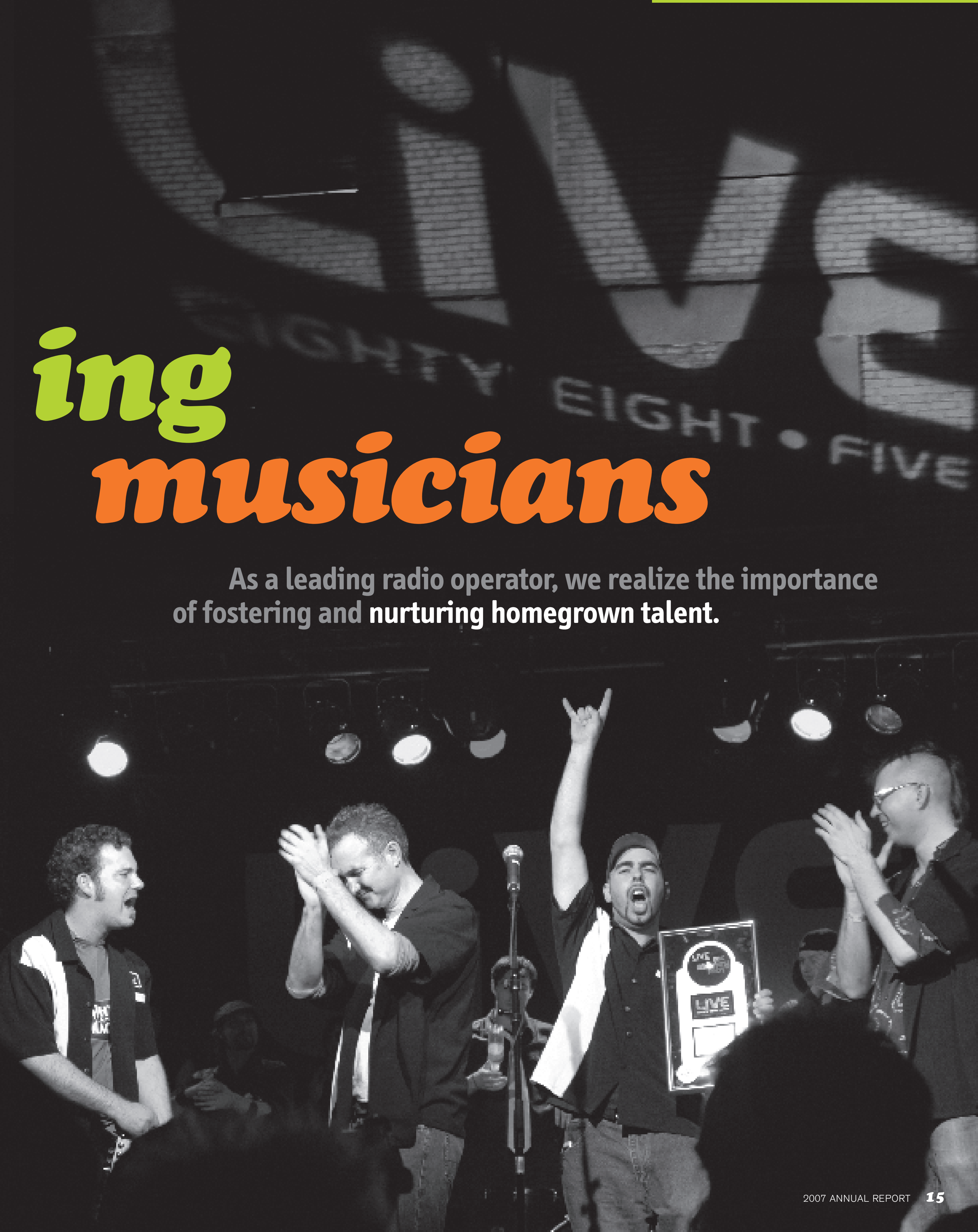
Developing Canadian talent: support up-and-coming

Newcap makes contributions to support up-and-coming Canadian talent through a CRTC initiative known as "Canadian Content Development" (formerly known as Canadian Talent Development). Through the multifaceted CCD initiative, private radio has committed over $168 million since 1999 to the development of Canadian talent. Newcap contributes on average in excess of $3 million per year directly to CCD initiatives, and equal or greater value through air play and promotion of Canada's budding stars. Newcap Radio has CCD commitments aggregating over $18 million that it will fund between now and 2015.

Over the past two years, LiVE 88.5 has made considerable contributions to the fostering of Canadian artists by hosting an annual talent search for local performers. Since 2006, the station has been organizing an event known as "The LiVE 88.5 Big Money Shot". LiVE 88.5 knows that there are hundreds of great local artists that have yet to be given a chance to make something more out of their craft and passion.

LiVE 88.5's Big Money Shot lasts for six months as bands battle for the chance to further their burgeoning careers. Tim's Myth was the big winner in 2006, and in 2007 it was Sojourn's time to shine. A substantial cash prize is awarded to assist them with recording a studio album and furthering their musical careers.

This competition provides artists greater exposure as well as opportunities to hone their skills in front of live audiences. The LiVE 88.5 Big Money Shot has been an overwhelming success, and will continue to be a cornerstone in Ottawa's independent music community. LiVE 88.5 is synonymous with alternative rock music in Ottawa. Its ambition to creatively serve listeners mirrors the ingenuity of promising performers.



ing musicians

As a leading radio operator, we realize the importance of fostering and nurturing homegrown talent.

Eastern region

Helping Families over Thanksgiving

In Halifax, KOOL 96.5 teamed up with Master Promotions and McBurney Pools and Spas to launch the charity promotion 'Stuff a Tub with Grub' just in time to help needy families for Thanksgiving. KOOL 96.5 broadcasted live from the Fall Ideal Home Show and encouraged listeners to help stuff a hot tub full of food for families in need. Throughout the weekend, listeners dropped off non-perishable food items and at the end of the event, filled a hot tub with over 1,500 pounds of food.

Central region

Big Daddy Radio Goes "Underground"

On October 10th, 2007, Sudbury's CHNO 103.9 Big Daddy Radio morning personalities Dave Mayes and Carrie-Ann took their show deep underground at Vale Inco's Coleman Mine in support of United Way Centraide.

The broadcast went live starting at 5:30am from the 3,370ft level to kick off Vale Inco's 2007 United Way Centraide fundraising campaign. In 2007, with the help of Big Daddy, over $1 million was raised — shattering last year's mark of $748,000.

Focus on Community: At the heart

In 2007, Newcap stations assisted hundreds of non-profit organizations throughout the country.

Below are just a few examples of how Newcap has used its influence and creativity for the betterment of the communities it serves.

Western region

Giving Hope to the Homeless

In early November 2007, thirteen year-old Jesse-Leo Michaud of Edmonton approached CFCW asking them to help with his Hope in a Bag charity drive. In 2006 Jesse-Leo, with the help of friends and family, put together 88 bags filled with winter supplies for Edmonton's homeless population. Jesse-Leo was hoping that with the help of CFCW and their loyal listeners, they would be able to fill 150 bags.

CFCW rushed to help the homeless cause, launching a promotional campaign for Hope in a Bag that included 96 pre-produced promos that ran from November 19th to December 12th, numerous live liners, live interviews with Jesse-Leo and a page on CFCW.com that included a detailed list of essential donation items.

Large gift-wrapped boxes were set up in CFCW's West Edmonton Mall studios and lobby for listeners to drop off their donations. Donations ranged from single pairs of gloves to complete bags, to boxes filled with new winter socks, to large cash donations.

Over the course of three weeks the donation boxes had to be emptied several times and on the final day CFCW was able to completely fill a full size pick-up truck.

The Hope in a Bag charity drive was successful, far surpassing Jesse-Leo's goal of 150 bags. CFCW was able to put together a total of 205 back-packs filled with gloves, toques, sweaters, socks, first-aid kits and other essentials.

of our business

radio across Canada

Solid growth in competitive market

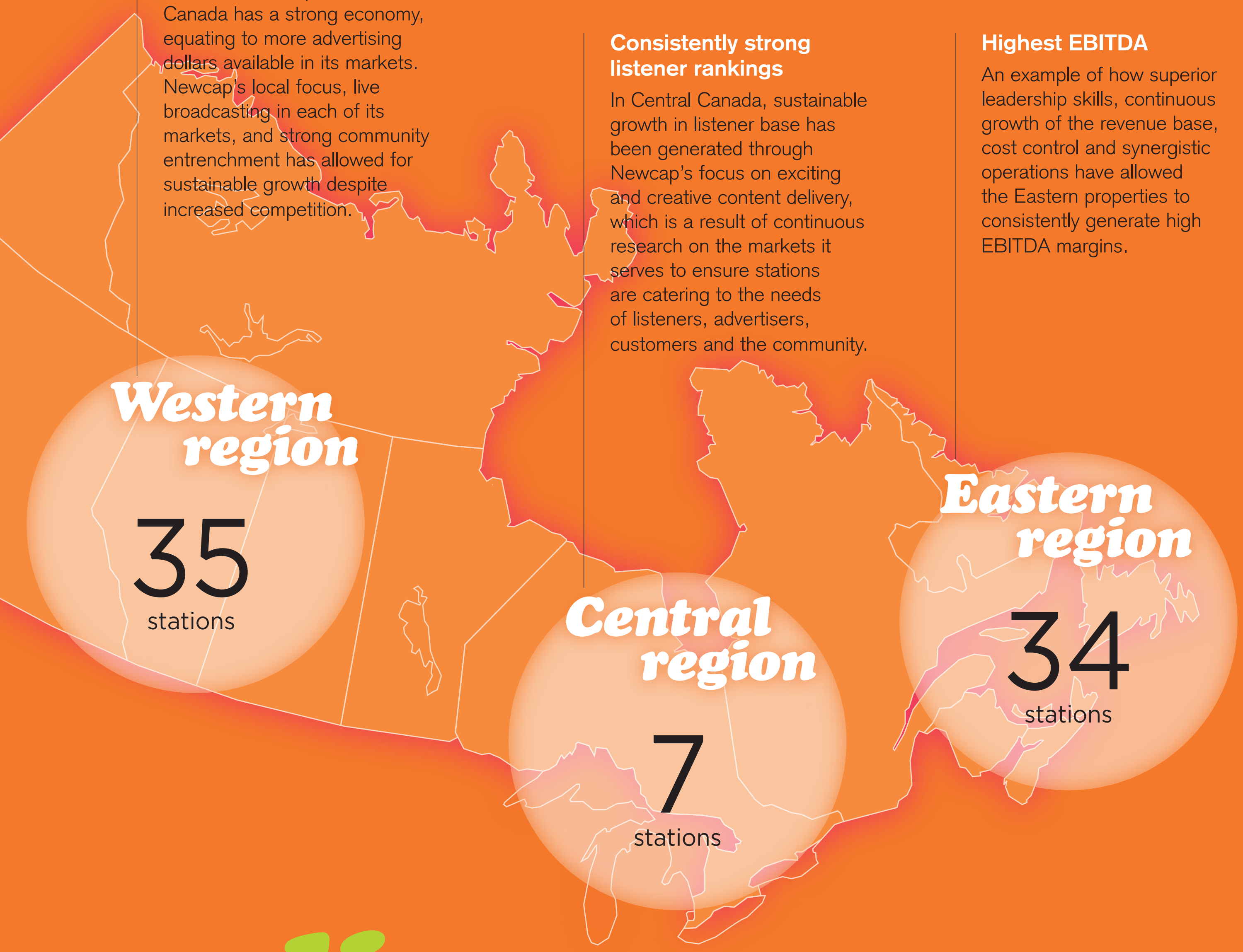
In markets rife with fierce competition, Newcap's stations set themselves apart. Western Canada has a strong economy, equating to more advertising dollars available in its markets. Newcap's local focus, live broadcasting in each of its markets, and strong community entrenchment has allowed for sustainable growth despite increased competition.

Consistently strong listener rankings

In Central Canada, sustainable growth in listener base has been generated through Newcap's focus on exciting and creative content delivery, which is a result of continuous research on the markets it serves to ensure stations are catering to the needs of listeners, advertisers, customers and the community.

Highest EBITDA

An example of how superior leadership skills, continuous growth of the revenue base, cost control and synergistic operations have allowed the Eastern properties to consistently generate high EBITDA margins.



Setting our Objectives: long-term growth

The Company has previously stated that it has the goal of doubling EBITDA from $15 million to $30 million by 2009. While Newcap has been steadily moving toward this goal, the Company acknowledges that this will be a difficult achievement due to our success in acquiring new licences, which are significantly increasing the asset value of the portfolio. In our continuous process to provide increasing shareholder value, we remain focused on the following three interlinked goals.

