A window to the community

Newfoundland Capital Corporation Limited | 2008 Annual Report

Newfoundland Capital Corporation Limited ("the Company") is Canada's largest pure-play radio company, employing over 850 of the best radio professionals across the country. The Company's portfolio of radio assets includes 55 FM and 26 AM licences which can be heard throughout Canada. The majority of our stations are accessible via the Internet, allowing listeners to tune in to our stations at any time, from anywhere. The primary source of the Company's revenue is derived from the sale of advertising airtime. In 2008, the Company generated $105.8 million in revenue, an increase of 7%. Newfoundland Capital Corporation Limited trades on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.

RADIO IS A SO

Immediate

No other form of major media can disseminate important information as effectively and quickly as radio. We are the primary source for local, breaking news and other time-sensitive events, in small and large communities across Canada.

Profitable

Radio has the lowest capital requirements of any major media form. With our diversified portfolio we have a mix of national and local advertisers, ensuring a stable and growing revenue base across the portfolio.

Table of Contents

UND BUSINESS

Inclusive

Radio reaches a large and diverse audience from all walks of life, and our radio programming reflects this.

Accessible

Radio's quick turnaround time allows advertisers of all sizes to spread their message quickly and cost-effectively.

Connected

Radio reaches out to people who need it most. Our radio stations, local content, programming and personalities are integral to a community's sense of identity.

FRED-FM host Sean Crawford interviewing Brian Vollmer of the Canadian rock band Helix.

Letter to the shareholders

A WINNING STRATEGY FOR THE LONG TERM

We've been in radio for over 20 years, gaining experience in managing locally operated radio stations in markets large and small across Canada. Radio has proven to be a resilient business. It fosters loyal listeners and advertisers, provides year over year earnings growth, is accessible to large and small advertisers alike, and it outperforms any other media in terms of its immediate and cost-effective reach to a targeted audience.

Pursuing a prudent strategy for success

Although we enter 2009 under difficult and uncertain economic times, we remain optimistic that we will achieve overall growth as a result of our prudent strategy of cautious expansion while maximizing revenues from our existing portfolio. Remaining competitive in the markets in which we operate results in year over year growth and margin expansion and that is why we continuously work to improve our existing radio stations. We ensure appropriate investment in equipment, market research and innovative promotional programs that directly impact revenues. In particular, we invest in our people and in our communities. Our radio stations make a remarkable difference in the communities in which they operate, and it is a testament to how we do business that our employees are so integrally connected with their communities.

Satisfying our listeners' needs, understanding those of our advertisers, and providing the best quality radio entertainment possible is core to our business strategy. In these times, this connection is particularly important as local businesses depend on local advertising to drive their success. We fundamentally believe that serving our communities is a winning strategy for the long-term. We also benefit from a diversified revenue base that does not depend on one location, customer, or source of revenue.

Our focus

Generating free cash flow to ensure we have the funds available for planned maintenance and expansionary capital expenditures, as well as reducing debt, are key objectives. With the instability in global credit markets, it is important that we properly manage our cash position.

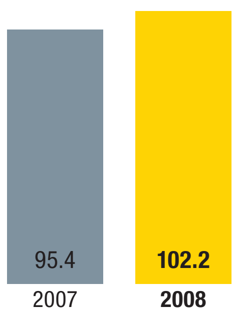
Growth continues

Despite the global challenges, we will continue to prudently pursue long-term growth. In 2009 we will launch our newly acquired FM station in Sudbury, Ontario that will complement our existing FM station there. We will also work on launching our Athabasca, Alberta AM to FM conversion and begin planning for the launch of four FM repeaters in Prince Edward Island.

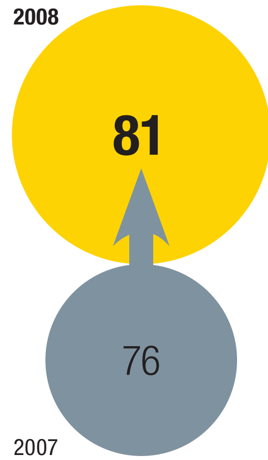
Our operating performance in 2008 showed strength. Broadcasting revenue of $102.2 million was $6.8 million or 7% higher than last year. That growth rate outperformed the industry and most other forms of media.

In 2008, The Board of Directors once again declared dividends of $0.15 in both August and December.

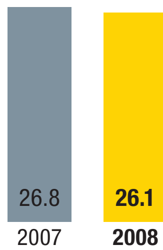
FINANCIAL HIGHLIGHTS



Broadcasting Revenue (million $)



Licence Growth



Broadcasting EBITDA (million $)

Committed to building the business

We want to assure all of our stakeholders that the investments we have made over the last several years to create a strong operating foundation through a commitment to talent, community and growth is the means by which we will successfully manage our business in these uncertain economic times. We are sharpening our focus on organic operations and will ensure that the Company benefits from every dollar spent. The greatest upside potential in terms of revenue and EBITDA growth exists in our largest markets of Calgary, Edmonton and Ottawa, and a concentration of time and effort is being applied there.

We extend our thanks to our radio professionals who continue to build the Company's profile in the media industry and in our listeners' hearts and minds. The commitment of our employees is reflected in the pages of this annual report, which demonstrate vividly how our people make a difference in their communities every day. We also thank our long-term shareholders for their interest in the Company, and our Board of Directors for their continued leadership and support.

Sincerely,

Rob Steele
President and
Chief Executive Officer

Harry Steele
Chairman

Regional Highlights

LOCAL FOCUS, NATIONAL PRESENCE

Overall: Local revenue not as exposed to economic conditions:

- Local sales were up 9% compared to 2007
- National sales growth for the Company was on par with last year
- Overall revenue grew 7% for the year

LICENCES BY REGION:

WEST: 34	CENTRAL: 7	EAST: 40

Edmonton, Alberta
Stations: Capital FM, CFCW AM, K-97 FM
Edmonton Market is #1 revenue contributor for the Company.

Red Deer, Alberta
Stations: KG Country, Z-99
36% EBITDA margins – #1 in the Company.

Thunder Bay, Ontario
Stations: Magic 99.9, The Giant
Magic ranked #1 with women (18–34).

Ottawa, Ontario
Stations: Hot 89.9 FM, LiVE 88.5 FM
Ottawa market posted +25% revenue and +49% EBITDA over last year.

EVERY NEWCAP STATION STRIVES TO BE AT THE HEART OF ITS COMMUNITY.

Creating connections with our communities drives us to develop engaging, creative, high-quality programming for the millions of listeners we reach every week. We are able to generate stable, long-term value because we know what local advertisers, businesses, and listeners want. Even in times of uncertainty, our local results are a testament to this objective.

They listen to us because we listen to them.

St. John's, Newfoundland and Labrador
Stations: HITS-FM, K-Rock, VOCM are ranked #1-2-3 in market, respectively.

Sydney and Kentville, N.S.
Stations: The Giant (Sydney), K-Rock (Kentville)
Two new FM stations launched in 2008; revenue significantly exceeded management's expectations.

Moncton, N.B.
Stations: C103 FM, XL96 FM
C103 #1 ranked station in market with 26.4 share for 25–54 demographic.

Focus on Western Region: LLOYDMINSTER

LLOYD FM:

Shane Schneider receiving the Big Brothers and Big Sisters National Medal of Excellence

GOING BEYOND THE BOOTH

Lloyd FM's Kurt Price accepting the Multiple Sclerosis Society of Alberta Communications Award.

At a ceremony held in Toronto in July of 2008, Big Brothers and Big Sisters presented Newcap and Lloyd FM with the prestigious National Medal of Excellence, which is given to a corporation or business that has had a meaningful impact on a local agency.

On a local level, two Lloyd FM personalities – Shane Schneider and Kurt Price – were awarded with Champion of Magic awards for their continued commitment to Big Brothers and Big Sisters. Shane Schneider was also awarded with the 2008 In-school Mentor award for his continued commitment to his little brother in the In-school Mentoring program.

With the help of Lloyd FM's Kurt Price and the local hockey team, the Hillmond Mud Ducks, a hockey game was organized to raise money in support of two members of a local family who are facing serious health issues. Thanks to the generous support of many who donated items for a silent auction and from the 1,000 people in attendance, over $85,000 was raised for the family. The opposing team, the Media All Stars, was made up of players from Newcap TV in Lloydminster, and the seven radio stations in Newcap Alberta East, including 95.9 Lloyd FM in Lloydminster, 1310 CHLW in St. Paul, 93.7 Wayne FM and Key 83 in Wainwright, 95.3 K-Rock in Cold Lake, Kool 101.3 in Bonnyville, and 103.5 Big Dog in Lac La Biche.

Lloyd FM was commended for their work within the community by being nominated for the Chamber of Commerce Community Involvement Award for the 2nd year in a row.

Focus on Central Region: WINNIPEG

WE SPEAK

“CKJS 810 AM started Tuklas Talino in 1999 and we are proud the competition helped various Winnipeggers start their careers. Winners have gone on to take the lead as Miss Saigon in Toronto and even toured Europe!”

–Ami Freeman, Promotions Director, CKJS 810 AM, Hank-FM, Winnipeg

YOUR LANGUAGE

Charlie Major performing at CCMA kick-off party (photo: Ron Lamoureux)

Newcap's CKJS 810 AM is no stranger to being at the centre of communities within communities. Broadcasting to no less than 19 different cultural groups in at least 16 different languages, CKJS is a truly multicultural station. Every two years CKJS hosts Tuklas Talino – a vocal music talent competition geared towards the Filipino community. 2008's installment featured approximately 75 contestants in adult and youth categories, with the final round of the competition taking place on November 22nd at Winnipeg's Pantages Playhouse theatre. This year's winners were Andrea Macasaet (adult category) and Reynalyne Gacilan (youth category, pictured).

Meanwhile, this September, Winnipeg's country station Hank-FM was front and centre during the Canadian Country Music Awards ("CCMA"). The station was heavily involved in the weekend festivities, hosting the official CCMA kick-off party at the Hitching Post, a renowned venue in the Winnipeg area. Attending the party were lucky Hank-FM contest winners, who got the country music weekend off to a great start while they took in a performance by Canadian country music legend Charlie Major (pictured above).

CHARITY HIGHLIGHT

Get Jim off the bus!

On October 20th, Newcap's 103.9 Big Daddy in Sudbury stuffed personality Jim Szilva onto a Transit bus, and he wasn't allowed off until the students of St. Charles College collected 60,001 cans of food for the Greater Sudbury Food Bank.

Five days later, Big Daddy and its community partners gave a significant boost to the Greater Sudbury food bank and helped it continue the fight against hunger. At 75,108 cans of food, this was the single largest foodraiser in Sudbury's history. Big Daddy looks forward to breaking another record next year.

Focus on Eastern Region: HALIFAX

ROCKING

THE HARBOUR

KOOL 96.5 FM's Rob Johnson (left), Caroline Parker (centre) and Griff Henderson (right) on *Tall Ship Silva*

Halifax's KOOL 96.5 FM closed out the summer in style by treating some of its luckiest listeners to a night out on the water. On September 4th, 2008, KOOL 96.5 and about 100 contest winners boarded the *Tall Ship Silva* in Halifax harbour for a three hour party cruise hosted by KOOL 96.5 personalities Jamie Paterson, Griff Henderson and Caroline Parker.

The ship-based social had live music, food, and KOOL 96.5 giveaways for those in attendance. This event was a reciprocation of appreciation for KOOL 96.5 to its listeners, as the popular Halifax station showed its fellow Haligonians a good time.

CHARITY HIGHLIGHT

Striking out hunger

Halifax's Q104 Hunger Strike is one of the city's longest-running examples of Newcap's charitable philosophy. Each December, the quarter-century old rock station invites its listeners to donate non-perishable food items for regional food banks, as Q104 personalities broadcast their hunger strike on-air. Ted Hyland, the General Manager of Newcap's Halifax FM stations KOOL 96.5 and Q104, is fastidious about where his stations invest their time and money. "We would love to help everyone. Often we don't tell them no, we just have to say not now, and look for future opportunities to help them. Our aim, from a corporate perspective, is to work with as many charities as possible to help us strengthen our emotional anchor in the community. Feed Nova Scotia is a perfect example of that."