3 Maximize return of existing radio assets

Why? Creates margin expansion and promotes leadership in local markets

Goal: To accomplish this objective, we must focus on generating higher revenue and controlling costs:

- Offer innovative advertising campaigns
- Create loyal relationships with customers
- Increase market share
- Monitor fixed costs

2007:

- Of the total revenue growth achieved this year, approximately one half originated from organic operations
- All of the EBITDA growth of 15% in 2007 came from same-station operations with EBITDA margins increasing to 28%

2 Grow by new licences

Why? Increases asset value of portfolio and creates greater market presence for listeners and advertisers

Goal: We would be proud to be the top radio licence holder in Canada. To grow our portfolio of licences we need to:

- Consider every CRTC call for radio applications
- Apply to convert existing AM stations to FM
- Continue to make compelling presentations to the CRTC when applying for new licences

2007:

- Focused on conversions in Carbonear, Newfoundland and Labrador, Halifax, Nova Scotia, and Edson, Alberta
- Received approval from the CRTC to operate two new FMs in Sydney and Kentville, Nova Scotia
- Launched Fuel-FM and Big Dog 103.5 in Calgary and Lac La Biche, Alberta, respectively
- Granted relief by CRTC from certain format restrictions that existed on CIQX-FM in Calgary, Alberta. Re-launched as XL103 in March, 2008
- Working on increasing the power coverage of CHNK-FM in Winnipeg, Manitoba
- Presented to the CRTC an application for a new FM licence in Peterborough, Ontario in December 2007; the decision has not yet been rendered

1 Grow by acquisition

Why? Delivers incremental cash flow from new and expanding markets

Goal: We will continue to assess opportunities to purchase licences and:

- Selectively seek acquisition opportunities
- Carefully review and assess potential purchases
- Make a determination on whether the acquisition opportunities meet our investment criteria

2007:

- Newcap acquired its minority interest shareholders in Alberta and Moncton, New Brunswick

Management's Discussion and Analysis

measuring our perform

The Hot 89.9 Morning HOT Tub team (from left): Mauler, Rush, Laura and Josie

ance

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 22, 2008, and related notes contained in this 2007 Annual Report. Certain comparative figures have been reclassified in order to conform with the basis of presentation adopted in Fiscal 2007.

These documents along with the Company's Annual Information Form, its Management Proxy Circular dated March 14, 2008 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. The Company's news releases are also available on the Company's website at www.ncc.ca.

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

Management's Discussion and Analysis of financial condition and results of operations contains forward-looking statements. These forward-looking statements are based on current expectations. The use of terminology such as "expect", "intend", "anticipate", "believe", "may", "will", and other similar terminology relate to, but are not limited to, our objectives, goals, plans, strategies, intentions, outlook and estimates. By their very nature, these statements involve inherent risks and uncertainties, many of which are beyond the Company's control, which could cause actual results to differ materially from those expressed in such forward-looking statements. The Company has outlined in this MD&A a section entitled "Risks and Opportunities" that discusses possible events or conditions that are beyond management's control and that could affect future results; these include topics surrounding the economy, the regulatory environment, the dependency on advertising revenues, competition, technological developments and potential contingencies. 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 76 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 employs over 850 of the best radio professionals in Canada. The Company's portfolio of radio assets includes 49 FM and 27 AM broadcast licences which can be heard throughout the country. The majority of our stations are accessible globally via the Internet allowing listeners the flexibility to tune in to our stations at any time from any place.

The primary source of the Company's revenue is derived from the sale of advertising airtime. The Company's sales team generates revenue from local advertisers 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 listeners, other advertising media and government broadcasting regulations.

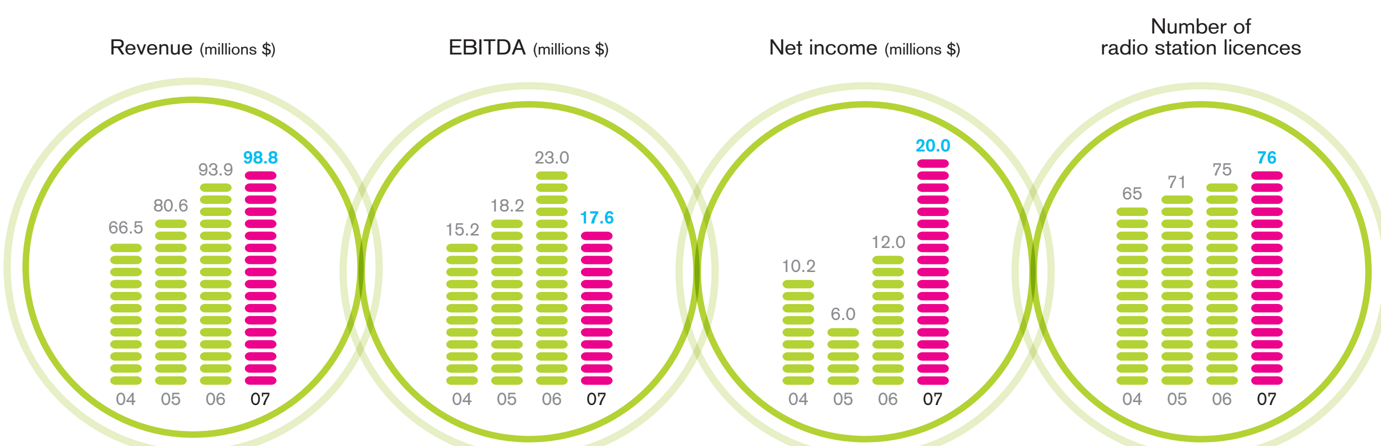
The shares of the Company trade on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.

2007 highlights

In 2007 management re-focused its energy on organic broadcasting operations after many years of growth and expansion. We are very pleased to report that we were successful in increasing organic revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA"[1]) in the broadcasting segment. The following is a brief summary of major 2007 highlights:

- Revenue grew by $4.9 million, or 5.2%, to $98.8 million;
- EBITDA of $17.6 million is $5.4 million lower than 2006. Excluding the net impact of investment income EBITDA would have been $3.7 million higher than last year; a result of growth in the broadcasting segment;
- Net income of $20.3 million is $8.3 million better than last year due to gains on disposal of its Kitchener-Waterloo, Ontario station and the Halterm Income Fund Trust Units;
- A total of $0.30 dividends per share were declared on Class A Subordinate Voting Shares and Class B Common shares;
- The Company acquired the minority shareholders' interests in certain Alberta stations as well as the Moncton, New Brunswick operation;
- The Company launched the following licences this year:
  - Calgary, Alberta's "FUEL-FM" in March;
  - Lac La Biche, Alberta's "Big Dog" in December; and
  - Edson, Alberta's AM to FM conversion was completed - "The Fox" launched in July.
- The Canadian Radio-television Telecommunications Commission ("CRTC") granted the Company the following:
  - New FM radio licences in Sydney and Kentville, Nova Scotia;
  - AM to FM conversions in Carbonear, Newfoundland and Labrador and Halifax, Nova Scotia;
  - The removal of the format condition of licence on CIQX-FM in Calgary, Alberta, which was acquired in 2002; and
  - Power coverage increase of the FM licence in Winnipeg, Manitoba.

[1] Refer to page 35 for the reconciliation of EBITDA to net income



our industry

Radio – did you know?

Radio is a strong and sustainable business platform. Here are some of the reasons why:

- Radio listening by Canadians increased 5% in 2007.
- In 2007 Canadians spent on average over 7 hours daily with media. Radio accounts for one third of this time. Time spent listening to the radio is projected to increase in 2008.
- Radio better meets individual wants and needs than any other form of media. Listeners perceive that the radio is speaking to them.
- Canadians are less likely to tune away from a radio station than any other form of media – 10 points lower than the next best performer in terms of ad avoidance.

A snapshot of our industry

The Canadian Radio-television and Telecommunications Commission ("CRTC") regulates the broadcasting industry in Canada. It is the agency responsible for determining when a new licence should be awarded in a market and to which applicant it should be granted. The CRTC mandates the term of the licence and specifies certain conditions of licence that must be adhered to in order for a broadcaster to retain the licence in good status and to have the licence renewed every seven years, the normal term.

Advertising revenue is maximized when a station captures the largest share of listeners. To accomplish this, a station must cater to the needs of the market it serves by continuously updating its understanding of the wants of the listeners, advertisers, customers, and the surrounding community. Market needs are forever evolving and it is important that a station be proactive in researching and understanding them. The Bureau of Broadcast Measurement ("BBM") surveys most mid-sized and major radio markets and the results are used to measure a station's audience share. The higher a station is rated, the more revenue it can generate.

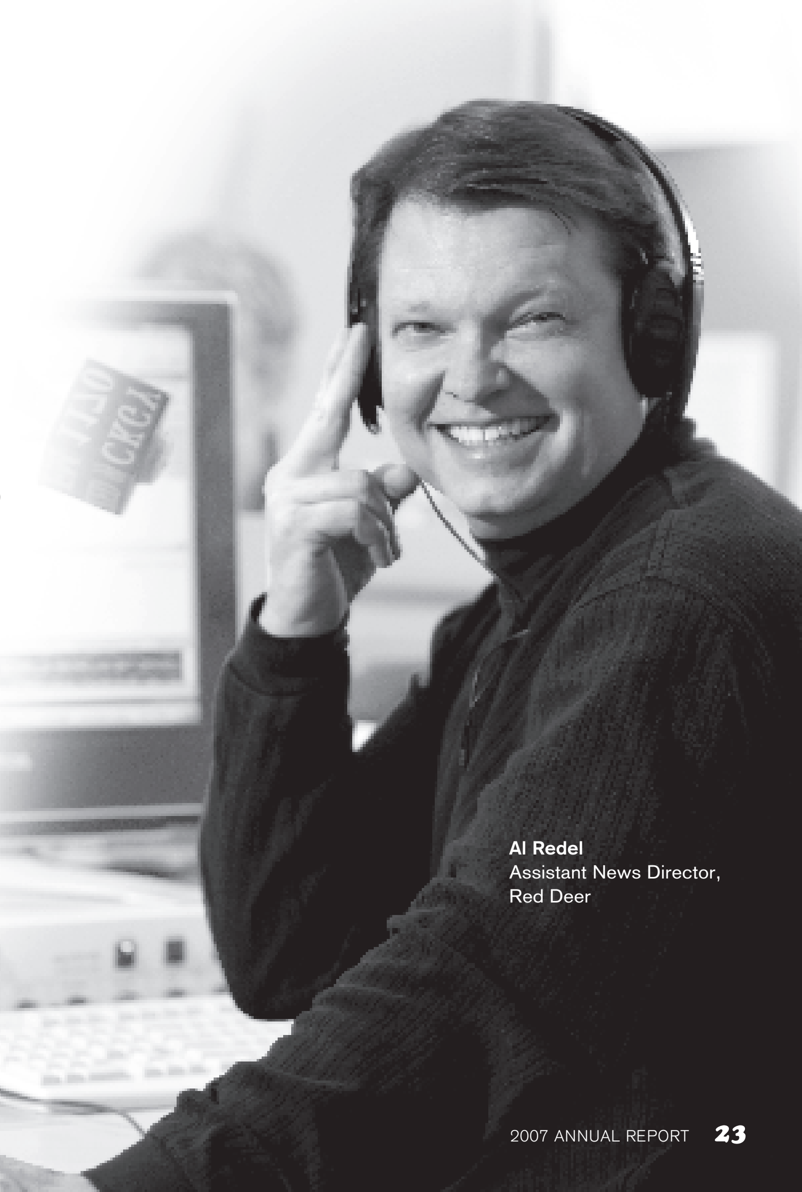
Industry challenges

The biggest challenge has been the emergence of new competition in established markets. The CRTC has granted a number of new licences in recent years. New entrants mean there are more broadcasters vying for the total advertising dollars available in a market. In our experience, however, the dollars available expand with new competition and incumbents are not affected significantly except that revenue increases for incumbents can be slowed. While new competition poses its challenges, the fact that the CRTC is granting additional new licences is positive for the Company. We have benefited in recent years from new licence awards and we plan to continue to make applications for new licences in markets that fit our strategic plan.

Alternative media will always pose challenges, such as Internet-based media. Radio must adapt and keep on pace with new technologies to mitigate its losses.

Radio's place amongst other major media choices

Despite the challenges, radio continues to show growth in terms of time Canadians spend on media. Time spent by Canadians in 2007 on other major media, such as television, newspaper and magazine, has declined while the Internet and radio have increased. Radio and Internet complement each other well since many Internet users will simultaneously stream their favourite radio station while online. Regardless of these results, radio is the primary source for local, breaking news including traffic, weather, local emergencies and other time sensitive events which cannot be disseminated by any of the other major media as effectively and efficiently as radio.



Al Redel
Assistant News Director,
Red Deer

our objectives

Committed to stakeholders

The Company takes a leadership role in all the markets it serves and is committed to delivering results to all of its stakeholders.

Our listeners: We proactively research the markets we serve to understand the needs of our listeners.

Our advertisers: We foster long-term relationships with our customers to deliver a targeted and unique advertising campaign.

Our employees: We believe in continuously developing and empowering employees.

Our communities: Newcap is proud to be connected to the communities it serves and actively supports local non-profit organizations.

Long-term objectives

Growth is the Company's main objective: growing revenue, growing EBITDA, growing the number of licences, and growing assets by astutely expanding our presence throughout the country. Succeeding at these objectives creates long-term value for shareholders. The Company has previously stated that it has the goal of doubling EBITDA from $15 million to $30 million by 2009. While the Company has been steadily moving toward this goal, the Company acknowledges that this will be a difficult goal to achieve due to its focus and success in acquiring new licences that is increasing the asset value of the portfolio. It is however committed to working diligently on achieving the goals stated below, each of which are interlinked. Their realization will help the Company accomplish its long-term objective:

- **Acquisitions of businesses and licences**
  During 2007, the Company took full ownership positions in certain of its subsidiaries. As a result of this, the remaining minority shareholders' interests in two subsidiaries were acquired. Although the Company actively seeks value-enhancing new business and licence acquisitions, this is not ultimately within the Company's control. As opportunities arise, a determination is made as to whether the acquisition would fit the Company's business model. Depending on the size of the acquisition, this goal could significantly propel EBITDA and revenue growth.

- **Apply for new broadcast licences through the CRTC process**
  Management presented to the CRTC an application for a new FM licence in Peterborough, Ontario in December; the decision has not yet been rendered. In the first quarter of 2008, the Company appeared before the CRTC for new licences to serve Vancouver and Chilliwack, British Columbia. The Company is considering submitting applications to the CRTC for several other markets.
  The granting of new licences through the CRTC process is the best way for the Company to achieve growth in the number of licences and expansion to other parts of Canada.

- **Maximize return of organic operations**
  This goal is the one over which the Company has most control, and it is where sustainable growth is most likely to be achieved. The 2007 short-term goal was to increase organic EBITDA margins in the broadcasting segment. To do this, we resolved to increase our revenue base while controlling costs. Achieving EBITDA margin increases is easier when more than one radio station is controlled and operated in a market. It is also much easier to achieve after a station has reached maturity. Generally speaking, start-up radio stations do not contribute positively to EBITDA until year two to four. Start-ups are cash flow, capital and human resource intensive. Given the number of new licences the Company has launched in recent years, it delivered solid EBITDA margins. 2007 is no exception with a 28% EBITDA margin in the broadcasting segment, up from 26% last year. This trend is expected to continue despite the fact the Company will continue to launch new stations.

Short-term objectives

The Company's short-term objectives are to focus on launching new radio stations, improving EBITDA margins and intensifying research to better understand markets' wants and needs.

- **Launch of newly awarded licences**
  In 2008, the Company will launch three new FM licences including those in Sydney and Kentville, Nova Scotia and Fort McMurray, Alberta. As the CRTC awards the right to convert AM stations to FM, management will work toward re-launching the FM stations as quickly as possible. The CRTC also granted relief from certain format restrictions that existed on one of the Calgary, Alberta FM licences. The Company is working on increasing the power coverage of CHNK-FM in Winnipeg, Manitoba which was recently approved by the CRTC.

- **Tailor programming to meet the needs of the market**
  To be able to generate sustainable growth in an environment of increased competition, radio stations must retain a loyal listener base in order to maintain and increase market share. The best way to do this is to continuously update our understanding of, and deliver product that caters to listeners, advertisers, and customers. Management has recognized this fact and has taken measures to enhance its creative content and research programs across the country. The Company has already benefited, evidenced by increased organic revenue growth in 2007 in markets where we faced more competition, like Halifax, Nova Scotia and Edmonton, Alberta.

Corporate developments

The corporate developments below should be considered when reviewing the "Consolidated Financial Review" section.

2007 Developments

- January 19, 2007 - Company's investment in Halterm Income Fund Trust Units was disposed of for $14.5 million resulting in a gain on disposal of $10.8 million.
- February 1, 2007 - CRTC approved the Company's application to convert its AM signal to FM in Edson, Alberta. The FM station has been on-air since July featuring classic hits.
- March 19, 2007 - Successfully launched the new Calgary, Alberta FM station, "FUEL-FM", featuring a Classic Alternative format.
- April 4, 2007 - Company's request to convert its Halifax, Nova Scotia AM licence to FM was approved. The CRTC imposed certain conditions associated with this approval. The Company is currently considering its options with respect to the conditions.
- April 12, 2007 - Company disposed of its 29.9% interest in Larche Communications (Kitchener) Inc. which operates an FM radio station in Kitchener-Waterloo, Ontario for proceeds of $4.0 million resulting in a gain on disposal of $3.8 million.
- May 16, 2007 – Company acquired the minority shareholder's 23.7% interest in 3937844 Canada Inc. for cash consideration of $10.7 million. 3937844 Canada Inc. owns and operates 21 of the Company's 33 licences throughout the province of Alberta. The Company now owns 100% of this subsidiary.
- July 4, 2007 – Awarded the right to convert Carbonear, Newfoundland and Labrador AM licence to FM. The FM station was launched in January 2008.
- July 6, 2007 – Awarded two new FM licences in Nova Scotia, one in Sydney and one in Kentville. The work required to launch these stations is in progress with official launch dates expected to be in Spring 2008.
- October 1, 2007 - Company acquired the 37.8% non-controlling interest in Atlantic Stereo Limited which operates the two FM licences in Moncton, New Brunswick for cash consideration of $6.9 million. The Company now owns 100% of this subsidiary.
- December 6, 2007 – CRTC approved a power increase from 1,300 watts to an average effective radiated power of 60,200 watts related to the Company's CHNK–FM licence in Winnipeg, Manitoba. This power increase will allow the radio station to be heard throughout the city and surrounding area which will mean it can compete more effectively.
- December 14, 2007 – CRTC approved the removal of certain format restrictions on the Company's CIQX-FM licence in Calgary, Alberta. Previously, the Company had to adhere to a strict music format which limited the Company's ability to be profitable. On March 3, 2008, the station was re-launched as XL103-FM, "Calgary's Greatest Hits Radio", featuring classic music from the 60's, 70's and 80's.

2006 Developments

- January 18, 2006 – Awarded a new FM radio licence in Lac La Biche, Alberta. The station, "Big Dog" was launched in December 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 – 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 – Awarded a new FM licence in Calgary, Alberta. As previously mentioned, it was launched in March 2007.
- November 15, 2006 – Awarded a new FM radio licence to broadcast in Fort McMurray, Alberta. The station is expected to launch in Spring 2008.

The results of the above acquired or launched stations have been included in the consolidated financial statements since the respective acquisition and launch dates.

Selected financial highlights

Growth in assets and revenue between 2005 and 2007 is largely due to new licences and acquisitions. These are some of the other significant factors that affected results between 2005 and 2007:

- 2005 – the Company paid a $3.5 million settlement to Halterm Limited pursuant to an indemnity claim;
- 2006 – the Company recognized net gains of $8.7 million on marketable securities; and,
- 2007 – the Company recognized an aggregate gain of $14.6 million on the disposal of the Halterm Income Fund Trust Units and the sale of an equity accounted investment in Larche Communications (Kitchener) Inc.

Selected Financial Highlights

(thousands of dollars, except share data)	2007	2006	2005
Revenue	$ 98,818	93,937	80,563
Net income	20,313	11,967	6,032
Earnings per share			
Net income			
– basic	1.83	1.07	0.53
– diluted	1.77	1.04	0.51
Total assets	$ 231,296	217,762	213,507
Long-term debt	61,005	53,771	53,285
Outstanding shares (thousands)			
Class A Subordinate Voting Shares	9,833	9,941	10,040
Class B Common Shares	1,258	1,258	1,258
Dividends declared			
Class A Subordinate Voting Shares	$ 0.30	0.30	0.30
Class B Common Shares	0.30	0.30	0.30

Consolidated financial review

Revenue

Consolidated revenue of $98.8 million improved by 5.2% or $4.9 million over last year; this improvement came almost exclusively from the broadcasting segment.

Other Income

Other income of $0.4 million is lower than the $9.7 million posted in 2006 because last year included net gains of $8.7 million.

Operating Expenses

Consolidated operating expenses of $81.6 million were $1.1 million, or 1.3%, higher than last year. The increase came primarily from higher costs in the broadcasting segment.

Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA")

Consolidated EBITDA was down $5.4 million, or 23.5%, compared to 2006. Consolidated EBITDA margins also decreased by 4.4% to 17.8%. These declines were solely due to lower income from the corporate and other segment.

Additional details on revenue, other income, operating expenses and EBITDA are described in the section entited "Financial Review by Segment".

Depreciation and Amortization

Depreciation and amortization expense was $0.3 million higher compared to 2006; a result of an increased depreciable asset base in the broadcasting segment due to new station launches.

Tracy Crosby
Account Manager,
Charlottetown

Interest Expense

Interest expense was $0.1 million lower than the prior year. The Company's lower average debt levels, particularly during the first half of the year, helped offset slightly higher average interest rates.

Accretion of Other Liabilities

Accretion of other liabilities arises from discounting Canadian Content Development ("CCD") commitments to reflect the fair value of the obligations. The expense in the year of $1.2 million was $0.2 million higher than last year because of additional CCD obligations related to the new Calgary, Alberta licence.

Loss on Equity Accounted Investment

The Company's 29.9% interest in Larche Communications (Kitchener) Inc. was sold on April 12, 2007. The Company's proportionate share of the losses realized up to the sale date was included in net income.

Gain on Disposal of Equity Accounted Investment

The Company disposed of its interest in Larche Communications (Kitchener) Inc. for proceeds of $4.0 million which resulted in a gain of $3.8 million.

Gain on Disposal of Long-Term Investment

On January 19, 2007, the Halterm Income Fund Trust Units were disposed of for proceeds of $14.5 million (2006 - $0.4 million) which resulted in a gain of $10.8 million (2006 - $0.2 million).

Income Taxes

The effective income tax rate of 13.0% this year is lower than the statutory rate of 38.1% because of two factors: the net capital gains were taxed at one-half the normal tax rate and 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 $2.4 million (2006 - $1.3 million).

Non-Controlling Interest in Subsidiaries' Earnings

Non-controlling interest in subsidiaries' earnings represented the 23.7% that Standard Radio Inc. held in 3937844 Canada Inc. which operates twenty-one of the Company's thirty-three licences in Alberta, and the 37.8% that minority shareholders had in Atlantic Stereo Limited which operates the Moncton, New Brunswick licences. The Company acquired the 23.7% minority shareholders' interest on May 16, 2007 for cash consideration of $10.7 million and on October 1, 2007, the 37.8% minority interest was purchased for $6.9 million. Non-controlling interest accounting was no longer required as of the acquisition dates which explains why the expense is lower than last year and why there is no non-controlling interest amount on the balance sheet at year end.

Net Income

Net income of $20.3 million was $8.3 million, or 69.7% higher than last year. The increase is due to this year's gains on the disposals of long-term investment and equity accounted investment.

Financial review by segment

Consolidated financial figures include the results of operation of the Company's two separately reported segments – Broadcasting and Corporate and other. The Company provides information about segment revenue, segment EBITDA and operating income because these financial measures are used by its key decision makers in making operating decisions and evaluating performance. For additional information about the Company's segmented information, see Note 15 of the Company's fiscal 2007 audited consolidated financial statements.

Financial Results by Segment

(thousands of dollars, except percentages)	2007	2006	Growth
Revenue			
Broadcasting	$ 95,392	90,643	5.2%
Corporate and other	3,426	3,294	4.0%
Consolidated revenue	98,818	93,937	5.2%
Other income			
Corporate and other	446	9,667	(95.4%)
Consolidated revenue and other income	99,264	103,604	(4.2%)
Operating expenses			
Broadcasting	68,600	67,271	2.0%
Corporate and other	13,036	13,288	(1.9%)
Consolidated operating expenses	81,636	80,559	1.3%
EBITDA			
Broadcasting	26,792	23,372	14.6%
Corporate and other	(9,164)	(327)	-
Consolidated EBITDA	$ 17,628	23,045	(23.5%)

EBITDA Margins

	2007	2006	Growth
Broadcasting EBITDA margin	28.1%	25.8%	2.3%
Consolidated EBITDA margin	17.8%	22.2%	(4.4%)

Broadcasting Segment

The Broadcasting segment derives its revenue from the sale of broadcast advertising from its 76 licences across the country. It is a strategic business unit that offers different services. The performance of all reporting units within this segment is evaluated based on the same financial measure – EBITDA.

Broadcasting revenue increased by $4.7 million, or 5.2%, to reach $95.4 million. Almost one half of this increase came from organic (same-station) growth. Areas posting important increases in organic revenue were Newfoundland and Labrador, Ottawa, Ontario, and properties across Alberta, including Edmonton despite facing intense competition. Incremental growth was primarily driven by revenue from our new Calgary, Alberta FM licence, launched in March, and from the Charlottetown, Prince Edward Island properties launched in July 2006.

Radio revenue throughout major markets in Canada is measured by The Trans-Canada Radio Advertising by Market ("TRAM"). When comparing our growth rates to those reported by TRAM for the twelve months ended December 31, 2007, 5.2% compares favourably to the industry's 3% growth rate.

Broadcasting operating expenses were $68.6 million, up $1.3 million, or 2.0% over last year. While expenses were up, they did not increase in parallel with the higher revenue base. The primary reasons for this are described herein. In 2007, management decided to discontinue accruing CRTC Part II fees which resulted in a variable cost savings of $0.6 million compared to last year. Further details about these fees are included in the "Risks and Opportunities" section of the Management's Discussion and Analysis. Part of management's 2007 plan was to control fixed costs within the broadcasting segment. The Company was successful in reducing these costs as a percentage of revenue which also helped reduce total broadcasting operating expenses.

Broadcasting EBITDA of $26.8 million was up 14.6%. This increase was a result of organic EBITDA growth of 15.8%. Leading the way in organic improvements were our properties located across Alberta, posting a 27% increase over 2006, in Ottawa where we delivered a 39% EBITDA improvement and Newfoundland and Labrador where we generated a 13% increase over last year.

As previously stated, newly launched stations generally do not contribute positively to EBITDA until two to four years after being on-air. Despite the net effect incremental results had on EBITDA, the Company successfully improved its EBITDA margins by 2.3% to finish the year with a margin of 28.1%.

Management's primary operating goal in 2007 was to improve organic operations. Based on the EBITDA results posted by our same-station operations, this goal was achieved.

Corporate and Other Segment

The Corporate and Other segment derives its revenue from hotel operations. Corporate and Other also includes other income and expenses attributed to head office functions and investment income from the Company's portfolio of marketable securities; the results of which are heavily dependent on market conditions.

Corporate and other revenue increased by $0.1 million, or 4.0%, due to increased hotel revenue.

Other income is solely derived from this operating segment. It consists of realized and unrealized gains and losses related to marketable securities, interest, dividends and distributions from investments. This year's other income of $0.4 million is significantly lower than last year's $9.7 million because 2006 included net gains of $8.7 million on the disposal of marketable securities.

Corporate and other operating expenses of $13.0 million were down from $13.3 million in 2006. The primary reason for the decrease was lower costs associated with the executive stock option plan.

Corporate and other EBITDA was down $8.8 million because last year's EBITDA included net investment gains of $8.7 million. Due to the long-term nature of the investment in Halterm Income Fund Trust Units, the $10.8 million gain realized on disposal was disclosed separately from other income and therefore was not included in the determination of 2007 EBITDA.