VOCM Cares celebrates 25 years

In 2008, Newcap's VOCM Cares Foundation celebrated its 25th year of service to charities across Newfoundland and Labrador. The VOCM Cares foundation has enriched the lives of children throughout the province since 1983, by providing warm winter coats to thousands of children as part of their "Coats for Kids" campaign, and donating innumerable hampers of food and gift packages through their "Happy Tree" program. John Murphy, General Manager of Newcap Newfoundland and Labrador, and President of the VOCM Cares Foundation, was thankful for the opportunity to help: "On behalf of the VOCM Cares Board of Directors I would like to extend my sincere thanks to the people of this province for enabling the VOCM Cares Foundation to provide such a valuable service to charities across Newfoundland and Labrador. Whether you purchased a bingo card, bought a lottery ticket or slipped a gift under the Happy Tree, you have allowed us to help someone else and we look forward to continuing this service well into the future."

THE BEST RADIO TALENT DRIVES RESULTS

We depend on our talented employees to drive results for the Company. Skilled radio professionals are among the hottest commodities in the industry. Newcap takes great pride in its 850-plus radio professionals.

Top: Capital FM's Rob & Audie (Edmonton)

Bottom: Mandy Dennis, Sales Co-Ordinator, K-Rock and Ocean FM (Charlottetown)

MEASURING UP

We continue to steadily and cautiously follow through with our growth strategy – our foundation for continued success. Here is how we measured up in 2008:

	1	2	3
Goal	**1** Maximize Return of Existing Radio Assets	**2** Grow by New Licences & Converting AM Stations to FM	**3** Grow by Acquisition
How?	> Continuously improve in programming, research and marketing to capture market share, listeners and advertisers > Offer innovative advertising campaigns > Monitor and control operating costs	> Apply for new licences in strategic markets > Consider every CRTC call for radio applications > Apply to convert AM stations to FM	> Continue to assess new acquisition opportunities that meet our investment criteria
Why?	> Creates margin expansion and promotes leadership in local markets	> Increases asset value of portfolio and creates greater market presence for listeners and advertisers	> Delivers immediate incremental cash flow from new and high-growth markets
2008	> Grew local revenue by 9% > Focused on generating returns in Calgary, Edmonton and Ottawa – our largest markets > Re-launched underperforming FM stations in Calgary and Edmonton to capture a wider listener base	> Launched three new FM stations: K-Rock in Fort McMurray, K-Rock in Kentville and The Giant in Sydney > Converted Carbonear's AM station to FM and re-launched the station in early 2008 > Received CRTC approval to convert Athabasca's AM station to FM in late 2008	> Acquired the remaining 50% interest in Metro Radio Group Inc. which operates CKUL-FM (KOOL 96.5) in Halifax > Received CRTC approval to exchange radio stations, swapping KIXX 780 AM in Halifax for CIGM AM in Sudbury. CRTC also granted approval to convert the station from AM to FM

MANAGEMENT'S

Kool 96.5 FM's Griff Henderson
(Halifax)

DISCUSSION & ANALYSIS

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 13, 2009, and related notes contained in this 2008 Annual Report. Certain comparative figures have been reclassified in order to conform with the basis of presentation adopted in Fiscal 2008.

These documents along with the Company's Annual Information Form, its Management Proxy Circular dated March 27, 2009 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.

Table of Contents (MD&A)

OUR BUSINESS

Corporate profile

Newfoundland Capital Corporation Limited (the "Company") is one of Canada's leading radio broadcasters with 81 licences across Canada. With over 850 of the country's most talented radio professionals, 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's portfolio of radio assets consists of 55 FM and 26 AM broadcast licences. Most of our stations are globally accessible via the Internet, allowing listeners the flexibility to tune in to our stations at any time from anywhere.

The Company's primary source of revenue is derived from the sale of advertising airtime. Fluctuations in the local and Canadian economies, competition from other broadcasters for listeners, other advertising media and government broadcasting regulations have a direct impact on revenue.

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

2008 highlights

While the global economic downturn has impacted the Company's consolidated financial results, the broadcasting segment, which is the Company's primary operating segment, performed very well in 2008. In terms of expansionary activities, the Company completed an acquisition and launched several new stations which generated impressive results in their first year of operations. These and other 2008 highlights are summarized below:

- Revenue of $105.8 million was $7.0 million or 7.0% higher than last year;
- Earnings before interest, taxes, depreciation and amortization ("EBITDA")(1) of $10.3 million were $7.3 million or 41.5% lower than 2007 due to realized and unrealized losses of $9.4 million from the Company's marketable securities;
- The net loss of $4.4 million was significantly lower than last year due to this year's realized and unrealized losses in marketable securities, the $1.3 million goodwill impairment loss, and because 2007 included significant realized gains and future tax recoveries. Excluding the impact of these events, net income would have been $4.6 million compared to last year's $6.2 million.
- Consistent with prior years, a total of $0.30 dividends per share were declared on Class A subordinate Voting Shares and Class B Common shares;
- In July, the Company acquired the remaining 50% interest in Metro Radio Group which operates CKUL-FM in Halifax, Nova Scotia.
- The Company launched the following new stations this year:
  - K-Rock in Fort McMurray, Alberta
  - K-Rock in Kentville, Nova Scotia
  - The Giant in Sydney, Nova Scotia

(1) Refer to page 30 for the reconciliation of EBITDA to net income

Our industry

The broadcasting industry is regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC"). This agency is responsible for determining when a new licence should be awarded and to which applicant it should be granted. The term of a licence and renewal thereof, which generally occurs every seven years, is mandated by the CRTC. Conditions of licences are often imposed and broadcasters are expected to adhere to the conditions. In instances of non-compliance, the CRTC may revoke or suspend the licence.

The regulatory environment is such that, depending on the size of a particular market, a broadcaster is subject to a maximum number of AM or FM licences. This serves to limit the number of competitors that can participate in a market, but it also limits the broadcaster's ability to increase its total number of licences in any given locale.

In recent years, the CRTC has granted many new licences. For example, the CRTC recently awarded four new FM licences in Edmonton, Alberta. Increased competition impacts broadcasters in many ways. Most importantly it impacts revenue because the total advertising dollars available in a market is being split among more broadcasters which impacts market share. Broadcasters must become increasingly creative to maintain and increase their listener base since there are more tuning alternatives. Since advertising revenue is highly correlated with market share, it is extremely important to capture as many listeners as possible to increase revenue. 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. National advertisers book airtime through agencies that use the BBM ratings' results to determine which stations to buy.

Impact of current economy

During 2008, the global economy and global stock markets suffered significant declines. The Company's investment portfolio of marketable securities has experienced significant declines in value which has negatively impacted financial results and will continue to impact results until the market stabilizes. The Company, like many other organizations, has felt the effects of the recent economic downturn and as a result has re-aligned its short-term focus to maximizing organic growth and reducing the debt levels of the Company.

From an operations point of view, the Company continues to post positive revenue growth and revenue bookings for the first quarter of 2009 continue to show positive growth. The Company's stations are geographically dispersed which mitigates the economic impact of any one particular market and the radio business itself has been resilient in past economic slowdowns. The Company's local focus has been a cornerstone of its success in the past. Management is of the view that this local presence and connection with the community will serve the Company well during these uncertain times. In spite of the overall economic challenges, in 2008 the Company's local revenue grew by 9%. This is where the Company's sales professionals excel – forming relationships with local advertisers.

Subsequent to year end, in January 2009, the Company announced that it would not proceed with its previously announced agreement to acquire 12 FM radio licences from Haliburton Broadcasting Group Inc. Because of the seriously deteriorating credit markets, increased costs of borrowing and the current economic state, it was determined that it was not the appropriate time to increase the debt levels of the Company. The acquisition was subject to CRTC approval; however both parties to the agreement mutually agreed to not proceed with the application. The Company has the option to continue with this acquisition under the same terms and conditions up until April 30, 2010. Management will monitor the economic environment to determine if it wants to exercise this option.

Strategy and environment

With the Company's main goal being to increase value for shareholders, the Company's long-term strategy remains the same – adding new licences through business and licence acquisitions and through the CRTC licence application process; converting AM stations to FM and maximizing returns on existing operations.

While all of these continue to be important and form the basis of the long-term plan, due to the uncertain economic climate, management is focused on organic growth and reducing debt in the short-term. Management will continue to explore acquisition opportunities that fit the Company's growth strategy; however, it will not proceed with any transactions, projects or activities that are not cash accretive in the near term, pose unnecessary risks, or result in increasing debt to a level beyond management's tolerance. Decisions as to proceeding with new undertakings will be made in the best interest of the Company and its shareholders.

Current objectives

Organic growth:

These are the specific areas that will contribute to the organic growth of our operations:

> **Revenue growth**
> The Company will continue its emphasis on sales training and on building relationships with its clients so that advertisements reach the targeted audience and bring in the desired results. In 2008, local advertising grew while national ad revenue was on par with 2007. This demonstrates the importance of maintaining a local focus and having strong relationships with local customers.

> **Cost control**
> The budgeting process for 2009 was more robust than ever before; all costs will be closely monitored against budget. This is particularly true for fixed costs. Where the expense is not expected to benefit the bottom line, it will be deferred. Other cost-saving measures have been established as well such as keeping compensation for 2009 more or less at the 2008 level, reducing discretionary meetings and travel and deferring certain other costs to a time when the economy begins to show positive momentum.

> **Cash flow management**
> Given the tightening credit markets, the increased costs of borrowing, and since there are no major financing requirements in the near term, the Company will focus on reducing its debt.

Growth through new licences:

Despite the current economic conditions, the Company continues to expand in 2009 with the following initiatives:

> **New FM in Sudbury, Ontario**
> The CRTC approved the Company's agreement to exchange the Halifax, Nova Scotia AM licence in return for a Sudbury, Ontario AM licence and cash consideration of $5.0 million. The CRTC also granted approval to convert this licence from AM to FM. This will be the Company's second station in Sudbury and management plans to convert the signal to FM and launch within the next six months. This will positively impact the bottom line due to cost synergies arising from operating two stations and the ability to sell a two-station combo that reaches a broad audience.

> **Conversion of AM to FM**
> Management is currently working on converting the AM station in Athabasca, Alberta to FM after the CRTC approved the application in late 2008. The station is expected to be on-air in 2009.

> **4 new repeater licences**
> In late January 2009, the Company received approval for four repeater licences that will allow it to broadcast its current Charlottetown, Prince Edward Island FM stations in two new communities serving the same province. Appealing to a larger audience will attract more revenue. Planning will begin on these installations in 2009.

> **New applications**
> The Company has submitted various applications to the CRTC for new FM licences and for AM to FM conversions. Management will react quickly to any positive decisions on any of these applications.

Investment in people:

Talented radio professionals are the cornerstone of the Company's success. These are the people behind the programming, content and sound of the radio stations. The recruitment and retention of the best and brightest professionals will always be a central objective.

Community involvement:

Whether we assist with fund-raising, collect food, promote, or host charitable initiatives, we are dedicated to serving our communities and this commitment has been demonstrated throughout this Annual Report. In 2008 we supported over 1,396 charitable organizations and contributed over $8.7 million in funds to these organizations in personnel volunteer hours, airtime donated, and cash raised. We are proud to say that we are a window to each of our communities, fully aware of our common challenges and ready to celebrate our common achievements.