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. In 2007, the first quarter's net income was impacted by the $10.8 million gain on disposal of Halterm Income Fund Trust Units and the second quarter's net income was affected by the $3.8 million gain on disposal of the equity accounted investment in Larche Communications (Kitchener) Inc. During 2006, the second quarter's EBITDA was positively impacted by an $8.7 million gain on marketable securities while the third quarter was negatively affected by a $1.6 million decline in the value of marketable securities.

(thousands of dollars, except share data)	Quarter				
	1st	2nd	3rd	4th	Year
2007					
Revenue	**$ 19,518**	**26,159**	**25,405**	**27,736**	**98,818**
Net income	**7,408**	**5,807**	**1,332**	**5,766**	**20,313**
Earnings per share					
– basic	**0.67**	**0.53**	**0.12**	**0.52**	**1.83**
– diluted	**0.64**	**0.51**	**0.12**	**0.50**	**1.77**
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

Liquidity and capital resources

The following table depicts the major sources of cash inflows and outflows in 2006 and 2007.

Cash Inflows

(thousands of dollars)	2007	2006
Funds generated from operations	**$ 10,643**	18,309
Change in working capital	**(6,489)**	(3,057)
Cash generated from operating activities	**4,154**	15,252
Long-term debt borrowings	**21,000**	5,030
Proceeds from disposal of Halterm Income Fund Trust Units and equity accounted investment	**18,547**	399
Employee share purchase loan repayment	**2,826**	-
Note receivable	**1,000**	1,000
Other	**2,371**	536
Total Inflows	**$ 49,898**	22,217

Cash Outflows

(thousands of dollars)	2007	2006
Acquisition of businesses, licences and non-controlling interests	**$ (17,645)**	(2,296)
Long-term debt repayments	**(13,766)**	(4,544)
Property and equipment additions	**(5,981)**	(4,434)
Repurchase of capital stock	**(3,737)**	(2,034)
Canadian Content Development commitment payments	**(3,491)**	(3,117)
Dividends paid	**(3,343)**	(3,373)
Other	**(1,935)**	(2,419)
Total Outflows	**$ (49,898)**	(22,217)

Cash Flows - 2007

Cash flows from operating activities of $4.2 million along with long-term debt borrowings of $21.0 million were used to finance the acquisitions of non-controlling interests of $17.6 million, to repurchase capital stock of $3.7 million, to pay $3.3 million of dividends and to make CCD payments aggregating $3.5 million. The proceeds from the disposal of Halterm Income Fund Trust Units and from the sale of an equity accounted investment of $18.5 million were used to repay $13.8 million of long-term debt and to finance capital asset additions in the amount of $6.0 million.

Cash Flows - 2006

Cash flows from operating activities of $15.3 million were used to pay dividends aggregating $3.4 million, to pay CCD 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.

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

- Capital costs associated with the launch of the new FM licences in Calgary and Lac La Biche, Alberta;
- Capital costs associated with the conversions to FM from AM in Edson, Alberta and Carbonear, Newfoundland and Labrador;
- Capital costs associated with the relocation to new premises in Ottawa, Ontario; and,
- General improvements and upgrades throughout the Company.

Capital Structure and Debt Financing

As at December 31, 2007 the Company had $1.1 million of current bank indebtedness outstanding and $61.0 million of long-term debt, of which less than $0.1 million is current. The Company has also issued standby letters of credit totaling $1.3 million in support of certain long-term liabilities. The working capital of $13.6 million at year-end was $2.5 million higher than last year's balance primarily due to higher current assets.

Credit Facility

At year end, the Company's syndicated credit facility was an $80.0 million revolving credit facility. Subsequent to December 31, 2007, the Company renewed its credit facility which will mature in June 2010. As a result, no portion of the revolving facility has been classified as current. The Company intends to renew this revolving credit facility prior to June 2010 and as a result, there will be no fixed repayment schedule.

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.

Dividends Declared

For the third consecutive year, 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 14, 2007 to all shareholders of record as at August 31, 2007 and a $0.15 per share dividend was paid January 31, 2008 to shareholders of record at the close of business on December 31, 2007.

Capital Budget

The capital budget for 2008 is approximately $9.0 million; $2.8 million to maintain operations and $6.2 million for expansionary projects. The major planned expenditures include:

- $4.2 million to start-up recently awarded new FM licences and for AM to FM conversions; and
- $2.0 million towards upgrading and maintaining current radio properties throughout the country.

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

The Company expects its level of cash flow along with the availability of its credit facility to be sufficient to fund its working capital, capital expenditures, contractual obligations and other cash requirements going forward.

Contractual obligations

The following table summarizes the Company's significant contractual obligations and commitments as at December 31, 2007 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 audited consolidated financial statements, as referenced in the table.

Contractual Obligations

(thousands of dollars)		2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt (NOTE 6)	$	23	5	61,000	-	-	-	**61,028**
Canadian Content Development commitments (NOTE 7)		2,907	3,036	1,868	1,903	2,082	1,609	**13,405**
Operating leases (NOTE 16(A))		2,912	2,427	2,171	1,810	1,647	10,100	**21,067**
Total contractual obligations	$	5,842	5,468	65,039	3,713	3,729	11,709	**95,500**

(from left)

Jared Waldo
Sports Director,
CKGY-FM/CIZZ-FM

Al Tompson
Morning Show Host and
Music Director,
CIZZ-FM

Lindsay Young
Morning Show Host,
CIZZ-FM

The Company recognizes long-term debt and CCD commitments as liabilities on the balance sheet while operating lease commitments are disclosed in the notes.

As described in the "Liquidity and Capital Resources" section, the Company intends to renew the credit facility prior to its maturity date which would result in no scheduled repayment in 2010.

The Company also has obligations with respect to its employee benefit plans, as discussed in Note 8 of the audited 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 $231.3 million are $13.5 million higher than last year. This is largely due to the addition of broadcast licences related to the launch of the new Calgary, Alberta FM licence and the additions to broadcast licences and goodwill as a result of the purchases of the remaining minority interests in 3937844 Canada Inc. and in Atlantic Stereo Limited. Detailed information on broadcast licence and goodwill activity during 2007 is contained in Note 3 of the audited consolidated financial statements.

Annual Impairment Analysis of Intangible Assets

The Company performed its annual impairment analysis of its long-lived intangible assets, which consist of broadcast licences and goodwill. The impairment analysis was performed as at August 31, 2007. The Company concluded that no provision for impairment of broadcast licences or goodwill was required. The Company's conclusion remains unchanged as at December 31, 2007. Additional details on the Company's accounting policy related to this matter can be found in Note 1(g) of the audited consolidated financial statements.

Capital Structure

The capital structure consisted of 45.4% equity ($105.0 million) and 54.6% debt ($126.3 million) at year end. Total bank debt as a percentage of equity at 59.2% is on par with last year's 60.0%. The total bank debt to EBITDA ratio, calculated in accordance with the Company's credit facility, was 3.2 to 1.0.

Share Repurchases

During the year, the Company repurchased a total of 198,800 (2006 – 119,400) of its outstanding Class A shares for a total cost of $3.7 million (2006 – $2.0 million) pursuant to Normal Course Issuer Bids. As a result of these share repurchases, capital stock was reduced by $0.8 million (2006 – $0.5 million) and retained earnings by $2.9 million (2006 – $1.5 million). Subsequent to year end the Company received approval under a Normal Course Issuer Bid to repurchase up to 491,630 Class A shares and 62,906 Class B Common Shares. This bid expires February 7, 2009.

Outstanding Share Data

The weighted average number of shares outstanding at December 31, 2007 was 11,094,000 (2006 – 11,210,000). The reduction is mainly due to shares repurchased. As of this date, there are 9,832,619 Class A Subordinate Voting Shares and 1,258,121 Class B Common Shares outstanding.

Executive stock-based compensation

Executive Stock Option Plan

In May 2007, the Company received shareholder and Toronto Stock Exchange ("TSX") approval to increase the number of reserved Class A shares pursuant to the executive stock option plan described in Note 9(b) of the audited consolidated financial statements. The number of Class A shares issuable pursuant to the executive stock option plan is 3,500,000 of which 2,358,021 Class A shares have been issued, leaving 1,141,979 reserved for issuance. The number of Class A shares underlying outstanding options under the executive stock option plan is 755,000, of which 702,500 are vested, at prices ranging from $7.30 to $19.43. 386,979 options remain available to grant.

During the year, the Company granted 100,000 options (2006 – 115,000) at a weighted average exercise price of $19.43 (2006 – $16.53); 30,000 of the granted options vested on the date of grant and the balance vests equally over three years. The options granted expire December 6, 2012. Year-to-date, the Company issued 91,021 Class A shares as follows: 23,750 (2006 – 20,050) Class A shares were issued for proceeds of $0.2 million (2006 – $0.2 million) and 67,271 Class A shares were issued as a result of a cashless exercise of 195,000 options, described below.

Contributed surplus was increased by $0.4 million (2006 - $1.3 million) related to compensation expense. The compensation expense in 2006 included a non-cash charge of $0.8 million relating to the extension of the expiry date of certain options.

Cashless Exercise of Executive Stock Options

In May 2007, the Company received shareholder and TSX approval to amend certain aspects of the Executive Stock Option Plan, including the option to exercise options on a cashless basis. On May 31, 2007, 195,000 options were exercised on a cashless basis to acquire Class A shares of the Company at a weighted average exercise price of $12.75. The Company issued 67,271 Class A shares with an aggregate value equal to the difference between the exercise price of the options and the fair market value of the Company's Class A shares. The fair market value of the Class A shares was based on the volume weighted average trading price of one Class A share on the TSX over the period of five consecutive trading days ended on and including the day prior to May 31, 2007. Capital stock was increased and contributed surplus decreased by $0.7 million due to the cashless exercise of these stock options.

Stock Appreciation Rights Plan

In January 2006, the Company granted 425,000 stock appreciation rights at a reference price of $16.53. 30,000 of these rights have expired. On March 2, 2007, 5,000 stock appreciation rights were granted at a reference price of $18.41 and on August 9, 2007, 85,000 stock appreciation rights were granted at a reference price of $19.91. 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 60th day following the 5th anniversary of the grant date. For the year ended December 31, 2007, the compensation expense related to the rights was $0.7 million (2006 – $0.1 million) and the total obligation included in other liabilities was $0.8 million (2006 - $0.1 million).

Derivative financial instruments and financial risk management

Interest Rate Risk Management

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 (2006 - $25.0 million). Subsequent to year end, the Company entered into an interest rate swap agreement having a notional amount of $20.0 million, expiring February 27, 2011. 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 Company formally assesses effectiveness of the swaps at inception and on a regular basis and has concluded that the swaps are effective in offsetting changes in interest rates. The estimated fair value of the interest rate swaps at December 31, 2007 was a loss payable of $0.1 million. The net change in the fair value of the swaps recognized as a gain in other comprehensive income ("OCI") in the year aggregated $0.1 million, after-tax. For the same period last year, the fair value of the swap agreements was a loss payable of $0.2 million; however, this was not recorded since there was no requirement to adjust derivatives designated as hedges on the balance sheet at their fair value when they qualified for hedge accounting prior to January 1, 2007. The accumulated loss at January 1, 2007 of $0.2 million was recorded, net of income tax recoveries of $0.1 million, as a transition adjustment to opening accumulated other comprehensive income ("AOCI").

Share Price Volatility Management

In July 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. Gains or losses realized on the quarterly settlement dates are recognized in income in the same period as the SAR Plan compensation expense. Unrealized gains and losses, to the extent that the hedge is effective, are deferred and included in OCI until such time as the hedged item affects net income. If at any time, the hedge is deemed to be ineffective or the hedge is terminated or de-designated, gains or losses, including those previously recognized in OCI, will be recorded in net income immediately.

The Company has concluded that this cash flow hedge is effective. As at December 31, 2007, the estimated fair value of the gain receivable was $1.0 million. The net change in the fair value of the swap in the year, recognized in OCI, was a gain of $1.1 million. Of this amount, before-tax realized gains of $0.6 million were transferred from OCI to net income bringing the year-to-date OCI before-tax gain to $0.5 million. OCI income tax recognized for the year was $0.2 million. The accumulated after-tax loss at January 1, 2007 related to this cash flow hedge was less than $0.1 million and was recorded as a transition adjustment to opening AOCI.

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, 2007 and 2006, there was minimal credit exposure to the Company related to its financial instruments.

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.

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 2007, except for the adoption of new accounting policies as described in detail in Note 2(a) of the audited consolidated financial statements. Effective January 1, 2007, the Company adopted the following new accounting policies as issued by the Canadian Institute of Chartered Accountants ("CICA"): Accounting Changes (Section 1506), Comprehensive Income (Section 1530), Financial Instruments – Recognition and Measurement (Section 3855), Financial Instruments – Disclosure and Presentation (Section 3861), Hedges (Section 3865), and Equity (Section 3251). The changes in the accounting policies were applied retroactively without restatement in accordance with GAAP.

Accounting Changes

Section 1506 prescribes the criteria for, the accounting treatment of, and the disclosure requirements for changes in accounting policies. It also covers changes in accounting estimates and correction of errors.

Comprehensive Income

Section 1530 introduces the concept of comprehensive income which consists of net income and other comprehensive income and represents the change in equity during a period from transactions and other events from non-owner sources. Items to be recognized in OCI include unrealized changes in the fair value of the effective portion of cash flow hedging instruments, gains or losses on financial assets classified as available-for-sale and the associated income tax effect of OCI components. Amounts recognized in OCI eventually must be reclassified to the income statement. As a result of adopting this Section, the Company's consolidated financial statements now include a consolidated statement of comprehensive income and a consolidated statement of accumulated other comprehensive income. AOCI is a separate line item reported in the statement of shareholders' equity.

Financial Instruments - Recognition and Measurement

Section 3855 prescribes that all financial instruments are to be recorded on the consolidated balance sheets at their fair value upon adoption of this policy and on initial recognition of financial instruments. Thereafter, measurement at fair value is required except for financial instruments classified as held-to-maturity investments, loans and receivables or other financial liabilities, which are to be measured at amortized cost using the effective interest method ("EIM"). The Company has classified its financial assets and liabilities according to the provisions covered under Section 3855; details are included in Note 2 of the audited consolidated financial statements.

Because marketable securities and cash are able to be settled in the near term, they meet the criteria required to classify them as held for trading. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recorded immediately in net income. The fair value of marketable securities is based on the quoted share prices in active markets. For the year ended December 31, 2007, the change in fair value of marketable securities, recognized in other income, was a gain of $0.4 million. There was no transitional adjustment required for marketable securities upon adoption of this accounting policy because the securities' carrying value was equal to the fair value on that date as a result of measuring these investments at the lower of cost or market as at December 31, 2006.

Assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in OCI. Fair value of the Company's available-for-sale asset on January 1, 2007 was based on the quoted unit price in active markets.

The financial instruments classified as loans and receivables and other liabilities are measured using amortized cost using EIM. Under the EIM, interest income and expense are calculated and recorded using the effective interest rate which is the rate that exactly discounts estimated future cash receipts or payments throughout the expected life of the financial instrument. Interest income and expense related to financial assets and financial liabilities are being recorded using the EIM.

Current assets' and current liabilities' carrying values are representative of their fair values due to the relatively short period to maturity. The fair value of long-term debt approximates the carrying value because the floating interest rate is reflective of the market interest rate available to the Company. The carrying values of the Company's other financial assets and liabilities approximate their fair values as at December 31, 2007.

Transaction costs directly attributable to financial instruments classified as other than held for trading are included in the initial carrying value of such instruments and are amortized using the EIM.

In accordance with Section 3855, the Company conducted a search for embedded derivatives in its contractual arrangements dated or modified subsequent to January 1, 2003. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. When certain conditions are met, an embedded derivative is separated from the host contract and accounted for separately as a derivative on the balance sheet at fair value. The Company's policy is to recognize embedded derivatives on the consolidated balance sheet, when applicable. Because there are no embedded derivatives at this time, this rule has no impact on the consolidated financial statements of the Company.

Financial Instruments – Disclosure and Presentation

Section 3861 replaced CICA Section 3860, which had the same title. The Section establishes standards for the presentation of financial instruments and non-financial derivatives and identifies all related information that should be disclosed.

Hedges

Section 3865 applies to designated hedging relationships and provides guidance by specifying how hedge accounting is applied and what disclosures are required. In particular, derivatives designated as hedges must be recorded on the balance sheet at fair value on adoption date; 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 net income immediately. Gains and losses arising from the hedged risk in a cash flow hedge, to the extent that the hedging relationship is effective, are deferred and included in OCI until such time as the hedged item affects net income.

Equity

Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The primary change is the inclusion of OCI elements in equity.

New accounting policies to be adopted in 2008 and future

Financial Instruments – Disclosures and Financial Instruments – Presentation

Sections 3862 and 3863, respectively, replace Section 3861 and increase the emphasis on disclosing risks associated with both recognized and unrecognized financial instruments and how the risks are managed.

Capital Disclosures (Section 1535)

This Section requires disclosure on information about the entity's objectives, policies and processes for managing capital as well as quantitative data about capital and whether the entity has complied with any externally imposed capital requirements.

Other than the additional disclosure and presentation requirements, the Company anticipates no significant financial impact as a result of adopting these new policies on January 1, 2008.

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. 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.

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.

Canadian Content Development Commitments

The Company measures its CCD commitments using the amortized cost using EIM. As a result, the Company must use industry information to estimate appropriate discount rates used in the calculation of the discounted estimated future cash payments.

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 9(b) of the audited 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.

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 audited consolidated financial statements.

Subsequent event

In March, 2008, the Company entered into an agreement with CTV Limited to acquire 50% of Metro Radio Group Inc. for $8.5 million, subject to CRTC approval. Metro Radio Group Inc. operates CKUL-FM in Halifax, Nova Scotia.

Rob Johnson
Program Director,
K-Rock 105.5

Disclosure controls over financial reporting

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, 2007, 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, 2007 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 controls 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 controls over financial reporting and have designed such internal controls 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, 2007, the CEO and the CFO, based on their evaluation, concluded that the design of internal controls 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 2007, 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 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 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.

Regulatory Environment – Radio Tariffs

The Company is subject to certain fees. Licence fees are payable to the CRTC, while copyright fees are payable to collection societies which include 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 collection societies can apply at any time to the Copyright Board for amendments to the fees which could affect future results. The Canadian Association of Broadcasters ("CAB") represents the interests of broadcasters by representing the industry at any hearings before the Copyright Board. The CAB launched an appeal stating that certain SOCAN fees were not justified. On October 19, 2006, the Federal Court of Appeal ordered that the matter be referred back to the Copyright Board for reconsideration. On February 22, 2008, the Copyright Board decided to maintain the rate increase it imposed in October 2005. Because the Company has been accruing fees based on the October 2005 rates, there will be no impact on net income.

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.

In 2007, the Company deemed that because there has been no appeal of the December 2006 ruling that it was no longer appropriate to accrue for these fees in its 2007 results. The financial results of this determination were described earlier when discussing broadcasting operating expenses in the "Financial Review by Segment" section. It is important to note that the decision could be appealed and the outcome of that potential appeal could affect future results.

Technological Developments

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

Potential Contingencies

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.

Looking ahead

The Company's main focus in 2007 was to maximize returns from its organic operations. It also concentrated on launching the FM licences awarded by the CRTC including Calgary, Edson and Lac La Biche, Alberta. In 2008, the Company remains focused on organic growth and also on the following:

- Launch the FM stations in Fort McMurray, Alberta and Sydney and Kentville, Nova Scotia;
- Increase the power coverage of CHNK-FM in Winnipeg, Manitoba now that approval has been received from the CRTC;
- 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.

The Company is awaiting the CRTC decision on its application for an FM licence in Peterborough, Ontario and appeared before the CRTC to present its application for an FM licence in Vancouver and Chilliwack, British Columbia in the first quarter of 2008.

The Company will investigate new business and licence acquisition opportunities as they present themselves and make a determination at that time about whether they would be accretive to shareholder value. In our continuous process to provide increasing shareholder value, 2008 and beyond is geared toward building value organically and through new licence opportunities.

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 equity accounted investment, gain on disposal of long-term investment, provision for income taxes and non-controlling interest in subsidiaries' earnings. A calculation of this measure is as follows:

	Year ended December	
(thousands of dollars)	**2007**	2006
Net income	**$ 20,313**	11,967
Non-controlling interest in subsidiaries' earnings	**417**	833
Provision for income taxes	**3,089**	2,326
Gain on disposal of long-term investment	**(10,843)**	(168)
Gain on disposal of equity accounted investment	**(3,826)**	-
Loss on equity accounted investment	**14**	11
Accretion of other liabilities	**1,187**	1,022
Interest expense	**3,203**	3,309
Depreciation and amortization expense	**4,074**	3,745
EBITDA	**$ 17,628**	23,045

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. Financial statements are not precise since they include certain amounts based on estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the Annual Report and has ensured that it is consistent with that shown in the accompanying consolidated financial statements.

The Company has designed and maintains high quality systems of internal controls over financial reporting and administrative controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. As at December 31, 2007, the President and Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the design and effectiveness of the Company's disclosure controls and procedures, have concluded that the Company's disclosure controls and procedures are adequate and effective to provide reasonable assurance that material information relating to the Company and its subsidiaries would have been known to them and disclosed. As at December 31, 2007, the President and Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the design of the Company's internal controls over financial reporting, have concluded that the Company has designed its internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

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 consists of three independent directors who are appointed by the Board and are also unrelated to the Company. 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.

February 22, 2008

(signed:)

Robert G. Steele
President and
Chief Executive Officer

(signed:)

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

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, 2007 and 2006 and the consolidated statements of income, shareholders' equity, comprehensive income, accumulated other comprehensive income, 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, 2007 and 2006 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 22, 2008

Consolidated balance sheets

As at December 31

(thousands of dollars)	2007	2006
ASSETS		
Current assets		
Marketable securities (NOTE 2)	$ 16,167	12,404
Receivables	21,351	20,783
Note receivable	–	927
Prepaid expenses	966	610
Other assets (NOTES 2 AND 5)	614	3,704
Future income tax assets (NOTE 12)	2,703	1,925
Total current assets	41,801	40,353
Property and equipment (NOTE 4)	35,234	32,392
Other assets (NOTE 5)	4,642	8,069
Broadcast licences (NOTE 3)	143,245	131,267
Goodwill (NOTE 3)	4,859	4,337
Future income tax assets (NOTE 12)	1,515	1,344
	$ 231,296	217,762
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (NOTE 6)	$ 1,117	802
Accounts payable and accrued liabilities	18,053	19,459
Dividends payable	1,664	1,680
Income taxes payable	7,313	7,236
Current portion of long-term debt (NOTE 6)	23	23
Total current liabilities	28,170	29,200
Long-term debt (NOTE 6)	61,005	53,771
Other liabilities (NOTE 7)	19,665	17,083
Future income tax liabilities (NOTE 12)	17,504	15,106
Non-controlling interest in subsidiaries (NOTE 3)	–	11,680
Shareholders' equity	104,952	90,922
	$ 231,296	217,762

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

On behalf of the Board

(signed:)

H.R. Steele
Director

(signed:)

D.I. Matheson
Director

Consolidated statements of income

For the years ended December 31

(thousands of dollars except per share data)	2007	2006
Revenue	$ 98,818	93,937
Other income	446	9,667
	99,264	103,604
Operating expenses	81,636	80,559
Depreciation	3,463	3,300
Amortization of deferred charges	611	445
Operating income	13,554	19,300
Interest expense (NOTE 6)	3,203	3,309
Accretion of other liabilities (NOTE 7)	1,187	1,022
Loss on equity accounted investment	14	11
Gain on disposal of equity accounted investment (NOTE 3)	(3,826)	–
Gain on disposal of long-term investment (NOTE 2)	(10,843)	(168)
	23,819	15,126
Provision for income taxes (NOTE 12)	3,089	2,326
	20,730	12,800
Non-controlling interest in subsidiaries' earnings	417	833
Net income	$ 20,313	11,967
Earnings per share (NOTE 13) – basic	$ 1.83	1.07
– diluted	1.77	1.04

See accompanying notes to the consolidated financial statements

Consolidated statements of shareholders' equity

For the years ended December 31

(thousands of dollars)	2007	2006
Retained earnings, beginning of year	$ 45,525	38,441
Net income	20,313	11,967
Dividends declared	(3,327)	(3,358)
Repurchase of capital stock (NOTE 10)	(2,890)	(1,525)
Retained earnings, end of year	59,621	45,525
Capital stock (NOTE 10)	43,345	43,304
Contributed surplus (NOTE 10)	1,778	2,093
Accumulated other comprehensive income (NOTE 2)	208	–
Total shareholders' equity	$ 104,952	90,922

See accompanying notes to the consolidated financial statements

Consolidated statements of comprehensive income

For the years ended December 31

(thousands of dollars)	2007	2006
Net income	**$ 20,313**	11,967
Other comprehensive income (loss)		
Net change in fair values of cash flow hedges (NOTE 11)		
Net change in fair value of interest rate swaps, net of income tax expense of $37	**27**	–
Net change in fair value of equity total return swap, net of income tax expense of $163	**304**	–
	331	–
Net change in fair value of asset available-for-sale (NOTE 2)		
Realized gain on disposal of Halterm Income Fund Trust Units transferred to net income, net of income tax expense of $1,952	**(8,891)**	–
Other comprehensive income (loss)	**(8,560)**	–
Comprehensive income	**$ 11,753**	11,967

See accompanying notes to the consolidated financial statements

Consolidated statements of accumulated other comprehensive income

For the years ended December 31

(thousands of dollars)	2007	2006
Accumulated other comprehensive income, beginning of year	**$ –**	–
Transition adjustment for cash flow hedges, net of income tax recovery of $77 (NOTES 2 AND 11)	**(123)**	–
Transition adjustment for unrealized gains associated with available-for-sale investment, net of income taxes of $1,952 (NOTE 2)	**8,891**	–
Accumulated other comprehensive income, beginning of year	**8,768**	–
Other comprehensive income (loss) for the year	**(8,560)**	–
Accumulated other comprehensive income, end of year	**$ 208**	–

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows

For the years ended December 31

(thousands of dollars)	2007	2006
OPERATING ACTIVITIES		
Net income	$ 20,313	11,967
Items not involving cash		
Depreciation and amortization	4,074	3,745
Future income tax recovery (NOTE 12)	(800)	(165)
Gain on disposal of long-term investment (NOTE 2)	(10,843)	(168)
Gain on disposal of equity accounted investment (NOTE 3)	(3,826)	–
Executive stock-based compensation plans (NOTE 9)	1,042	1,362
Accretion of other liabilities (NOTE 7)	1,187	1,022
Non-controlling interest in subsidiaries' earnings	417	833
Other	(921)	(287)
	10,643	18,309
Change in non-cash working capital relating to operating activities (NOTE 14)	(6,489)	(3,057)
	4,154	15,252
FINANCING ACTIVITIES		
Change in bank indebtedness	315	(1,141)
Long-term debt borrowings	21,000	5,030
Long-term debt repayments	(13,766)	(4,544)
Issuance of capital stock (NOTE 10)	185	163
Repurchase of capital stock (NOTE 10)	(3,737)	(2,034)
Dividends paid	(3,343)	(3,373)
Other	(605)	(302)
	49	(6,201)
INVESTING ACTIVITIES		
Note receivable	1,000	1,000
Property and equipment additions	(5,981)	(4,434)
Acquisition of businesses, licences and non-controlling interests (NOTE 3)	(17,645)	(2,296)
Canadian Content Development commitment payments	(3,491)	(3,117)
Proceeds from disposal of Halterm Income Fund Trust Units and equity accounted investment (NOTES 2 AND 3)	18,547	399
Deferred charges	(1,330)	(976)
Employee share purchase loan repayment (NOTE 5)	2,826	–
Other	1,871	373
	(4,203)	(9,051)
Cash, beginning and end of year	$ –	–

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements

December 31, 2007 and 2006

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 ("TSX"). Its primary activity is radio broadcasting.