WHY RADIO IS A SOUND BUSINESS

Radio is the second oldest advertising medium, after the newspaper, and it has proven to be a resilient business. It has survived times of economic uncertainty again and again, faced competition from new forms of media and all the while, the radio industry has continued to post growth in advertising revenue. We believe radio is a good business for these key reasons:

- **It fosters loyal listeners and advertisers because of its local focus;**
- **It provides year over year earnings growth and is less capital intensive than other forms of media;**
- **It is accessible to large and small advertisers alike; and**
- **It outperforms any other media in terms of its cost effectiveness and its immediate reach to a targeted audience.**

No other form of media is able to react as quickly to local news and events. Radio is often the first to broadcast a current news event—as it happens. The bond that is created between a local radio station and its audience is difficult to replicate since a radio station is so very connected to the community it serves.

Left: Chris Batstone, Assistant Program Director for K-Rock 97.5 and afternoon drive host, K-Rock 97.5 (St. John's)

Right: Mike Campbell, Program Director for Newfoundland and Labrador stations and morning show host, K-Rock 97.5 (St. John's)

Corporate developments

These are the significant corporate developments and should be considered when reviewing the "Consolidated Financial Review" section.

2008 Developments

- March 2008 – Re-launched two stations in Alberta; CIQX-FM in Calgary as XL103-FM, and CKRA-FM in Edmonton as Capital-FM. Both feature Classic Hits from the 60's, 70's, and 80's and are outperforming their predecessors.
- June 2008 – Launched three new FM stations in Fort McMurray, Alberta, and in Kentville and Sydney, Nova Scotia. The formats are Classic Rock for Fort McMurray and Kentville while the Sydney station plays Top 40 music.
- July 2008 – Completed the purchase of the remaining 50% interest in Metro Radio Group Inc. for $8.5 million. Metro Radio Group Inc. operates CKUL-FM in Halifax, Nova Scotia.
- July 2008 – Announced it had an agreement to exchange radio stations with Rogers Broadcasting Limited (a Division of Rogers Communications Inc. RCI.A and RCI.B) subject to approval from the CRTC. The Company will exchange its AM broadcast licence in Halifax, Nova Scotia and receive in return Rogers' AM licence in Sudbury, Ontario and cash consideration of $5.0 million. Both simultaneously submitted applications for this transfer of assets along with applications requesting conversion of the AM licences to FM. In November 2008, the CRTC approved these applications and the new Sudbury FM should be on-air within the next six months.
- July 2008 – CRTC approved the Company's application for a new FM repeating signal in Pincher Creek, Alberta. This was on-air in early January 2009.
- December 2008 – CRTC approved the Company's application to convert an AM signal to FM in Athabasca, Alberta.
- January 2009 – Received CRTC approval for four new FM repeater licences. These will allow the Company to broadcast the two FM stations in Charlottetown, Prince Edward Island to two new communities in the same province.

2007 Developments

- January 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 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 2007 featuring classic hits.
- March 2007 – Successfully launched the new Calgary, Alberta FM station, "FUEL-FM", featuring an alternative format.
- April 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 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 22 of the Company's 34 licences throughout the province of Alberta. The Company now owns 100% of this subsidiary.
- July 2007 – Awarded the right to convert Carbonear, Newfoundland and Labrador AM licence to FM. The FM station was launched in January 2008.
- July 2007 – Awarded two new FM licences in Nova Scotia, one in Sydney and one in Kentville. These were launched in June 2008.
- October 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 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.

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 between 2006 and 2008 was due largely to new licences and acquisitions, and revenue growth was attributed to a combination of organic and incremental increases. These are some of the other significant factors that affected results between 2006 and 2008:

- 2006 – Company recognized net gains of $8.7 million on marketable securities;
- 2007 – 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.;
- 2008 – Company recorded a total of $9.4 million in losses related to the Company's marketable securities of which $7.9 million was unrealized. A goodwill impairment loss of $1.3 million also negatively impacted net income.

SELECTED FINANCIAL HIGHLIGHTS

(thousands of dollars, except share data)		2008	2007	2006
Revenue	$	**105,781**	98,818	93,937
Net income (loss)		**(4,369)**	20,313	11,967
Earnings per share				
Net income				
– basic		**(0.40)**	1.83	1.07
– diluted		**(0.40)**	1.77	1.04
Total assets	$	**238,634**	231,296	217,762
Long-term debt		**73,840**	61,005	53,771
Outstanding shares (thousands)				
Class A Subordinate Voting Shares		**9,733**	9,833	9,941
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 $105.8 million improved by 7.0% or $7.0 million over last year; this improvement came exclusively from the broadcasting segment.

Other Income (expense)

In 2008, unrealized declines in the value of the Company's marketable securities and realized losses from the divestiture of certain securities have resulted in consolidated other expense of $8.5 million compared to other income last year of $0.2 million. Other income (expense) is not part of core operations; it is solely derived from the corporate and other segment.

Operating Expenses

Consolidated operating expenses of $87.0 million were $5.6 million or 6.9% higher than last year. The increase was all a result of higher costs in the broadcasting segment.

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

The above-described losses from the portfolio of marketable securities drove consolidated EBITDA down to $10.3 million compared to $17.6 million last year. Excluding consolidated other income (expense), EBITDA would have been higher than 2007 by $1.4 million, or 7.8%.

More detailed information on revenue, other income (expense), operating expenses and EBITDA is described in the section entitled "Financial Review by Segment".

Depreciation and Amortization

Depreciation and amortization expense was $0.2 million higher compared to 2007; a result of an increased depreciable asset base in the broadcasting segment due to new stations.

Interest Expense

Interest expense was $0.8 million higher than the prior year due to the Company's higher debt levels as compared to last year.

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 $1.0 million was $0.2 million lower than last year as a result of the expense being higher in the initial years of payment.

Goodwill Impairment Loss

As a result of conducting the annual goodwill impairment analysis as at August 31, 2008, the value for goodwill that arose in 2005 and 2006 from two business acquisitions in Winnipeg, Manitoba could not be supported and therefore, the Company has recorded an impairment loss of $1.3 million.

Gain on Disposal of Equity Accounted Investment

The Company disposed of its interest in Larche Communications (Kitchener) Inc. on April 12, 2007 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 which resulted in a gain of $10.8 million.

Income Taxes

The effective income tax rate was significantly different than the statutory rate of 35.5% due to many factors which are fully described in Note 14 of the Company's audited consolidated financial statements. Some of the more significant reasons for the large tax expense consist of future tax expense arising from the origination and reversal of timing differences and non-taxable portion of realized and unrealized capital losses.

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. and the 37.8% that minority shareholders had in Atlantic Stereo Limited. The Company acquired both of these minority interests in 2007. Non-controlling interest accounting was no longer required as of the acquisition dates.

Net Income (Loss)

The net loss of $4.4 million is much lower than last year's net income of $20.3 million. This year's results were negatively impacted by the realized and unrealized losses from marketable securities and the goodwill impairment loss. Last year, net income was positively affected by gains from disposal of long-term investments as well as future income tax recoveries of $2.4 million. When excluding these items, net income would have been $4.6 million compared to $6.2 million in 2007, lower due to increased interest costs.

Other Comprehensive Income ("OCI")

OCI consists of the net change in the fair value of the Company's cash flow hedges and assets available-for-sale. Cash flow hedges include interest rate swaps and an equity total return swap. The net change in the fair value of the interest rate swaps recorded in OCI was an after-tax decrease of $4.6 million (2007 – increase of less than $0.1 million). The net change in the fair value of the equity total return swap recorded in OCI was an after-tax decrease of $0.3 million (2007 – increase of $0.3 million). The asset available-for-sale was the investment in Halterm Income Fund Trust Units which was disposed of in January 2007. The disposition resulted in an after-tax gain of $8.9 million which was transferred from OCI to net income in the first quarter of 2007.

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 17 of the Company's audited consolidated financial statements.

FINANCIAL RESULTS BY SEGMENT

(thousands of dollars, except percentages)	2008	2007	Growth
Revenue			
Broadcasting	**$ 102,210**	95,392	7.1%
Corporate and other	**3,571**	3,426	4.2%
Consolidated revenue	**105,781**	98,818	7.0%
Other income (expense)			
Corporate and other	**(8,516)**	155	—
Consolidated revenue and other income (expense)	**97,265**	98,973	(1.7%)
Operating expenses			
Broadcasting	**76,097**	68,600	10.9%
Corporate and other	**10,856**	12,759	(14.9%)
Consolidated operating expenses	**86,953**	81,359	6.9%
EBITDA			
Broadcasting	**26,113**	26,792	(2.5%)
Corporate and other	**(15,801)**	(9,178)	—
Consolidated EBITDA	**$ 10,312**	17,614	(41.5%)

EBITDA MARGINS

	2008	2007	Growth
Broadcasting	**25.5%**	28.1%	(2.6%)
Consolidated	**10.6%**	17.8%	(7.2%)

Broadcasting Segment

The broadcasting segment derives its revenue from the sale of broadcast advertising from its 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

Broadcasting revenue increased by $6.8 million, or 7.1%, to reach $102.2 million. One half of this increase came from organic (same-station) growth. The Ottawa, Ontario stations were the largest contributors to organic growth, posting a 25% increase in revenue over the prior year. Incremental growth was driven by revenue from our new FM stations launched in June 2008 in Sydney and Kentville, Nova Scotia and Fort McMurray, Alberta. Both new stations in Nova Scotia significantly exceeded expectations in their first year of operation.

Overall, the 7.1% growth rate for broadcasting revenue has exceeded the industry's performance and that of most other forms of media. That growth was entirely derived from local revenue; national sales were on par with 2007 levels. The flat growth rate in national advertising revenue appears to be industry-wide and is consistent with expectations for 2009 given the current economic climate.

Broadcasting Operating Expenses

Broadcasting operating expenses were $76.1 million, up $7.5 million, or 10.9% over last year. Variable costs were up in line with increased revenue. Incremental expenses from the new stations launched in 2008 totalled $2.8 million, representing approximately 37% of the total increase. Unusual overages in operating expenses were also attributable to CRTC Part II fees and expenditures related to re-launching stations in two very important markets. These are described below.

The Company incurred $1.3 million additional costs due to CRTC Part II fees, of which $0.6 million related to 2007. In the third quarter last year, the Company ceased to accrue CRTC Part II Licence fees in accordance with a court ruling at that point in time and reversed $0.6 million of fees that related to fiscal 2007. On April 28, 2008, the Federal Court of Appeal reversed the original decision and found that the fees are a valid regulatory charge. As a result of this decision the Company had to recognize the obligation as it pertained to these fees retroactively to January 1, 2007, although the CRTC has not yet proceeded to collect these fees.

In March 2008, the Company re-launched two FM stations playing classic hits in Calgary and Edmonton, Alberta; two of our largest markets. In doing so, the Company spent approximately $1.0 million more in marketing, research and restructuring costs. These costs were incurred knowing that revenue would not be positively affected until 2009. Ratings in these key markets showed significant improvements over the predecessor stations which also helps to bolster revenue.

Broadcasting EBITDA

Broadcasting EBITDA of $26.1 million was down $0.7 million or 2.5% compared to last year. If the above CRTC Part II fees and the amounts related to re-launching the stations in Calgary and Edmonton were excluded, EBITDA in 2008 would have been $28.4 million which would have represented a $1.6 million or 6.0% increase over 2007. EBITDA margins would also have been better than reported at 27.8%, just slightly lower than last year's 28.1%.

The stations contributing favourably to organic EBITDA growth were Ottawa, Ontario, 48.6% better than last year, and the small market properties in Alberta with a 28.8% increase over 2007.

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 impacted by the economic and related market conditions.

Corporate and Other Revenue

Corporate and other revenue increased by $0.1 million, or 4.2%, due to increased hotel revenue.

Corporate and Other - Other Income (expense)

Other income (expense) relates to investment income and consists of realized and unrealized gains and losses related to the Company's investment portfolio of marketable securities, interest, dividends and distributions from investments. This year's other expense was $8.5 million versus last year's income of $0.2 million. Stock prices in the general Canadian trading market experienced significant declines in 2008. As a result, the value of marketable securities has decreased significantly compared to 2007. Unrealized losses totalled $7.9 million for the year due to mark-to-market accounting for the marketable securities (2007 - unrealized gains of $0.4 million). The Company also realized losses of $1.5 million from the divestiture of some of its marketable securities (2007 – losses of $0.8 million).