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

(a) Basis of presentation and principles of consolidation

The preparation of financial statements in conformity with GAAP 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.

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. Intercompany transactions and balances are eliminated on consolidation.

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

(b) Investments

As a result of adopting the Canadian Institute of Chartered Accountants' ("CICA") Section 3855 Financial Instruments – Recognition and Measurement on January 1, 2007, marketable securities were classified as assets held for trading and are measured at their fair value at the balance sheet date. Marketable securities consist of shares of publicly traded companies and fair value is based on the quoted share prices in active markets at the balance sheet date. Gains and losses on these securities are recorded in net income as other income. Investments in companies over which the Company exercises significant influence are accounted for by the equity method. Other long-term investments were accounted for at cost. Further information on all investments and the impact of adopting Section 3855 is contained in Note 2 of the consolidated financial statements.

(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 Content Development ("CCD") 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 CCD during the initial term of the licence over and above the prescribed annual requirements. These obligations are considered to be part of the costs related to the award of new broadcast licences and are recognized as a liability upon the launch of the new broadcast licence.

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. The Company conducts its annual impairment test as at August 31. For the years ended December 31, 2007 and 2006, 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 (2006 – 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 liability 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. Stock options can be exercised on a cashless basis whereby the Company issues Class A shares with an aggregate value equal to the difference between the exercise price of the options and the fair market value of the Company's Class A shares. The fair market value of the Class A shares is based on the volume weighted average trading price of one Class A share on the TSX over the period of five consecutive trading days ended on and including the day prior to the date of the exercise. 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 liability 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 TSX exceeds the reference price as specified under the SAR Plan. More information is contained in Note 9(c) of the consolidated financial statements.

(j) Revenue recognition

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

The Company, from time to time, exchanges airtime for products and services. Effective January 1, 2006, the Company prospectively adopted the 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 $2,032,000 (2006 – $2,142,000) and operating expenses of $1,958,000 (2006 – $2,093,000) pursuant to non-monetary transactions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenue recognition (continued)

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

(k) Income taxes

The Company uses the liability method of accounting for income taxes. Future income tax assets and liabilities are the cumulative amount of tax applicable to temporary differences between the carrying amount of assets and liabilities and their values for tax purposes. Future income tax assets and liabilities are measured using the substantively enacted tax rates which are expected to be in effect when the differences are expected to be recovered, settled or reversed.

Changes in future income taxes related to a change in substantively enacted tax rates are recognized in income in the period of the change. The Company recognizes the benefits of capital and non-capital loss carryforwards as future tax assets when it is more likely than not that the benefits will be realized.

(l) Earnings per share

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

2. ADOPTION OF NEW ACCOUNTING POLICIES

(a) Impact of adopting new accounting policies

Effective January 1, 2007, the Company has adopted the following new accounting policies as issued by the CICA: Section 1506 Accounting Changes, Section 1530 Comprehensive Income, Section 3855 Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation, Section 3865 Hedges and Section 3251 Equity. The changes in the accounting policies were applied retroactively without restatement in accordance with GAAP.

Accounting Changes (Section 1506)

Section 1506 prescribes the criteria for, the accounting treatment of, and the disclosure requirements for changes in accounting policies. It also covers changes in accounting estimates and correction of errors.

Comprehensive Income (Section 1530)

This Section introduces the concept of comprehensive income which consists of net income and other comprehensive income ("OCI") and represents the change in equity during a period from transactions and other events from non-owner sources. Items to be recognized in OCI include unrealized changes in the fair value of the effective portion of cash flow hedging instruments, gains or losses on financial assets classified as available-for-sale and the associated income tax effect of OCI components. Amounts recognized in OCI eventually must be reclassified to the income statement. As a result of adopting this Section, the Company's consolidated financial statements now include a consolidated statement of comprehensive income and a consolidated statement of accumulated other comprehensive income ("AOCI"). AOCI is a separate line item reported in the statement of shareholders' equity.

Financial Instruments – Recognition and Measurement (Section 3855)

Section 3855 prescribes that all financial instruments are to be recorded on the consolidated balance sheets at their fair value upon adoption of this policy and on initial recognition of financial instruments. Thereafter, measurement at fair value is required except for financial instruments classified as held-to-maturity investments, loans and receivables or other financial liabilities, which are to be measured at amortized cost using the effective interest method ("EIM"). The Company has classified its financial instruments as shown in the following table. Subsequent to fair value recognition on January 1, 2007, the adoption date, the financial instruments will be measured as follows based on their classification.

Asset/Liability	Classification	Measurement
Cash and bank indebtedness	Held for trading	Fair value
Marketable securities	Held for trading	Fair value
Investment in Halterm Income Fund Trust Units	Available-for-sale	Fair value
Receivables	Loans and receivables	Amortized cost using EIM
Note receivable	Loans and receivables	Amortized cost using EIM
Accounts payable and accrued liabilities	Other liabilities	Amortized cost using EIM
Long-term debt	Other liabilities	Amortized cost using EIM
Canadian Content Development commitments, included in other liabilities	Other liabilities	Amortized cost using EIM

2. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

(a) Impact of adopting new accounting policies (continued)

Financial Instruments – Recognition and Measurement (Section 3855) (continued)

Because marketable securities and cash are able to be settled in the near term, they meet the criteria required to classify them as held for trading. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recorded immediately in net income. The fair value of marketable securities is based on the quoted share prices in active markets. For the year ended December 31, 2007, the change in fair value of marketable securities, recognized in other income in the consolidated statements of income, was a gain of $400,000. There was no transitional adjustment required for marketable securities upon adoption of this accounting policy because the securities' carrying value was equal to the fair value on that date as a result of measuring these investments at the lower of cost or market as at December 31, 2006.

Assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in OCI. Fair value of the Company's available-for-sale asset on January 1, 2007 was based on the quoted unit price in active markets.

The financial instruments classified as loans and receivables and other liabilities are measured using amortized cost using EIM. Under the EIM, interest income and expense are calculated and recorded using the effective interest rate which is the rate that exactly discounts estimated future cash receipts or payments throughout the expected life of the financial instrument. Interest income and expense related to financial assets and financial liabilities are being recorded using the EIM.

Current assets' and current liabilities' carrying values are representative of their fair values due to the relatively short period to maturity. The fair value of long-term debt approximates the carrying value because the floating interest rate is reflective of the market interest rate available to the Company. The carrying values of the other financial assets and liabilities approximate their fair values as at December 31, 2007.

Transaction costs directly attributable to financial instruments classified as other than held for trading are included in the initial carrying value of such instruments and are amortized using EIM.

In accordance with Section 3855, the Company conducted a search for embedded derivatives in its contractual arrangements dated or modified subsequent to January 1, 2003. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. When certain conditions are met, an embedded derivative is separated from the host contract and accounted for separately as a derivative on the balance sheet at fair value. The Company's policy is to recognize embedded derivatives on the consolidated balance sheet, when applicable. Because there are no embedded derivatives at this time, this rule has no impact on the consolidated financial statements of the Company.

Financial Instruments – Disclosure and Presentation (Section 3861)

Section 3861 replaced CICA Section 3860, which had the same title. The Section establishes standards for the presentation of financial instruments and non-financial derivatives and identifies all related information that should be disclosed.

Hedges (Section 3865)

This Section applies to designated hedging relationships and provides guidance by specifying how hedge accounting is applied and what disclosures are required. In particular, derivatives designated as hedges must be recorded on the balance sheet at fair value on adoption date; 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 net income immediately. Gains and losses arising from the hedged risk in a cash flow hedge, to the extent that the hedging relationship is effective, are deferred and included in OCI until such time as the hedged item affects net income.

Equity (Section 3251)

This Section establishes standards for the presentation of equity and changes in equity during the reporting period. The primary change is the inclusion of OCI elements in equity.

Transitional adjustments due to the adoption of new accounting policies

As at January 1, 2007, the Company's investment in Halterm Income Fund Trust Units was classified as an available-for-sale asset with a book value of $3,704,000. It was disposed of on January 19, 2007 for proceeds of $14,547,000 which resulted in a gain on disposal of $10,843,000 ($8,891,000 after-tax). In 2006, certain units were disposed of for proceeds of $399,000 resulting in a $168,000 gain ($138,000 after-tax). Section 3855 stipulates that available-for-sale assets are to be recorded at fair value on the balance sheet on the transition date and Section 1530 specifies that unrealized gains or losses on available-for-sale assets are to be recorded in OCI until the gains or losses are realized. As a result, on January 1, 2007, the Company adjusted the carrying value of the investment and opening AOCI by $10,843,000 ($8,891,000 after-tax). On the date of disposal, the realized gain was transferred from OCI to net income.

As at January 1, 2007, cash flow hedge losses aggregating $200,000, net of income tax recoveries of $77,000, were recorded as an adjustment to opening AOCI as a result of recognizing the derivatives at fair value on the balance sheet. For further information on the effect of adopting these new accounting policies on the Company's derivative financial instruments, refer to Note 11 of the consolidated financial statements.

2. ADOPTION OF NEW ACCOUNTING POLICIES (continued)

(b) Impact of adopting future accounting policies

Other than the additional disclosure and presentation requirements, the Company anticipates no significant financial impact as a result of adopting the following new accounting policies on January 1, 2008.

Financial Instruments – Disclosures (Section 3862) and Financial Instruments – Presentation (Section 3863)

Sections 3862 and 3863 replace Section 3861 and increase the emphasis on disclosing risks associated with both recognized and unrecognized financial instruments and how the risks are managed.

Capital Disclosures (Section 1535)

This Section requires disclosure on information about the entity's objectives, policies and processes for managing capital as well as quantitative data about capital and whether the entity has complied with any externally imposed capital requirements.

3. BUSINESS AND LICENCE ADDITIONS, ACQUISITIONS AND DISPOSALS

Broadcast licence additions

During 2007, the Company launched an FM radio station in Calgary, Alberta and converted the Edson, Alberta radio station from AM to FM. Upon the launch of these stations, the Company became obligated to fund CCD commitments of $1,000,000 per year over seven years. The present value of the CCD commitments, along with the application costs for these licences, aggregated $4,803,000 and has been capitalized as broadcast licences. CCD commitments are recorded in other liabilities.

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 capitalized $835,000 as broadcast licences. This total was representative of the present value of the CCD obligations as well as application costs related to the licences.

Business acquisitions

On May 16, 2007, the Company acquired the minority shareholder's 23.66% interest in 3937844 Canada Inc. ("3937844") for cash consideration of $10,745,000. 3937844 Canada Inc. owns and operates twenty-one licences of the Company's thirty-three licences throughout the province of Alberta.

On October 1, 2007, the Company acquired the minority shareholders' 37.8% interest in Atlantic Stereo Limited ("ASL"), which operates the two FM licences in Moncton, New Brunswick, for cash consideration of $6,900,000.

The excess of the purchase price over the net book value of the non-controlling interests acquired was allocated to the net identifiable assets acquired on the basis of their estimated fair market values using the purchase method of accounting. The Company accounted for these acquisitions as step purchases and they were financed by the Company's credit facility.

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. Consideration was $2,296,000.

3. BUSINESS AND LICENCE ADDITIONS, ACQUISITIONS AND DISPOSALS (continued)

The following table summarizes the estimated fair value attributed to assets and liabilities on the dates of acquisition as well as the accounting for the new licences.

(thousands of dollars)	3937844	ASL	New Licences	2007	2006
Working capital	$ –	–	(552)	(552)	(398)
Property and equipment	–	324	–	324	550
Other assets	–	–	–	–	310
Broadcast licences	521	6,800	4,803	12,124	2,546
Goodwill	–	634	–	634	727
Total assets acquired	521	7,758	4,251	12,530	3,735
Future income tax liabilities	(130)	(1,994)	–	(2,124)	(629)
Other liabilities	–	–	(4,251)	(4,251)	(810)
Net assets acquired	$ 391	5,764	–	6,155	2,296
Net book value of non-controlling interest	10,354	1,136	–	11,490	–
Cash consideration	$ 10,745	6,900	–	17,645	2,296

In 2007, the Company wrote off the unspent portion of provisions for professional fees and restructuring costs that were recorded as working capital in prior year purchases. The unspent portion was adjusted to reduce certain values attributed to goodwill and a portion was adjusted to reduce broadcast licences.

Disposal of equity accounted investment

On April 12, 2007, the Company disposed of its 29.9% interest in Larche Communications (Kitchener) Inc. which operates an FM radio station in Kitchener, Ontario. The proceeds were $4,000,000 which resulted in a gain on disposal of $3,826,000.

4. PROPERTY AND EQUIPMENT

	2007			2006		
(thousands of dollars)	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 2,422	–	2,422	2,267	–	2,267
Buildings	8,303	2,234	6,069	7,151	1,944	5,207
Equipment	44,964	18,221	26,743	41,061	16,143	24,918
	$ 55,689	20,455	35,234	50,479	18,087	32,392

5. OTHER ASSETS

(thousands of dollars)	2007	2006
Employee share purchase and other loans	$ 7	2,849
Investment tax credits recoverable	–	1,363
Deferred charges, net of amortization	2,501	2,002
Accrued pension benefit asset (NOTE 8(B))	1,301	1,190
Customer-related intangible assets, net of amortization	287	303
Equity total return swap receivable, net of current portion of $614 (NOTE 11(B))	427	–
Other	119	362
	$ 4,642	8,069

Employee share purchase and other loans are payable on demand and bear interest at rates ranging from nil to prime minus 1%. An employee share purchase loan amounting to $2,826,000 was repaid in the year.

The $310,000 customer-related intangible asset is being amortized on a straight-line basis over twenty years.

Included in other is a $205,000 intangible long-term agreement which is being amortized on a straight-line basis over the term of the agreement.

6. BANK INDEBTEDNESS AND LONG-TERM DEBT

(thousands of dollars)	2007	2006
Revolving term credit facility of $80 million, renewable annually, maturing April 2008	$ 61,000	53,500
Other mortgages and loans bearing interest at prime plus 1%, maturing to 2009	28	294
	61,028	53,794
Less: Current portion	23	23
	$ 61,005	53,771

Subsequent to year end, the Company renewed its credit facility which will now mature in June 2010. As a result, no portion of the revolving facility has been classified as current.

Minimum required principal repayments are as follows: 2008 – $23,000; 2009 – $5,000; and 2010 – $61,000,000. It is management's intention to renew this revolving credit facility prior to June 2010 and as a result, there will be no fixed repayment schedule.

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 $3,110,000 for interest on long-term debt (2006 – $2,425,000).

7. OTHER LIABILITIES

(thousands of dollars)	2007	2006
Canadian Content Development commitments related to broadcast licences awarded and acquired, net of current portion of $2,907 (2006 – $2,571)	$ 10,498	8,522
Accrued pension benefit liability (NOTE 8(B))	6,081	5,969
Deferred tenant inducements	2,240	2,489
Stock appreciation rights (NOTE 9(C))	757	103
Interest rate swap payable (NOTE 11(A))	89	–
	$ 19,665	17,083

The scheduled payments for the CCD commitments over the next five years are as follows: 2008 – $2,907,000; 2009 – $3,036,000; 2010 – $1,868,000; 2011 – $1,903,000, 2012 – $2,082,000 and thereafter $1,609,000. The current portion is included in accounts payable and accrued liabilities. CCD commitments are measured based on the amortized cost using EIM which gives rise to accretion expense which amounted to $1,187,000 (2006 – $1,022,000). EIM rates used to determine the value of CCD commitments range from 8.9% to 14.3%.

The Company has issued letters of credit totaling $1,310,000 in support of certain of these liabilities.

8. 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 2007 were $1,330,000 (2006 – $1,312,000).

(b) Defined benefit plans

The Company maintains a defined benefit plan ("the Basic Plan") for a small group of the Company's current and former employees. The plan provides pension benefits based on length of service and the last five years' of average earnings of each member. The Company measures its accrued benefit obligations and fair value of plan assets for accounting purposes as of December 31 of each year. The most recent actuarial valuation of the pension plan was December 31, 2007.

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

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

	2007		2006	
	Basic Plan	SRPA	Basic Plan	SRPA
Discount rate	5.4%	5.4%	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%

The following summarizes the Company's defined benefit plans:

	2007		2006	
(thousands of dollars)	Basic Plan	SRPA	Basic Plan	SRPA
Accrued benefit obligations				
Balance – beginning of year	$ 4,062	8,864	4,287	8,926
Current service cost	78	–	67	–
Interest cost	203	410	190	413
Benefits paid	(150)	(497)	(622)	(504)
Actuarial losses (gains)	(113)	(153)	140	29
Balance – end of year	4,080	8,624	4,062	8,864
Plan assets				
Fair value – beginning of year	5,477	–	5,257	–
Actual return on plan assets	162	–	838	–
Employee contributions	4	–	4	–
Benefits paid	(150)	–	(622)	–
Fair value – end of year	5,493	–	5,477	–
Funded status – plan surplus (deficit)	1,413	(8,624)	1,415	(8,864)
Unamortized net actuarial loss (gain)	20	2,569	(83)	2,930
Unamortized past service costs	868	–	1,025	–
Unamortized transitional asset	(1,000)	(26)	(1,167)	(35)
Accrued benefit asset (liability)	$ 1,301	(6,081)	1,190	(5,969)

The accrued pension benefit asset is included under other assets (note 5) and the accrued pension benefit liability is included under other liabilities (note 7).

8. EMPLOYEE FUTURE BENEFIT PLANS (continued)

(b) Defined benefit plans (continued)

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

(thousands of dollars)	2007 Basic Plan	2007 SRPA	2006 Basic Plan	2006 SRPA
Current service cost, net of employee contributions	$ 74	–	63	–
Interest cost	203	410	190	413
Actual return on plan assets	(162)	–	(838)	–
Difference between expected return and actual return on plan assets	(216)	–	508	–
Amortization of past service costs	157	–	157	–
Amortization of net actuarial losses	–	209	–	205
Amortization of transitional assets	(167)	(8)	(167)	(8)
Defined benefit plan expense (income)	$ (111)	611	(87)	610

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

	2007 Basic Plan	2007 SRPA	2006 Basic Plan	2006 SRPA
Equity funds	57%	N/A	67%	N/A
Fixed income funds	19%	N/A	20%	N/A
Money market funds	24%	N/A	13%	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.

9. STOCK-BASED COMPENSATION PLANS

(a) Share purchase plan

Compensation expense for the Company's share purchase plan was $412,000 (2006 – $370,000) and is included in operating expenses.

(b) Executive stock option plan

The number of Class A shares issuable pursuant to the executive stock option plan is 3,500,000, of which 2,358,021 Class A shares have been issued, leaving 1,141,979 reserved for issuance. The number of Class A shares underlying outstanding options under the executive stock option plan is 755,000. 386,979 options remain available to grant. 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. Options either vest on the date they are granted or vest over time in the following manner: twenty-five percent vest on the date of granting and twenty-five percent vest on each of the three succeeding anniversary dates.

9. STOCK-BASED COMPENSATION PLANS (continued)

(b) Executive stock option plan (continued)

The following summarizes the Company's outstanding stock options which expire at varying dates from 2007 to 2012 and have a weighted average remaining contractual life of 2.62 years (2006 – 1.91 years).

	2007		2006	
	Number	**Price***	Number	Price*
Balance, beginning of year	**978,750**	**$ 10.45**	883,800	$ 9.60
Granted	**100,000**	**19.43**	115,000	16.53
Expired	**(105,000)**	**15.88**	–	–
Exercised	**(218,750)**	**12.21**	(20,050)	8.14
Balance, end of year	**755,000**	**10.37**	978,750	10.45
Total options vested	**702,500**	**9.70**	778,750	9.39

*weighted average exercise price

Range of Exercise Price	Number of Options Outstanding at December 31, 2007	Weighted Average Remaining Life	Price*	Number of Options Exercisable at December 31, 2007	Price*
$ 7.30 – 8.00	**275,000**	**0.46**	**$ 7.92**	**275,000**	$ 7.92
8.40 – 8.95	**265,000**	**4.21**	**8.66**	**265,000**	8.66
11.66	**100,000**	**1.96**	**11.66**	**100,000**	11.66
16.53	**15,000**	**3.07**	**16.53**	**15,000**	16.53
19.43	**100,000**	**4.94**	**19.43**	**47,500**	19.43
	755,000	**2.62**	**10.37**	**702,500**	9.70

*weighted average exercise price

The compensation expense related to stock options for 2007 was $388,000 (2006 – $1,259,000) and is recorded in operating expenses. The compensation expense in 2006 included 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:

	2007	2006
Weighted average risk-free interest rate	**3.76%**	4.01%
Dividend yield	**1.52%**	1.74%
Weighted average volatility factors of the expected market price of the Company's Class A Subordinate Voting Shares	**24.4%**	23.4%
Weighted average expected life of the options	**4.8 years**	4.8 years
Weighted average fair value per option	**$ 4.66**	$ 3.80

(c) Stock appreciation rights plan

In January 2006, the Company granted 425,000 stock appreciation rights at a reference price of $16.53. 30,000 of these rights have expired. On March 2, 2007, 5,000 stock appreciation rights were granted at a reference price of $18.41 and on August 9, 2007, 85,000 stock appreciation rights were granted at a reference price of $19.91. 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 60th day following the 5th anniversary of the grant date. For the year ended December 31, 2007, the compensation expense related to the rights was $654,000 (2006 – $103,000) and the total obligation included in other liabilities was $757,000 (2006 – $103,000).

10. CAPITAL STOCK

(thousands of dollars)	Issued shares (thousands)	2007	2006
Capital stock (unlimited number authorized at no par value):			
Class A Subordinate Voting Shares (2006 – 9,941)	9,833	$ 42,434	42,393
Class B Common Shares (2006 – 1,258)	1,258	911	911
		$ 43,345	43,304

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.

Share repurchases

During the year, the Company repurchased for cancellation a total of 198,800 (2006 – 119,400) of its outstanding Class A shares for a total cost of $3,737,000 (2006 – $2,034,000), pursuant to Normal Course Issuer Bids. As a result of these share repurchases, capital stock was reduced by $847,000 (2006 – $509,000) and retained earnings by $2,890,000 (2006 – $1,525,000). Subsequent to year end the Company received approval under a Normal Course Issuer Bid to repurchase up to 491,630 Class A shares and 62,906 Class B Common Shares. This bid expires February 7, 2009.

Executive stock option plan

During the year, the Company granted 100,000 options (2006 – 115,000) at a weighted average exercise price of $19.43 (2006 – $16.53), pursuant to the executive stock option plan described in Note 9(b). 30,000 of the granted options vested on the date of grant while the balance vests as follows: twenty-five percent on the date of grant and twenty-five percent on each of the three succeeding anniversary dates. The options granted expire December 6, 2012. Year-to-date, the Company issued 91,021 Class A shares as follows: 23,750 (2006 – 20,050) Class A shares were issued for proceeds of $185,000 (2006 – $163,000) and 67,271 Class A shares were issued as a result of a cashless exercise of 195,000 options, described below. During the year, capital stock was increased and contributed surplus was decreased by $10,000 (2006 – $15,000) related to stock options exercised during the year. Contributed surplus was increased by $388,000 (2006 – $1,259,000) related to compensation expense.

Cashless exercise of executive stock options

In May 2007, the Company received shareholder and TSX approval to amend certain aspects of the Executive Stock Option Plan, including the option to exercise options on a cashless basis. On May 31, 2007, 195,000 options were exercised on a cashless basis to acquire Class A shares of the Company at a weighted average exercise price of $12.75. The Company issued 67,271 Class A shares with an aggregate value equal to the difference between the exercise price of the options and the fair market value of the Company’s Class A shares. The fair market value of the Class A shares was based on the volume weighted average trading price of one Class A share on the TSX over the period of five consecutive trading days ended on and including the day prior to May 31, 2007. Capital stock was increased and contributed surplus decreased by $693,000 due to the cashless exercise of these stock options.

11. DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

(a) Interest rate risk management

The Company has two interest rate swap agreements having a notional amount of $20,000,000 and $5,000,000, expiring February 27, 2009 and February 27, 2011, respectively (2006 – $25,000,000). 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 Company formally assesses effectiveness of the swaps at inception and on a regular basis and has concluded that the swaps are effective in offsetting changes in interest rates. The estimated fair value of the interest rate swaps at December 31, 2007 was a loss payable of $89,000. The net change in the fair value of the swaps recognized as a gain in OCI in the year aggregated $64,000, before income tax expense of $37,000. For the same period last year, the fair value of the loss related to the swap agreements was not recorded since there was no requirement to adjust derivatives designated as hedges on the balance sheet at their fair value when they qualified for hedge accounting prior to January 1, 2007. The accumulated loss at January 1, 2007 of $153,000 was recorded, net of income tax recoveries of $60,000, as a transition adjustment to opening AOCI.

Subsequent to year end, the Company entered into an interest rate swap agreement having a notional amount of $20,000,000, expiring February 27, 2011.

(b) Share price volatility risk management

In July 2006, the Company entered into a cash-settled equity total return swap agreement to manage its exposure to fluctuations in its stock-based compensation costs related to the SAR plan. Compensation costs associated with the SAR Plan fluctuate as a result of changes in the market price of the Company's Class A shares. The Corporation entered into this swap for a total of 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 the share price drops by 10% or more since the last scheduled settlement date. 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.

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

The Company has concluded that this cash flow hedge is effective. The estimated fair value of the gain receivable at year end was $1,041,000. The net change in the fair value of the swap in the year, recognized in OCI, was a gain of $1,081,000. Of this amount, before-tax realized gains of $614,000 were transferred from OCI to net income bringing the year-to-date OCI before-tax gain to $467,000. OCI income tax recognized for the year was $163,000. The accumulated loss at January 1, 2007 related to this cash flow hedge was $47,000 and was recorded, net of income tax recoveries of $17,000, as a transition adjustment to opening AOCI.

(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, 2007 and 2006, there was minimal credit exposure to the Company related to its financial instruments.

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.