Corporate and Other Operating Expenses

Corporate and other operating expenses of $10.9 million were down from $12.8 million because of reduced executive compensation.

Corporate and Other EBITDA

Corporate and other EBITDA was down $6.6 million compared to 2007 largely due to the declines in value of the marketable securities.

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 2008, the unrealized changes in the value of marketable securities affected net income in the quarters as follows: positive variances of $0.7 million in the first quarter and $4.8 million in the second quarter and negative fluctuations of $8.8 million and $4.6 million in the third and fourth quarters, respectively. 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.

(thousands of dollars, except share data)		Quarter				
		1st	2nd	3rd	4th	Year
2008						
Revenue	**$**	**21,738**	**27,423**	**26,658**	**29,962**	**105,781**
Net income (loss)		**722**	**6,371**	**(7,566)**	**(3,896)**	**(4,369)**
Earnings per share						
– basic		**0.07**	**0.58**	**(0.69)**	**(0.35)**	**(0.40)**
– diluted		**0.06**	**0.56**	**(0.69)**	**(0.35)**	**(0.40)**
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

Liquidity and capital resources

The following table depicts the major sources of cash inflows and outflows in 2008 and 2007.

CASH INFLOWS

(thousands of dollars)		2008	2007
Funds generated from operations	**$**	**12,871**	10,243
Change in working capital		**1,878**	(6,089)
Cash generated from operating activities		**14,749**	4,154
Long-term debt borrowings		**12,840**	21,000
Proceeds from disposal of Halterm Income Fund Trust Units and equity accounted investment		**—**	18,547
Employee share purchase loan repayment		**—**	2,826
Note receivable		**—**	1,000
Other		**886**	2,371
Total Inflows	**$**	**28,475**	49,898

CASH OUTFLOWS

(thousands of dollars)		2008	2007
Acquisition of businesses, licences and non-controlling interests	$	**(8,500)**	(17,645)
Long-term debt repayments		**(23)**	(13,766)
Property and equipment additions		**(5,591)**	(5,981)
Repurchase of capital stock		**(1,805)**	(3,737)
Canadian Content Development commitment payments		**(3,944)**	(3,491)
Dividends paid		**(4,962)**	(3,343)
Other		**(3,650)**	(1,935)
Total Outflows	$	**(28,475)**	(49,898)

Cash Flows – 2008

Cash flows from operating activities of $14.7 million along with long-term debt borrowings of $12.8 million were used to finance a business acquisition for $8.5 million, to purchase property and equipment totaling $5.6 million, to pay $5.0 million of dividends and to make CCD payments aggregating $3.9 million. Included in other outflows were pre-operating costs associated with the launch of the new FM stations.

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.

Capital Structure and Debt Financing

As at December 31, 2008 the Company had $2.0 million of current bank indebtedness outstanding and $73.8 million of long-term debt, of which less than $0.1 million is current. The Company has also issued standby letters of credit totaling $1.2 million in support of certain long-term liabilities. The working capital of $5.2 million at year-end was $8.4 million lower than last year's balance primarily due to the decrease in value of marketable securities. The capital structure consisted of 38.0% equity ($90.7 million) and 62.0% debt ($147.9 million) at year end.

Credit Facility and Future Financing

The Company's syndicated credit facility of $80.0 million was a revolving credit facility. The maturity date is June 2010 and as a result no portion of the revolving facility has been classified as current. Management anticipates that its facility will be renewed in 2010. Given the tightening credit markets, it is expected that interest costs and bank fees will increase upon renewal. The Company has chosen this type of credit facility because it provides flexibility with no scheduled repayment terms.

The Company's debt covenants include certain maximum or minimum ratios such as total debt to EBITDA, interest coverage and fixed charge coverage ratio. The total bank debt to EBITDA ratio, calculated in accordance with the Company's credit facility, was 3.9 to 1.0 at December 31, 2008. Other covenants include seeking prior approval for capital expenditures over a certain dollar limit, dividend payments over a certain amount per share, acquisitions in excess of a quantitative threshold and limits on the number of shares that can be repurchased in any given year. The Company was in compliance with the covenants throughout the year and at year end. The Company's focus on maximizing organic revenue growth combined with tight cost control will enable the Company to continue to meet its debt covenants in the foreseeable future.

Dividends Declared

For the fourth 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 October 3, 2008 to all shareholders of record as at September 5, 2008 and a $0.15 per share dividend was paid December 31, 2008 to shareholders of record at the close of business on December 23, 2008.

Capital Expenditures and Capital Budget

The more significant investments in property and equipment in 2008 were as follows:

- Capital costs associated with the launch of the new FM licences in Kentville and Sydney, Nova Scotia and Fort McMurray, Alberta;
- Capital costs associated with the repeater FM signal in Pincher Creek, Alberta; and
- General improvements and upgrades throughout the Company.

The capital expenditures for 2009 are expected to be approximately $5.0 million. The major planned expenditures include launching recently awarded AM to FM conversions as well as general improvements and upgrades. The Company continuously upgrades its broadcast equipment to improve operating efficiencies.

Cash Requirements in 2009

Other than for operations, the Company's cash requirements are mostly for interest payments, repayment of debt, capital expenditures, Canadian Content Development payments, dividends and other contractual obligations disclosed below. Cash generated from operations, combined with the availability of the credit facility, is sufficient to meet the Company's cash requirements. Based on this, the Company anticipates it will be able to meet all its future known cash requirements.

Contractual obligations

The following table summarizes the Company's significant contractual obligations and commitments as at December 31, 2008 and the future periods in which the obligations become due and payable. Additional details regarding these obligations are provided in the notes to the audited consolidated financial statements, as referenced in the table.

The Company recognizes long-term debt and CCD commitments (when stations are launched) as liabilities on the balance sheet. Operating lease commitments and CCD commitments related to recently awarded licences are disclosed in the notes.

As described in the "Liquidity and capital resources" section, the Company intends to renew the credit facility upon maturity 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 9 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.

CONTRACTUAL OBLIGATIONS

(thousands of dollars)		2009	2010	2011	2012	2013	There-after	**Total**
Long-term debt (NOTE 7)	$	5	73,840	—	—	—	—	**73,845**
Canadian Content Development commitments (NOTES 8 & 18(B))		3,183	2,123	2,177	2,398	2,161	493	**12,535**
Operating leases (NOTE 18(A))		2,940	2,405	1,934	1,744	1,330	4,141	**14,494**
Pension funding obligation		500	500	500	500	500	3,700	**6,200**
Total contractual obligations	$	6,628	78,868	4,611	4,642	3,991	8,334	**107,074**

(L–R): Hal Gardiner, News Director and morning show host, XL 103 FM (Calgary); BJ Wilson, Program Director / morning show host, XL 103 FM (Calgary); Heidi Lambie, Development Coordinator Food Industry, Calgary Food Bank

Financial condition

Capital Employed

Assets of $238.6 million are $7.3 million higher than last year. This is largely due to the business acquisition where the Company acquired the remaining 50% interest in CKUL-FM in Halifax, Nova Scotia. Detailed information on broadcast licence and goodwill activity during 2008 is contained in Note 3 of the Company's 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, as at August 31, 2008. The Company concluded that no provision for impairment of broadcast licences was required; however, an impairment loss on goodwill was recognized in net income. See Note 4 of the audited consolidated financial statements for further details.

Share Repurchases

During the year, the Company repurchased for cancellation a total of 100,000 (2007 – 198,800) of its outstanding Class A shares for a total cost of $1.8 million (2007 – $3.7 million), pursuant to Normal Course Issuer Bids. As a result of these share repurchases, capital stock was reduced by $0.4 million (2007 – $0.8 million) and retained earnings by $1.4 million (2007 – $2.9 million). Subsequent to year end the Company received approval under a Normal Course Issuer Bid to repurchase up to 486,659 Class A shares and 62,877 Class B Common Shares. This bid expires February 8, 2010.

Outstanding Share Data

The weighted average number of shares outstanding at December 31, 2008 was 11,016,000 (2007 – 11,094,000). The reduction is mainly due to shares repurchased. As of this date, there are 9,733,189 Class A Subordinate Voting Shares and 1,257,551 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 10(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 2,393,021 Class A shares have been granted, leaving 1,106,979 reserved for issuance. The number of Class A shares underlying outstanding options under the executive stock option plan is 790,000, of which 728,750 are vested, at prices ranging from $7.30 to $19.99. 351,979 options remain available to grant.

During the year, the Company granted 35,000 options (2007 – 100,000) at a weighted average exercise price of $19.99 (2007 - $19.43). The options vest at a rate of twenty-five percent on the date of grant and twenty-five percent on each of the three succeeding anniversary dates and they expire March 10, 2013. No options were exercised in 2008. In 2007, 23,750 options were exercised for proceeds of $0.2 million and 195,000 options were exercised on a cashless basis in exchange for 67,271 Class A shares, more fully described below. As a result, in 2007 capital stock was increased and contributed surplus was decreased by less than $0.1 million related to stock options exercised. Contributed surplus was increased by $0.2 million (2007 - $0.4 million) 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 $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 ("rights") at a reference price of $16.53. On March 2, 2007, 5,000 rights were granted at a reference price of $18.41 and on August 9, 2007, 85,000 rights were granted at a reference price of $19.91. As at December 31, 2008, 80,000 rights had expired. The rights vest at a rate of 50% at the end of year three, 25% at the end of year four and 25% at the end of year five and are exercisable as they vest. At the date of exercise, cash payments are made to the holders based on the difference between the market value of the Company's Class A shares and the reference price. All rights granted under this plan expire on the 60th day following the 5th anniversary of the grant date. For the year ended December 31, 2008, the compensation expense related to the rights was a recovery of $0.7 million (2007 – expense of $0.7 million) bringing the total obligation included in accounts payable and accrued liabilities to $0.1 million (2007 - $0.8 million was included in other long-term liabilities).

Derivative financial instruments and financial risk management

For more detailed disclosures about derivative financial instruments and financial risk management, refer to Note 13 of the audited consolidated financial statements.

Interest Rate Risk Management

To hedge its exposure to fluctuating interest rates on its long-term debt, the Company has entered into interest rate swap agreements with Canadian chartered banks. The swap agreements expire in 2013 and involve the exchange of the three-month bankers' acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and recorded as an increase or decrease to interest expense. The aggregate notional amount of the swap agreements was $60.0 million (2007 – $25.0 million). 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 aggregate fair value of the swap agreements, which represents the amount that would be payable by the Company if the agreements were terminated at December 31, 2008 was $6.8 million (2007 – receivable of $0.1 million). After-tax, the unrealized non-cash loss recognized in OCI for the year was $4.6 million (2007 – unrealized non-cash gain of less than $0.1 million).

Share Price Volatility Management

In July 2006, the Company entered into an agreement to hedge its obligations under the stock appreciation rights plan using an equity total return swap agreement to reduce the volatility in cash flow and earnings due to possible future increases in the Company's share price. Gains or losses realized on the quarterly settlement dates are recognized in income in the same period as the stock appreciation rights' 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 equity total return swap payable at December 31, 2008 was $0.2 million (2007 – receivable of $1.0 million). After-tax the unrealized non-cash loss recognized in OCI for the year was $0.3 million (2007 – unrealized non-cash gain of $0.3 million).

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The fair value of the Company's marketable securities is affected by changes in the quoted share prices in active markets. Such prices can fluctuate and are affected by numerous factors beyond the Company's control. In order to minimize the risk associated with changes in the share price of any one particular investment, the Company diversifies its portfolio by investing in various stocks in varying industries. It also conducts regular financial reviews of publicly available information related to its investments to determine if any identified risks are within tolerable risk levels. Despite the Company's intent to minimize this risk, the current stock market volatility has caused significant fluctuations in all its marketable securities. It is uncertain when this volatility will stabilize. As at December 31, 2008, a 10% change in the share prices of each marketable security would result in a $0.4 million after-tax change in net income.

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 fails to perform. Credit exposure is managed through credit approval and monitoring procedures.

With regard to the interest rate swaps and the equity total return swap, because the counterparties are Canadian Chartered Banks, the credit risk associated with these instruments would be deemed to be low. Since these derivative financial instruments were liabilities as at December 31, 2008, there was no credit risk associated with these counterparties.

The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize the concentration of credit risk. The Company does not require collateral or other security from clients for trade receivables; however the Company does perform credit checks on customers prior to extending credit. Based on the results of credit checks, the Company may require upfront deposits or full payments on account prior to providing service. The Company reviews its receivables for possible indicators of impairment on a regular basis and as such, it maintains a provision for potential credit losses which totalled $1.2 million as at December 31, 2008. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Approximately 89% of trade receivables are outstanding for less than 90 days. Amounts would be written off directly against accounts receivable and against the allowance only if and when it was clear the amount would not be collected due to customer insolvency. Historically, the significance and incidence of amounts written off directly against receivables have been low. In 2008, $0.4 million was written off which is less than 2% of the year end receivables' balance and less than 1% of revenue.

At December 31, 2008, the Company's credit exposure as it related to its receivables was slightly higher than in the past years due to the recent Canadian economic conditions. The Company sells advertising airtime primarily to retail customers and since their results may also be affected by the current economy, it is difficult to predict the impact this could have on the Company's receivables' balance. The Company maintains a provision for potential credit losses and it believes the provision to be adequate at this time given the current circumstances.

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. Management believes its liquidity risk is low given the known future cash requirements. The Company's growth is financed through a combination of the cash flows from operations and borrowings under the existing credit facility. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Please refer to the earlier discussion in the "Liquidity and Capital Resources" section for a more thorough discussion on this topic.

Capital Management

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

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 2008, 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, 2008, the Company adopted the recommendations of the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections: Section 1535 Capital Disclosures, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation. The changes in the accounting policies relate to disclosure and presentation only and did not have an impact on the Company's financial results.

Section 1535 Capital Disclosures

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

Section 3862 Financial Instruments – Disclosures &
Section 3863 Financial Instruments – Presentation

These Sections replace Section 3861 Financial Instruments – Disclosure and Presentation by revising and enhancing disclosure requirements while carrying forward the presentation requirements. The Sections increase the emphasis on disclosing the nature and extent of risks arising from financial instruments and how the entity manages those risks.

New accounting policies to be adopted in 2009 and future

Section 3064 Goodwill and Intangible Assets

The Accounting Standards Board approved new Section 3064 Goodwill and Intangible Assets replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development. This Section establishes the standard for recognition, measurement, presentation and disclosure of goodwill and intangible assets. This Section will be adopted by the Company effective January 1, 2009. The adoption of this Section will represent a change in how the Company accounts for its pre-operating costs related to new station launches. Currently, pre-operating costs are capitalized and amortized over the term of the broadcast licence. Capitalization of these costs will no longer be appropriate and therefore will be recorded in net income as incurred. For pre-operating balances that exist on January 1, 2009, they will be accounted for in accordance with Section 1506 Accounting Changes. The amount that will be charged against opening retained earnings upon adoption of this Section will approximate $2.8 million.

International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will be required for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. After that date, IFRS will replace Canadian GAAP for those enterprises. The Company will apply IFRS beginning January 1, 2011. The Company is assessing the effect of IFRS on its accounting policies, information systems, internal controls, financial statements and other business activities. At this time, management is not in a position to determine the full impact on its financial results.

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. A general allowance is also estimated for potential losses that takes into consideration external factors such as the economic climate. 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. Management continuously monitors each reporting unit's results and external factors; should circumstances arise that indicate a need to test for impairment, management would do so immediately.

Canadian Content Development Commitments
The Company measures its CCD commitments using the amortized cost using the effective interest method. 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 10(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 and laws which are expected to be in effect when the differences are expected to be recovered, settled or reversed. 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. 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 January 2009, the Company announced that it would not proceed with its previously announced agreement to acquire 12 FM radio licences from Haliburton Broadcasting Group Inc. The acquisition was subject to CRTC approval; however both parties to the agreement mutually agreed not to proceed with the application. The Company has an option to pursue this transaction under the same terms and conditions until April 30, 2010.

Hilary Montbourquette, General Manager,
(New Brunswick)

Controls and procedures

Disclosure Controls and Procedures

As part of the Form 52-109 certification, the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") must certify that they are responsible for establishing and maintaining disclosure controls and procedures and that they have designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities and that they have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by these annual filings. As at December 31, 2008, 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, 2008 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 certify that they are responsible for establishing and maintaining internal controls over financial reporting and have designed such Internal Controls over Financial Reporting ("ICFR"), 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, 2008, the CEO and the CFO, based on their evaluation, concluded that the design of ICFR provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

In addition, the CEO and CFO must certify that they have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's ICFR at December 31, 2008. Using the framework set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), management, under the supervision of the CEO and CFO, conducted its evaluation of the effectiveness of the Company's ICFR as at December 31, 2008. Based on this evaluation, the CEO and CFO concluded that the Company's ICFR are operating effectively and provide 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 2008, 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. Currently in Canada there is economic uncertainty that could have an impact on the Company's revenue, the magnitude of such impact is not known at this time. Historically, growth in advertising revenue has slowed during periods of declining economic growth.

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, 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. While the Company has benefited from this trend by being the recipient of some of these new licences, it has also been negatively affected by new competition in some locations. 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 the fees based on the October 2005 rates, there was no impact on net income.

The Copyright Board heard proposals in December 2008 related to five copyright tariff proposals for commercial radio. Agencies proposing these tariffs included NRCC, SOCAN, CSI (a coalition of SODRAC and CMRRA) and two groups that have no existing tariffs AVLA/SOPROQ (representing record labels), and Artisti (representing performers). The tariffs, if introduced, would impact the 2008 calendar year and all future calendar years. The CAB is acting on behalf of the broadcasters to oppose any tariff rate increases and has requested tariff reductions. The hearing concluded in late January 2009. It is not possible at this time to predict the impact these proposed tariffs will have on the Company’s results.

In October 2008, the Copyright Board issued a decision dealing with a part of SOCAN tariffs that would be collected on the communication of musical works on the Internet. The decision set rates payable from 1996 onward. The Company calculated the amount owing related to Internet streaming and the retroactive amount payable was not significant. Based on the Company’s current level of Internet revenue, the amount payable for this tariff in future will not significantly impact the Company.

Regulatory Environment – CRTC Licence Fees

Since 2001, the CRTC has levied Part II licence fees on all Canadian broadcasters. Broadcasters paid these fees in protest until December 15, 2006, when the Federal Court rendered a decision stating that the Part II licence fees were not a valid regulatory charge. In the third quarter of 2007, the Company deemed that because there had been no appeal of the December 2006 ruling that it was no longer appropriate to accrue for these fees in its results. The fees recognized in 2007 were reversed and the Company discontinued accruing the fees on a go forward basis.

On April 28th, 2008, the Federal Court of Appeal reversed the Trial Court decision on the CAB’s Part II Licence Fee challenge, and found that the fees are a valid regulatory charge. As a result of this decision, the Company has determined that the Part II fees meet the definition of a liability and has recognized the obligation as it pertains to these fees retroactively to January 1, 2007 even though the CRTC is still not collecting these fees. The total amount recorded year-to-date as operating expenses was $1.3 million, of which $0.6 million related to 2007.

The CAB filed an appeal to the Supreme Court of Canada and on December 18, 2008, the Court granted the CAB leave to appeal. The hearing is not expected to take place until fall 2009. It is unknown at this time if the appeal will be successful.

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.

Non-GAAP Measure

(1)EBITDA is defined as net income excluding depreciation and amortization expense, interest expense, accretion of other liabilities, goodwill impairment loss, 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)		**2008**	2007
Net income (loss)	**$**	**(4,369)**	20,313
Non-controlling interest in subsidiaries’ earnings		**—**	417
Provision for income taxes		**4,078**	3,089
Gain on disposal of long-term investment		**—**	(10,843)
Gain on disposal of equity accounted investment		**—**	(3,826)
Goodwill impairment loss		**1,334**	—
Accretion of other liabilities		**1,022**	1,187
Interest expense		**4,019**	3,203
Depreciation and amortization expense		**4,228**	4,074
EBITDA	**$**	**10,312**	17,614

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.

OUTLOOK

Outlook

In 2008, the Company continued its focus on organic growth while also adding new licences to its portfolio. Management remains committed to its long-term growth strategy; however, in the short-term, the Company will re-align its focus in light of the current economic state. Here are specific examples of what management intends to do in 2009:

- Continue to grow revenue, particularly local revenue where management has most control, by creating and maintaining strong relationships with local customers;
- Review stations' performance in terms of ratings and market share to ensure that our programming and content is fresh and compelling, as this directly impacts our share of the revenue in a market;
- Tightly monitor costs so that the Company benefits from every dollar spent;
- Manage cash flow and use free cash flow to reduce debt;
- Launch the new FM in Sudbury, Ontario and successfully integrate it into the operations of our existing FM station there to immediately benefit from increased revenue and cost synergies;
- Convert the Athabasca, Alberta AM station to FM – conversions such as this one have historically resulted in higher revenue while costs remain relatively stable;
- Begin the process of launching the repeater signals in Prince Edward Island in order to reach a larger audience, customer and revenue base;
- Apply to the CRTC for new licences across the country and for AM to FM conversions where it is appropriate;
- Continue to be heavily involved in our local communities, making sure we remain relevant and understand the needs of our listeners.

The radio business has been resilient through previous economic slowdowns. Our local focus has been a cornerstone of our success in the past, and we feel that this local presence and connection with the community will serve us well during these uncertain times. The Company's local revenue grew in 2008 and it has shown positive growth for the first two months of 2009. While we proceed cautiously, we still believe that we can achieve growth this year in our core operations.

With our talented group of professionals and our attention on the short-term and long-term strategy, Newfoundland Capital Corporation Limited is poised to succeed in 2009 and thrive in the future.