12. PROVISION FOR INCOME TAXES

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

(thousands of dollars, except percentages)	2007	2006
Income before income taxes and non-controlling interest	$ 23,819	15,126
Combined federal and provincial statutory income tax rate	38.1%	38.1%
Provision based on the statutory income tax rate	$ 9,075	5,763
Increase (decrease) due to:		
Future income tax recovery relating to the reduction of corporate income tax rates	(2,425)	(1,332)
Future income tax recovery relating to the origination and reversal of temporary differences	(716)	(977)
Non-taxable portion of capital gains	(2,805)	(1,668)
Stock-based compensation	148	521
Subsidiary rate differential	(313)	(61)
Large corporations tax and other	125	80
	$ 3,089	2,326
Comprised of:		
Current taxes	$ 3,889	2,491
Future income tax recovery	(800)	(165)
	$ 3,089	2,326

Once in 2006 and twice in 2007, the Federal Government enacted a decline in the general corporate income tax rates. Certain Provincial Governments have also reduced general corporate income tax rates. As a result, 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 future income tax recovery of $2,425,000 (2006 – $1,332,000).

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

(thousands of dollars)	2007	2006
Future income tax assets		
Canadian Content Development commitments	$ 4,555	3,722
Tax loss carryforwards	3,316	3,887
Employee benefit plans	1,471	1,662
Other	103	75
Future income tax liabilities		
Property and equipment	(2,192)	(1,930)
Broadcast licences and goodwill	(20,539)	(18,895)
Other	–	(358)
Net future income tax liability	$ (13,286)	(11,837)
Comprised of:		
Short-term future income tax assets	$ 2,703	1,925
Long-term future income tax assets	1,515	1,344
Long-term future income tax liabilities	(17,504)	(15,106)
	$ (13,286)	(11,837)

Included in the above net income tax liability are future income tax assets of $3,316,000 resulting from unused non-capital tax losses. The non-capital tax losses of $11,379,000 at year end are available to reduce future income taxes otherwise payable. If unused, the non-capital tax losses will expire as follows: $333,000 in 2009; $2,242,000 in 2010; $2,825,000 in 2014; $1,749,000 in 2015; $3,085,000 in 2026 and $1,145,000 in 2027.

13. EARNINGS PER SHARE

(thousands)	2007	2006
Weighted average common shares used in calculation of basic earnings per share	11,094	11,210
Incremental common shares calculated in accordance with the treasury stock method	366	350
Weighted average common shares used in calculation of diluted earnings per share	11,460	11,560

14. SUPPLEMENTAL CASH FLOW INFORMATION

(thousands of dollars)	2007	2006
Change in non-cash working capital relating to operating activities		
Marketable securities	$ (3,763)	(834)
Receivables	(568)	100
Prepaid expenses	(356)	1,046
Accounts payable and accrued liabilities	(1,879)	(3,154)
Income taxes payable	77	(215)
	$ (6,489)	(3,057)
Interest paid	$ 3,352	2,915
Income taxes paid	2,509	2,183

15. 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 in Canada. 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.

	2007			2006		
(thousands of dollars)	Broadcasting	Corporate and other	Total	Broadcasting	Corporate and other	Total
Revenue	$ 95,392	3,426	98,818	90,643	3,294	93,937
Other income	–	446	446	–	9,667	9,667
	95,392	3,872	99,264	90,643	12,961	103,604
Operating expenses	68,600	13,036	81,636	67,271	13,288	80,559
Depreciation and amortization	3,797	277	4,074	3,506	239	3,745
Operating income (loss)	$ 22,995	(9,441)	13,554	19,866	(566)	19,300
Assets employed	$ 205,468	25,828	231,296	188,524	29,238	217,762
Goodwill	4,859	–	4,859	4,337	–	4,337
Capital expenditures	5,253	728	5,981	4,108	326	4,434

16. COMMITMENTS AND CONTINGENCIES

(a) Operating leases and other

The Company has total commitments of $21,067,000 under operating leases for properties and equipment. Minimum annual payments under these leases are as follows: 2008 – $2,912,000; 2009 – $2,427,000; 2010 – $2,171,000; 2011 – $1,810,000; 2012 – $1,647,000 and thereafter $10,100,000.

(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 EVENT

In March 2008, the Company entered into an agreement with CTV Limited to acquire the remaining 50% of Metro Radio Group Inc. for $8,500,000, subject to CRTC approval. Metro Radio Group Inc. operates CKUL-FM in Halifax, Nova Scotia.

Assets at a glance

LOCATION	NAME	CALL LETTERS	FORMAT	AM/FM/TV	FREQUENCY

Western region

LOCATION	NAME	CALL LETTERS	FORMAT	AM/FM/TV	FREQUENCY
Athabasca, AB	The Fox Radio Group	CKBA	Classic Hits	AM	850 kHz
Blairmore, AB	Mountain Radio	CJPR-FM	Country	FM	94.9 MHz
Bonnyville, AB	KOOL-FM	CJEG-FM	Contemporary Hit Radio	FM	101.3 MHz
Brooks, AB	Q13	CIBQ	Country	AM	1340 kHz
	The Fox	CIXF-FM	Classic Hits	FM	101.1 MHz
Calgary, AB	FUEL 90.3	CFUL-FM	Classic Alternative	FM	90.3 MHz
	XL103-FM	CIQX-FM	Classic Hits	FM	103.1 MHz
Camrose, AB	CAM-FM	CFCW-FM	Classic Hits	FM	98.1 MHz
	CFCW	CFCW	Country	AM	790 kHz
Cold Lake, AB	K-Rock	CJXK-FM	Classic Rock	FM	95.3 MHz
Drumheller, AB	Q91	CKDQ	Country	AM	910 kHz
Edmonton, AB	Big Earl	CKRA-FM	Country	FM	96.3 MHz
	K-Rock	CIRK-FM	Classic Rock	FM	97.3 MHz
Edson, AB	The Fox Radio Group	CFXE-FM	Classic Hits	FM	94.3 MHz
Elkford, BC	Mountain Radio	CJEV®	Country	AM	1340 kHz
Fort McMurray, AB	(3)	CHFT-FM	Classic Hits	FM	100.5 MHz
Grande Cache, AB	The Fox Radio Group	CFXG®	Classic Hits	AM	1230 kHz
High Prairie, AB	The Fox Radio Group	CKVH	Classic Hits	AM	1020 kHz
Hinton, AB	The Fox Radio Group	CFXH-FM	Classic Hits	FM	97.5 MHz
Jasper, AB	The Fox Radio Group	CFXP-FM®	Classic Hits	FM	95.5 MHz
Lac La Biche, AB	Big Dog	CILB-FM	Classic Hits	FM	103.5 MHz
Lloydminster, AB	CBC	CKSA-TV	CBC Affiliate	TV	
	CILR	CILR-FM	Tourism Information	FM	98.9 MHz
	CTV	CITL-TV	CTV Affiliate	TV	
	LLOYD-FM	CKSA-FM	Country	FM	95.9 MHz
Red Deer, AB	KG Country	CKGY-FM	Country	FM	95.5 MHz
	Z-99	CIZZ-FM	Rock	FM	98.9 MHz
Slave Lake, AB	The Fox Radio Group	CHSL-FM	Classic Hits	FM	92.7 MHz
St. Paul, AB	1310 Cat Country	CHLW	Country	AM	1310 kHz
Stettler, AB	Q14	CKSQ	Country	AM	1400 kHz
Wainwright, AB	Key 83	CKKY	Country	AM	830 kHz
	Wayne-FM	CKWY-FM	Classic Hits	FM	93.7 MHz
Westlock, AB	The Fox Radio Group	CFOK	Classic Hits	AM	1370 kHz
Wetaskiwin, AB	W 1440	CKJR	Oldies	AM	1440 kHz
Whitecourt, AB	The Rig 96.7	CFXW-FM	Rock	FM	96.7 MHz

Central region

LOCATION	NAME	CALL LETTERS	FORMAT	AM/FM/TV	FREQUENCY
Ottawa, ON	Hot 89.9	CIHT-FM	Contemporary Hit Radio	FM	89.9 MHz
	LiVE 88.5	CILV-FM	Alternative Rock	FM	88.5 MHz
Sudbury, ON	Big Daddy	CHNO-FM	Classic Hits	FM	103.9 MHz
Thunder Bay, ON	Magic 99.9	CJUK-FM	Adult Contemporary	FM	99.9 MHz
	105.3 The Giant	CKTG-FM	Classic Rock	FM	105.3 MHz
Winnipeg, MB	Hank-FM	CHNK-FM	Country	FM	100.7 MHz
	CKJS	CKJS	Multi-cultural	AM	810 kHz

LOCATION	NAME	CALL LETTERS	FORMAT	AM/FM/TV	FREQUENCY

Eastern region

LOCATION	NAME	CALL LETTERS	FORMAT	AM/FM/TV	FREQUENCY
Charlottetown, PE	K-Rock 105.5	CKQK-FM	Rock	FM	105.5 MHz
	Ocean 100	CHTN-FM	Classic Hits	FM	100.3 MHz
Halifax, NS	780 KIXX	CFDR	Country	AM [2]	780 kHz
	KOOL 96 dot 5[4]	CKUL-FM	Classic Hits	FM	96.5 MHz
	Q104	CFRQ-FM	Rock	FM	104.3 MHz
Kentville[1], NS	[3]	CIJK-FM		FM	89.3MHz
Sydney[1], NS	[3]	CHRK-FM		FM	101.9MHz
Fredericton, NB	Fred-FM	CFRK-FM	Classic Rock	FM	92.3 MHz
Moncton, NB	C103	CJMO-FM	Classic Rock	FM	103.1 MHz
	XL96	CJXL-FM	Country	FM	96.9 MHz
Baie Verte, NL	CKIM	CKIM®	News/Talk/Country	AM	1240 kHz
Carbonear, NL	KIXX Country	CHVO-FM	Country	FM	103.9 MHz
Churchill Falls, NL	Radio Labrador	CFLC-FM®	News/Talk/Country	FM	97.9 MHz
Clarenville, NL	CKVO	CKVO	News/Talk/Country	AM	710 kHz
	K-Rock	VOCM-FM1®	Classic Rock	FM	100.7 MHz
Corner Brook, NL	CFCB	CFCB	News/Talk/Country	AM	570 kHz
	K-Rock	CKXX-FM1	Classic Rock	FM	103.9 MHz
Deer Lake, NL	CFCB	CFDL-FM®	News/Talk/Country	FM	97.9 MHz
Gander, NL	K-Rock	CKXD-FM	Classic Rock	FM	98.7 MHz
	VOCM Radio Network	CKGA	News/Talk/Country	AM	650 kHz
Grand Falls-Windsor, NL	K-Rock	CKXG-FM	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	News/Talk/Country	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-FM®	News/Talk/Country	FM	97.7 MHz
St. Anthony, NL	CFCB	CFNN-FM®	News/Talk/Country	FM	97.9 MHz
St. John's, NL	590 VOCM	VOCM	News/Talk/Country	AM	590 kHz
	HITS-FM	CKIX-FM	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-FM1®	Classic Rock	FM	95.9 MHz
Wabush, NL	Radio Labrador	CFLW®	News/Talk/Country	AM	1340 kHz

® Repeating Signal
1 New licence awarded by CRTC in 2007
2 The Company received approval to convert this station to FM in 2007
3 Certain information unavailable at the time of printing
4 In March 2008, the company entered into an agreement to purchase the remaining 50% interest in Metro Radio Group Inc., subject to CRTC approval.

Board of directors

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.[1]
Toronto, Ontario
Director since May 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[1]
Halifax, Nova Scotia
Director since November 2006
Micco Developments
President and Chief Executive Officer

Mickey MacDonald is a well-known entrepreneur whose business interests are diversified across many industries including automotive leasing, retail, food and beverage, fitness, commercial and residential custom tile sales and residential land development. Mr. MacDonald has won numerous business and personal awards including the 2004 Newfoundland Philanthropist of the Year and 2005 Nova Scotia Philanthropist of the Year, Halifax Chamber of Commerce Business Person of the Year and 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.

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 after having served as President and Chief Operating Officer from March 1, 2001. Prior to joining the Company, Mr. Steele built one of the most diversified auto groups in Atlantic Canada consisting of thirteen dealerships. He is currently a member of the Young Presidents Organization and is actively involved in several local charitable groups.

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

Don Warr is partner in a Newfoundland accounting firm, Blackwood & Warr, Chartered Accountants. He obtained his designation as a Chartered Accountant in 1970. Prior to starting his own practice in 1992, Mr. Warr was a tax partner with a large national accounting firm. Mr. Warr 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.

ensur
g

[1] Member of the Audit and Governance Committee.


ing
ood practices

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 all applicable corporate governance requirements and seeks to continuously improve on them. Our corporate governance practices are disclosed in the Management Proxy Circular.

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 or for improvements to existing ones.
- The Board has adopted a written Code of Business Conduct and Ethics ("Code") and continuously revises it as deemed appropriate. The overall goal of the Code is to deter wrongdoing and promote honest and ethical conduct throughout the 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 for this issue. 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 and updated on a continuous basis as appropriate.
- Mandates have been defined for the Board of Directors and its Committee, 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.

Corporate information

Board of Directors

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

Michael C. MacDonald[1]
President and
Chief Executive Officer
Micco Developments

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

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

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

[1] Member of the Audit and Governance Committee.

Officers and Management

Harry R. Steele
Chairman

Robert G. Steele
President and
Chief Executive Officer

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:

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

e-mail: inquiries@cibcmellon.com

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

Investor relations contact

Institutional and individual investors seeking financial information about the Company are invited to contact Scott G.M. Weatherby, Chief Financial Officer and Corporate Secretary, 902-468-7557.

e-mail: ncc@ncc.ca
web: www.ncc.ca

Stock exchange listing and symbols

The Company's Class A Subordinate Voting Shares and Class B Common Shares are listed on the Toronto Stock Exchange under the symbols NCC.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, Friday, May 2, 2008, Baronet Ballroom, Delta Halifax Hotel, 1990 Barrington Street, Halifax, NS.

Live life live.

www.newcapradio.ca

Newfoundland Capital Corporation Limited
745 Windmill Road
Dartmouth, Nova Scotia,
Canada B3B 1C2