HANK FM contest winners,
(Winnipeg)

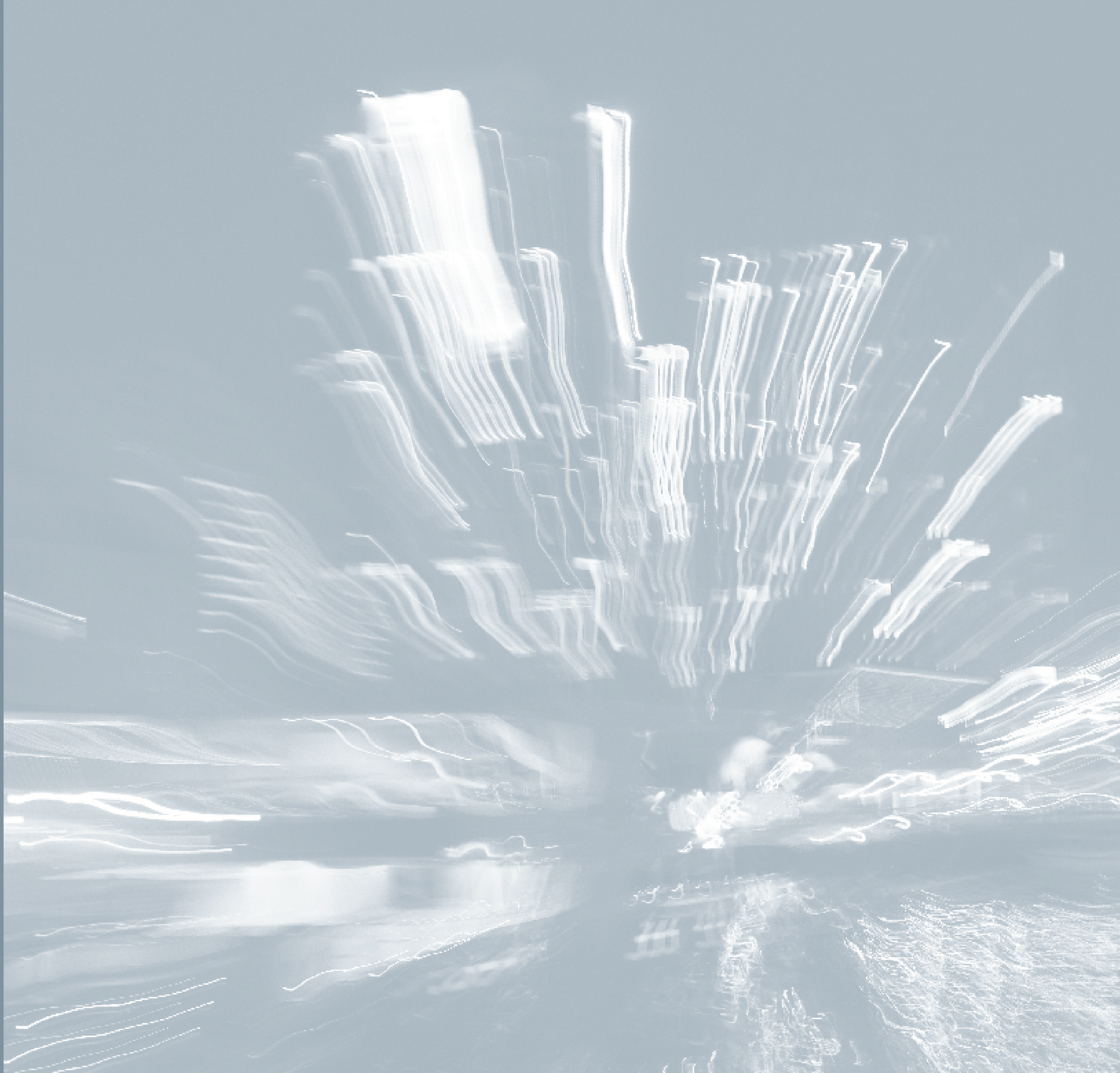


Table of Contents (Financials)

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, 2008, 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, 2008, the President and Chief Executive Officer and the Chief Financial Officer of the Company, after evaluating the design and effectiveness of the Company's internal controls over financial reporting, have concluded that the Company's internal controls over financial reporting are adequately designed and are operating effectively 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 13, 2009

Robert G. Steele
President and
Chief Executive Officer

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, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Halifax, Canada
February 13, 2009

CONSOLIDATED BALANCE SHEETS

As at December 31

(thousands of dollars)		2008	2007
Assets			
Current assets			
Marketable securities (NOTE 13(A))	$	**4,196**	16,167
Receivables		**24,054**	21,351
Prepaid expenses		**974**	966
Other assets (NOTE 6)		**—**	614
Future income tax assets (NOTE 14)		**4,156**	2,703
Total current assets		**33,380**	41,801
Property and equipment (NOTE 5)		**37,342**	35,234
Other assets (NOTE 6)		**7,025**	4,642
Broadcast licences (NOTE 3)		**151,773**	143,245
Goodwill (NOTES 3 & 4)		**7,045**	4,859
Future income tax assets (NOTE 14)		**2,069**	1,515
	$	**238,634**	231,296
Liabilities and Shareholders' Equity			
Current liabilities			
Bank indebtedness (NOTE 7)	$	**2,003**	1,117
Accounts payable and accrued liabilities		**17,446**	18,053
Dividends payable		**—**	1,664
Income taxes payable		**8,719**	7,313
Current portion of long-term debt (NOTE 7)		**5**	23
Total current liabilities		**28,173**	28,170
Long-term debt (NOTE 7)		**73,840**	61,005
Other liabilities (NOTE 8)		**23,953**	19,665
Future income tax liabilities (NOTE 14)		**21,991**	17,504
Shareholders' equity		**90,677**	104,952
	$	**238,634**	231,296

Commitments and contingencies (NOTE 18)

Subsequent event (NOTE 19)

See accompanying notes to the consolidated financial statements

On behalf of the Board

H.R. Steele
Director

D. I. Matheson
Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the years ended December 31

(thousands of dollars, except per share data)		2008	2007
Revenue	$	**105,781**	98,818
Other income (expense)		**(8,516)**	155
		97,265	98,973
Operating expenses		**86,953**	81,359
Depreciation		**3,591**	3,463
Amortization of deferred charges		**637**	611
Operating income		**6,084**	13,540
Interest expense (NOTE 7)		**4,019**	3,203
Accretion of other liabilities (NOTE 8)		**1,022**	1,187
Goodwill impairment loss (NOTE 4)		**1,334**	—
Gain on disposal of equity accounted investment (NOTE 3(D))		**—**	(3,826)
Gain on disposal of long-term investment (NOTE 1(N))		**—**	(10,843)
		(291)	23,819
Provision for income taxes (NOTE 14)		**4,078**	3,089
		(4,369)	20,730
Non-controlling interest in subsidiaries' earnings		**—**	417
Net income (loss)	$	**(4,369)**	20,313
Earnings per share (NOTE 15) – basic	$	**(0.40)**	1.83
– diluted		**(0.40)**	1.77

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31

(thousands of dollars)		2008	2007
Retained earnings, beginning of year	$	**59,621**	45,525
Net income (loss)		**(4,369)**	20,313
Dividends declared		**(3,298)**	(3,327)
Repurchase of capital stock (NOTE 11(B))		**(1,373)**	(2,890)
Retained earnings, end of year		**50,581**	59,621
Capital stock (NOTES 11(B) & 11(C))		**42,913**	43,345
Contributed surplus (NOTE 12)		**1,945**	1,778
Accumulated other comprehensive income (loss)		**(4,762)**	208
Total shareholders' equity	$	**90,677**	104,952

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31

(thousands of dollars)		2008	2007
Net income (loss)	**$**	**(4,369)**	20,313
Other comprehensive income (loss):			
Change in fair values of cash flow hedges			
Interest rate swaps (NOTE 13(B)):			
Increase (decrease) in fair value		**(6,715)**	72
Reclassification to net income of interest expense (income)		**253**	(8)
Related income tax recovery (expense)		**1,815**	(37)
		(4,647)	27
Total equity return swap (NOTE 13(C)):			
Increase (decrease) in fair value		**(1,275)**	1,081
Reclassification to net income of realized losses (gains)		**817**	(614)
Related income tax recovery (expense)		**135**	(163)
		(323)	304
Change in fair value of asset available-for-sale (NOTE 1(N))			
Realized gain on disposal of Halterm Income Fund Trust Units transferred to net income, net of income taxes of $1,952		**—**	(8,891)
Other comprehensive income (loss)		**(4,970)**	(8,560)
Comprehensive income (loss)	**$**	**(9,339)**	11,753

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31

(thousands of dollars)		2008	2007
Accumulated other comprehensive income, beginning of year	**$**	**208**	—
Transition adjustment for cash flow hedges, net of income tax recovery of $77 (NOTES 13(B) &13(C))		**—**	(123)
Transition adjustment for unrealized gains associated with available-for-sale investment, net of income taxes of $1,952 (NOTE 1(N))		**—**	8,891
Accumulated other comprehensive income, beginning of year		**208**	8,768
Other comprehensive income (loss) for the year		**(4,970)**	(8,560)
Accumulated other comprehensive income (loss), end of year	**$**	**(4,762)**	208

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(thousands of dollars)		2008	2007
Operating Activities			
Net income (loss)	$	(4,369)	20,313
Items not involving cash			
Depreciation and amortization		4,228	4,074
Future income tax (recovery) (NOTE 14)		2,597	(800)
Gain on disposal of long-term investment (NOTE 1(N))		—	(10,843)
Gain on disposal of equity accounted investment (NOTE 3(D))		—	(3,826)
Executive stock-based compensation plans (NOTES 10(B) & 10(C))		(523)	1,042
Accretion of other liabilities (NOTE 8)		1,022	1,187
Non-controlling interest in subsidiaries' earnings		—	417
Unrealized (gains) losses on marketable securities (NOTE 13(A))		7,906	(400)
Goodwill impairment loss (NOTE 4)		1,334	—
Other		676	(921)
		12,871	10,243
Change in non-cash working capital relating to operating activities (NOTE 16)		1,878	(6,089)
		14,749	4,154
Financing Activities			
Change in bank indebtedness		886	315
Long-term debt borrowings		12,840	21,000
Long-term debt repayments		(23)	(13,766)
Issuance of capital stock (NOTE 11(C))		—	185
Repurchase of capital stock (NOTE 11(B))		(1,805)	(3,737)
Dividends paid		(4,962)	(3,343)
Other		—	(605)
		6,936	49
Investing Activities			
Note receivable		—	1,000
Property and equipment additions		(5,591)	(5,981)
Acquisition of businesses, licences and non-controlling interests (NOTE 3(B))		(8,500)	(17,645)
Canadian Content Development commitment payments		(3,944)	(3,491)
Proceeds from disposal of Halterm Income Fund Trust Units and equity accounted investment (NOTES 1(N) & 3(D))		—	18,547
Deferred charges		(1,896)	(1,330)
Employee share purchase loan repayment		—	2,826
Other		(1,754)	1,871
		(21,685)	(4,203)
Cash, beginning and end of year	$	—	—

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

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

The Company's marketable securities are 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.

(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%

(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.

(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.

1 Summary of significant accounting policies (continued)

(g) Acquisitions, broadcast licences and goodwill (continued)

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. Goodwill impairment testing is carried out in two steps. If the fair value of a reporting unit exceeds its carrying amount, no impairment charge is recognized and the second step is not required. If step one fails, the second step involves allocating the fair value of the reporting unit to its identifiable assets and liabilities in order to determine the implied fair value of goodwill. If the implied fair value of goodwill is less than its carrying value, an impairment charge is recognized for the difference on the consolidated statements of income. The Company conducts its annual impairment test as at August 31. For the year ended December 31, 2008, the Company concluded that no provision for impairment of broadcast licences was required; however, an impairment loss on goodwill was recognized in net income in the third quarter. No such impairment loss was recorded in 2007. See Note 4 of the consolidated financial statements for further details.

(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 (2007 – 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 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 10(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 $2,574,000 (2007 – $2,032,000) and operating expenses of $2,580,000 (2007 – $1,958,000) pursuant to non-monetary transactions.

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. Under this method 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 and laws 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.

1 Summary of significant accounting policies (continued)

(m) Comprehensive income (continued)

Comprehensive income 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 of OCI components. Amounts recognized in OCI eventually must be reclassified to the income statement.

(n) Financial instruments

The Company's financial instruments have been classified as assets held for trading, assets available-for-sale, loans and receivables or other liabilities. The accounting for financial instruments varies depending on their classification. The following table illustrates the classification of the Company's financial instruments and the related measurement basis for accounting purposes:

Asset / Liability	Classification	Measurement
Cash and bank indebtedness	Held for trading	Fair value
Marketable securities	Held for trading	Fair value
Receivables	Loans and receivables	Amortized cost using EIM*
Note receivable	Loans and receivables	Amortized cost using EIM
Investment in Halterm Income Fund Units	Available-for-sale	Fair value
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

*EIM—Effective Interest Method

Marketable securities and cash are able to be settled in the near term; therefore, 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. Additional information is contained in Note 13(a).

On January 1, 2007, the investment in Halterm Income Fund Trust Units was classified as an asset available-for-sale and the investment was measured at fair value based on the quoted unit price in active markets. This resulted in an unrealized gain of $10,843,000 ($8,891,000 after-tax) which was recognized in OCI and in Accumulated Other Comprehensive Income ("AOCI") as a transition adjustment. The investment was sold on January 19, 2007 for proceeds of $14,547,000 at which time the gain was realized and transferred from OCI to be included in net income.

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.

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 the accounting policy for financial instruments, the Company has 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.

(o) Hedges

Derivatives designated as hedges must be recorded on the balance sheet at fair value. Gains and losses from any ineffectiveness in hedging relationships must 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.

2 Adoption of new accounting policies

(a) Impact of adopting new accounting policies

Effective January 1, 2008, the Company adopted the recommendations of the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections: Section 1535 *Capital Disclosures*, Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation*. The changes in the accounting policies relate to disclosure and presentation only and did not have an impact on the Company's financial results.

Section 1535 Capital Disclosures

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

Section 3862 Financial Instruments – Disclosures & Section 3863 Financial Instruments – Presentation

These Sections replace Section 3861 *Financial Instruments – Disclosure and Presentation* by revising and enhancing disclosure requirements while carrying forward the presentation requirements. The Sections increase the emphasis on disclosing the nature and extent of risks arising from financial instruments and how the entity manages those risks.

(b) Impact of adopting future accounting policies

Section 3064 Goodwill and Intangible Assets

The Accounting Standards Board approved new Section 3064 *Goodwill and Intangible Assets* replacing Section 3062 *Goodwill and Other Intangible Assets* and Section 3450 *Research and Development*. This Section establishes the standard for recognition, measurement, presentation and disclosure of goodwill and intangible assets. This Section will be adopted by the Company effective January 1, 2009. The adoption of this Section will represent a change in how the Company accounts for its pre-operating costs related to new station launches. Currently, pre-operating costs are capitalized and amortized over the term of the broadcast licence. Capitalization of these costs will no longer be appropriate and therefore will be recorded in net income as incurred. For pre-operating balances that exist on January 1, 2009, they will be accounted for in accordance with Section 1506 *Accounting Changes*. The amount that will be charged against opening retained earnings upon adoption of this Section will approximate $2,800,000.

3 Business and licence additions, acquisitions and disposals

(a) Broadcast licence additions

During 2008, the Company launched its new FM radio stations in Carbonear, Newfoundland and Labrador, Lac LaBiche and Fort McMurray, Alberta and Kentville and Sydney, Nova Scotia. Upon the launch dates, the Company became obligated to pay $225,000 in Canadian Content Development ("CCD") commitments per year for seven years. Using the amortized cost basis to record these commitments on the consolidated balance sheets, $1,235,000 was capitalized as broadcast licences and recorded in other liabilities. Costs incurred related to the award of new broadcast licences such as application costs are also capitalized bringing the total amount capitalized to broadcast licences related to new licence additions to $1,496,000.

In 2007, the Company launched its new FM radio station in Calgary, Alberta. Upon the launch date, the Company became obligated to pay CCD $1,000,000 per year for seven years. Using the amortized cost basis to record these commitments on the consolidated balance sheets, $4,718,000 was capitalized as broadcast licences and recorded in other liabilities. Costs incurred related to the award of this new broadcast licence such as application costs were also capitalized bringing the total amount capitalized to broadcast licences to $4,907,000.

(b) Business acquisitions

On July 2, 2008, the Company acquired the remaining 50% interest in Metro Radio Group Inc. ("MRG") which operates CKUL-FM in Halifax, Nova Scotia for $8,500,000. The purchase price was allocated to the net identifiable assets acquired on the basis of their estimated fair market values using the purchase method of accounting.

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.

3 Business and licence additions, acquisitions and disposals (continued)

(b) Business acquisitions (continued)

The earnings of the acquired businesses have been included in net income since the date of acquisition. 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)		MRG	New Licences	2008	2007
Working capital	$	18	(404)	(386)	(552)
Property and equipment		108	—	108	324
Broadcast licences		7,032	1,496	8,528	12,124
Goodwill		3,520	—	3,520	634
Future tax assets		120	—	120	—
Total assets acquired		10,798	1,092	11,890	12,530
Future income tax liabilities		(1,952)	—	(1,952)	(2,124)
Other liabilities		(346)	(1,092)	(1,438)	(4,251)
Net assets acquired	$	8,500	—	8,500	6,155
Net book value of non-controlling interest		—	—	—	11,490
Cash consideration	$	8,500	—	8,500	17,645

The amount of goodwill expected to de deductible for tax purposes related to the above transactions was $nil (2007 – $nil).

(c) Significant influence investment

On July 2, 2008, the Company paid $1,000,000 for a 29.9% interest in a company that operates an FM radio station. The investment is one in which the Company exercises significant influence and the share of future net profits or losses are accounted for in net income.

(d) 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 Goodwill impairment loss

As a result of conducting the annual goodwill impairment analysis, the value for goodwill that arose in 2005 and 2006 related to two business acquisitions in Winnipeg, Manitoba could not be supported and therefore, an impairment loss of $1,334,000 has been recorded. The Company concluded that there was no further impaired goodwill.

5 Property and equipment

(thousands of dollars)		Cost	Accumulated depreciation	Net book value
2008				
Land	**$**	**2,422**	**—**	**2,422**
Buildings		**9,024**	**2,552**	**6,472**
Equipment		**50,041**	**21,593**	**28,448**
	$	**61,487**	**24,145**	**37,342**
2007				
Land	$	2,422	—	2,422
Buildings		8,303	2,234	6,069
Equipment		44,964	18,221	26,743
	$	55,689	20,455	35,234

6 Other assets

(thousands of dollars)		2008	2007
Deferred charges, net of amortization	$	2,638	2,501
Accrued pension benefit asset (NOTE 9(B))		1,397	1,301
Customer-related intangible assets, net of amortization		272	287
Equity total return swap receivable, net of current portion of $nil (2007 – $614) (NOTE 13(C))		—	427
Investment and advances to affiliated company (NOTE 3(C))		2,392	—
Other		326	126
	$	7,025	4,642

The $310,000 customer-related intangible asset is being amortized on a straight-line basis over twenty years. Advances to the affiliated company are non-interest bearing and have no set terms of repayment. 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.

7 Bank indebtedness and long-term debt

(thousands of dollars)		2008	2007
Revolving term credit facility of $80 million, renewable bi-annually, maturing June 2010	$	73,845	61,000
Other mortgages and loans bearing interest at prime plus 1%, maturing to 2009		—	28
		73,845	61,028
Less: Current portion		5	23
	$	73,840	61,005

Minimum required principal repayments are as follows: 2009 – $5,000 and 2010 – $73,840,000. 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. For further discussion on this topic refer to the Liquidity Risk section of Note 13 to the consolidated financial statements.

Long-term debt bears interest at bankers' acceptance rates plus a premium based on certain financial ratios. To manage interest rate risk, on a portion of long-term debt, the Company has entered into interest rate swap agreements (see Note 13(b)) which fix the floating bankers' acceptance rates.

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 $3,533,000 for interest on long-term debt (2007 – $3,110,000).

8 Other liabilities

(thousands of dollars)		2008	2007
Canadian Content Development commitments related to broadcast licences awarded and acquired, net of current portion of $3,183 (2007 – $2,907)	$	9,016	10,498
Accrued pension benefit liability (NOTE 9(B))		6,169	6,081
Deferred tenant inducements		2,057	2,240
Stock appreciation rights payable, net of current portion of $67 (2007 – $nil) (NOTE 10(C))		—	757
Interest rate swap payable (NOTE 13(B))		6,711	89
	$	23,953	19,665

The scheduled payments for the CCD commitments over the next five years are as follows: 2009 – $3,183,000; 2010 – $2,075,000; 2011 – $2,129,000; 2012 - $2,350,000, 2013 - $2,112,000 and thereafter $350,000. 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 $1,022,000 (2007 - $1,187,000). 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 $1,160,000 in support of certain of these liabilities.

9 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 2008 were $1,314,000 (2007 – $1,330,000).

(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, 2008.

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):

		2008		2007
	Basic Plan	**SRPA**	Basic Plan	SRPA
Discount rate	**7.0%**	**7.0%**	5.4%	5.4%
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 effect of changing the assumptions of the discount rate from 5.4% last year to 7.0% this year has resulted in decreasing the pension obligations by $786,000 for the Basic Plan and $1,248,000 for the SRPA. Investment experience losses of $1,224,000 in the Basic Plan have also arisen.

The following summarizes the Company's defined benefit plans:

		2008		2007
(thousands of dollars)	**Basic Plan**	**SRPA**	Basic Plan	SRPA
Accrued benefit obligations				
Balance – beginning of year	**$ 4,080**	**8,624**	4,062	8,864
Current service cost	**79**	**—**	78	—
Interest cost	**218**	**426**	203	410
Benefits paid	**(153)**	**(512)**	(150)	(497)
Actuarial losses (gains)	**(849)**	**(1,140)**	(113)	(153)
Balance – end of year	**3,375**	**7,398**	4,080	8,624
Plan assets				
Fair value – beginning of year	**5,493**	**—**	5,477	—
Actual return on plan assets	**(845)**	**—**	162	—
Employee contributions	**4**	**—**	4	—
Benefits paid	**(153)**	**—**	(150)	—
Fair value – end of year	**4,499**	**—**	5,493	—
Funded status – plan surplus (deficit)	**1,124**	**(7,398)**	1,413	(8,624)
Unamortized net actuarial loss	**395**	**1,246**	20	2,569
Unamortized past service costs	**711**	**—**	868	—
Unamortized transitional asset	**(833)**	**(17)**	(1,000)	(26)
Accrued benefit asset (liability)	**$ 1,397**	**(6,169)**	1,301	(6,081)

The accrued pension benefit asset is included under other assets (Note 6) and the accrued pension benefit liability is included under other liabilities (Note 8).

9 Employee future benefit plans (continued)

(b) Defined benefit plans (continued)

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

	2008		2007	
(thousands of dollars)	**Basic Plan**	**SRPA**	Basic Plan	SRPA
Current service cost, net of employee contributions	**$ 75**	**—**	74	—
Interest cost	**218**	**426**	203	410
Actual loss (return) on plan assets	**845**	**—**	(162)	—
Difference between expected return and actual return on plan assets	**(1,224)**	**—**	(216)	—
Amortization of past service costs	**157**	**—**	157	—
Amortization of net actuarial losses	**—**	**183**	—	209
Amortization of transitional assets	**(167)**	**(8)**	(167)	(8)
Defined benefit plan expense (income)	**$ (96)**	**601**	(111)	611

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

	2008		2007	
	Basic Plan	**SRPA**	Basic Plan	SRPA
Equity funds	**48%**	**N/A**	57%	N/A
Fixed income funds	**29%**	**N/A**	19%	N/A
Money market funds	**23%**	**N/A**	24%	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.

10 Stock-based compensation plans

(a) Share purchase plan

Compensation expense for the Company's share purchase plan was $445,000 (2007 – $412,000) 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 2,393,021 Class A shares have been granted, leaving 1,106,979 reserved for issuance. The number of Class A shares underlying outstanding options under the executive stock option plan is 790,000. 351,979 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.

The following summarizes the Company's outstanding stock options which expire at varying dates from 2007 to 2014 and have a weighted average remaining contractual life of 3.50 years (2007 – 2.62 years).

	2008		2007	
	Number	**Price***	Number	Price*
Balance, beginning of year	**755,000**	**$ 9.70**	978,750	$ 10.45
Granted	**35,000**	**19.99**	100,000	19.43
Expired	**—**	**—**	(105,000)	15.88
Exercised	**—**	**—**	(218,750)	12.21
Balance, end of year	**790,000**	**10.80**	755,000	10.37
Total options vested	**728,750**	**10.05**	702,500	9.70

*weighted average exercise price

10 Stock-based compensation plans (continued)

(b) Executive stock option plan (continued)

Range of Exercise Price	Number of Options Outstanding at December 31, 2008	Weighted Average Remaining Life	Price*	Number of Options Exercisable at December 31, 2008	Price*
$ 7.30 – 8.00	**275,000**	**4.46**	**$ 7.92**	**275,000**	$ 7.92
8.40 – 8.95	**265,000**	**3.30**	**8.66**	**265,000**	8.66
11.66	**100,000**	**0.96**	**11.66**	**100,000**	11.66
16.53	**15,000**	**2.07**	**16.53**	**15,000**	16.53
19.43 – 19.99	**135,000**	**4.00**	**19.58**	**73,750**	19.50
	790,000	**3.50**	**10.80**	**728,750**	10.05

*weighted average exercise price

The compensation expense related to stock options for 2008 was $167,000 (2007–$388,000) and is recorded in operating expenses.

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

	2008	2007
Weighted average risk-free interest rate	**2.94%**	3.76%
Dividend yield	**1.50%**	1.52%
Weighted average volatility factors of the expected market price of the Company's Class A Subordinate Voting Shares	**24.0%**	24.4%
Weighted average expected life of the options	**4.9 years**	4.8 years
Weighted average fair value per option	**$5.72**	$4.66

(c) Stock appreciation rights plan

In January 2006, the Company granted 425,000 stock appreciation rights ("rights") at a reference price of $16.53. On March 2, 2007, 5,000 rights were granted at a reference price of $18.41 and on August 9, 2007, 85,000 rights were granted at a reference price of $19.91. As at December 31, 2008, 80,000 rights had expired. The rights vest at a rate of 50% at the end of year three, 25% at the end of year four and 25% at the end of year five and are exercisable as they vest. At the date of exercise, cash payments are made to the holders based on the difference between the market value of the Company's Class A shares and the reference price. All rights granted under this plan expire on the 60th day following the 5th anniversary of the grant date. For the year ended December 31, 2008, the compensation expense related to the rights was a recovery of $690,000 (2007 – expense of $654,000) bringing the total obligation included in accounts payable and accrued liabilities to $67,000 (2007 – $757,000 was included in other long-term liabilities).

11 Capital stock

(thousands of dollars)	Issued shares (thousands)		2008	2007
Capital stock (unlimited number authorized at no par value):				
Class A Subordinate Voting Shares (2007 – 9,833)	9,733	**$**	**42,005**	42,434
Class B Common Shares (2007 – 1,258)	1,258		**908**	911
		$	**42,913**	43,345

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.

The Company may impose restrictions respecting the issuance, transfer and voting of the Company's shares due to externally-imposed regulations more fully described under "Capital risk" in Note 13.

11 Capital stock (continued)

(a) Dividends

During 2008 and 2007, the Company declared dividends of $0.30 per Class A and Class B Common Shares.

(b) Share repurchases

During the year, the Company repurchased for cancellation a total of 100,000 (2007 – 198,800) of its outstanding Class A shares for a total cost of $1,805,000 (2007 – $3,737,000), pursuant to Normal Course Issuer Bids. As a result of these share repurchases, capital stock was reduced by $432,000 (2007 – $847,000) and retained earnings by $1,373,000 (2007 – $2,890,000). Subsequent to year end the Company received approval under a Normal Course Issuer Bid to repurchase up to 486,659 Class A shares and 62,877 Class B Common Shares. This bid expires February 8, 2010.

(c) Executive stock option plan

During the year, the Company granted 35,000 options (2007 – 100,000) at a weighted average exercise price of $19.99 (2007 - $19.43), pursuant to the executive stock option plan described in Note 10(b). The options vest at a rate of twenty-five percent on the date of grant and twenty-five percent on each of the three succeeding anniversary dates and they expire March 10, 2013. No options were exercised in 2008. In 2007, 23,750 options were exercised for proceeds of $185,000 and 195,000 options were exercised on a cashless basis in exchange for 67,271 Class A shares, more fully described below. As a result, in 2007 capital stock was increased and contributed surplus was decreased by $10,000 related to stock options exercised. Contributed surplus was increased by $167,000 (2007 – $388,000) related to compensation expense.

(d) 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 in 2007.

12 Contributed surplus

(thousands of dollars)		2008	2007
Balance, beginning of year	$	1,778	2,093
Executive stock option plan compensation expense		167	388
Value of options exercised		—	(703)
Balance, end of year	$	1,945	1,778

13 Financial instruments and financial risk management

These are the Company's risk management objectives and procedures as they relate to market risk, credit risk, liquidity risk and capital risk:

Market risk

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

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

The fair value of the Company's marketable securities is affected by changes in the quoted share prices in active markets. Such prices can fluctuate and are affected by numerous factors beyond the Company's control. In order to minimize the risk associated with changes in the share price of any one particular investment, the Company diversifies its portfolio by investing in various stocks in varying industries. It also conducts regular financial reviews of publicly available information related to its investments to determine if any identified risks are within tolerable risk levels. Despite the Company's intent to minimize this risk, the current stock market volatility has caused significant fluctuations in all its marketable securities. It is uncertain when this volatility will stabilize. The year-to-date change in the fair value of marketable securities, recognized in other income (expense) in the consolidated statements of income, was an unrealized loss of $7,906,000 (2007 – unrealized gain of $400,000). As at December 31, 2008, a 10% change in the share prices of each marketable security would result in a $350,000 after-tax change in net income.

13 Financial instruments and financial risk management (continued)

(b) Interest rate risk management

To hedge its exposure to fluctuating interest rates on its long-term debt, the Company has entered into interest rate swap agreements with Canadian chartered banks. The swap agreements involve the exchange of the three-month bankers' acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and recorded as an increase or decrease to interest expense. The Company 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.

On June 23, 2008, the Company entered into two new interest rate swap agreements; one has a notional value of $15,000,000 and expires in June 2013, and the other has a notional amount of $45,000,000 and expires in May 2013. Three former interest rate swap agreements, having an aggregated notional value of $45,000,000 were terminated and as a result the fair value of these agreements ($349,000 payable) was blended into the interest rate of the new $45,000,000 swap agreement. This fair value payable will be transferred from OCI to net income (as interest expense) over the remaining term of the original three swap agreements which expire between 2009 and 2011. The amount related to this fair value payable transferred to net income from OCI for the year was $168,000 (2007 – $nil).

The aggregate notional amount of the Company's swap agreements was $60,000,000 (2007 – $25,000,000). The aggregate fair value of the swap agreements, which represents the amount that would be payable by the Company if the agreements were terminated on December 31, 2008, was $6,796,000 of which $85,000 was realized accrued interest and was transferred to net income (2007 – receivable of $81,000; current interest recovery of $8,000). The before-tax decrease in the fair value payable recognized in OCI was $6,715,000 (2007 – increase in fair value of $72,000).

As interest was settled with the banks quarterly throughout the year, amounts previously recorded in OCI were transferred to net income to offset interest expense on the debt recorded in net income. The total amount transferred related to the amounts settled was $1,622,000. This amount, along with the previously disclosed amounts transferred from OCI to net income of $253,000, reduced interest expense recorded in net income to $376,000. OCI income tax recovery for the year was $1,815,000 (2007 – expense of $37,000). 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.

(c) Share price volatility risk management

In July 2006, the Company entered into a cash-settled equity total return swap agreement to manage its exposure to fluctuations in its 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 equity total return swap payable based on the Class A shares' market price at December 31, 2008 was $234,000 (2007 – receivable of $1,041,000). Before tax, the decrease in the fair value of the swap recognized in OCI was $1,275,000 (2007 – increase in the fair value of $1,081,000). On a before-tax basis, realized losses of $817,000 were transferred from OCI to net income (2007 – realized gains of $614,000). OCI income tax recovery for the year on this swap was $135,000 (2007 – income tax expense of $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.

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 fails to perform. The maximum credit exposure relates to accounts receivable which approximate $24,000,000.

Credit exposure is managed through credit approval and monitoring procedures. With regard to the interest rate swaps and the equity total return swap, because the counterparties are Canadian Chartered Banks, the credit risk associated with these instruments would be deemed to be low. Since these derivative financial instruments were liabilities as at December 31, 2008, there was no credit risk associated with these counterparties.

13 Financial instruments and financial risk management (continued)

Credit risk (continued)

The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize the concentration of credit risk. The Company does not require collateral or other security from clients for trade receivables; however the Company does perform credit checks on customers prior to extending credit. Based on the results of credit checks, the Company may require upfront deposits or full payments on account prior to providing service. The Company reviews its receivables for possible indicators of impairment on a regular basis and as such, it maintains a provision for potential credit losses which totaled $1,237,000 as at December 31, 2008. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Approximately 89% of trade receivables are outstanding for less than 90 days. Amounts would be written off directly against accounts receivable and against the allowance only if and when it was clear the amount would not be collected due to customer insolvency. Historically, the significance and incidence of amounts written off directly against receivables have been low. In 2008, $425,000 was written off which is less than 2% of the year end receivables' balance and less than 1% of revenue.

At December 31, 2008, the Company's credit exposure as it related to its receivables was slightly higher than in the past reporting periods due to the recent Canadian economic conditions. The Company sells advertising airtime primarily to retail customers and since their results may also be affected by the current economy, it is difficult to predict the impact this could have on the Company's receivables' balance. The Company believes its provision for potential credit losses is adequate at this time given the current economic circumstances.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations and borrowings under the existing credit facility. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Other than for operations, the Company's cash requirements are mostly for interest payments, repayment of debt, capital expenditures, Canadian Content Development payments, dividends and other contractual obligations disclosed below. Cash generated from operations, combined with the availability of the credit facility, is sufficient to meet the Company's cash requirements.

The Company's liabilities have contractual maturities which are summarized below:

Obligation (thousands of dollars)		12 months	2010–2014	Thereafter
Long-term debt	$	5	73,840	—
CCD commitments		3,183	9,187	165
Operating leases		2,940	8,663	2,891
Pension funding obligation		500	2,500	3,200
	$	6,628	94,190	6,256

Capital risk

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

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

The Company is subject to certain covenants on its credit facility. The Company's debt covenants include certain maximum or minimum ratios such as total debt ratio, interest coverage and fixed charge coverage ratio. Other covenants include seeking prior approval for capital expenditures over a certain dollar limit, dividend payments over a certain amount per share, acquisitions in excess of a quantitative threshold and limits on the number of shares that can be repurchased in any given year. The Company was in compliance with the covenants throughout the year, and at year end.

Financial projections are updated and reviewed regularly to reasonably ensure that financial debt covenants will not be breached in future periods. The Company monitors the covenants and foreign ownership status of the issued and outstanding voting shares and presents this information to the Board of Directors quarterly. The Company was in compliance with all the above as at December 31, 2008.

14 Provision for income taxes

The reconciliation of income tax attributable to operations computed at the statutory rates to the Company's provision for income taxes is derived as follows:

(thousands of dollars, except percentages)		2008	2007
Statutory income tax rate		**35.5%**	38.1%
Provision based on the statutory income tax rate	$	**(103)**	9,075
Increase (decrease) due to:			
Subsidiary rate differential		**(353)**	(313)
Non-taxable portion of realized and unrealized capital losses (gains)		**1,586**	(2,805)
Goodwill impairment loss		**440**	—
Non-deductible stock-based compensation		**116**	148
Large corporations tax and other		**853**	125
Future income tax recovery relating to the reduction of corporate income tax rates		**—**	(2,425)
Future income tax expense (recovery) relating to the origination and reversal of temporary differences		**1,539**	(716)
	$	**4,078**	3,089
The components of the provision for income taxes are as follows:			
Current taxes	$	**1,481**	3,889
Future income tax expense (recovery)		**2,597**	(800)
	$	**4,078**	3,089

In 2007 the Federal Government enacted a decline in the general corporate income tax rates. Certain Provincial Governments also reduced general corporate income tax rates. As a result, future income tax assets and liabilities were required to be re-measured using the newly enacted tax rates that are expected to be in effect when the related future tax assets are realized and liabilities are settled. This has resulted in a non-cash future income tax recovery of $2,425,000 in 2007.

The significant components of the Company's future income tax assets and liabilities are as follows:

(thousands of dollars)		2008	2007
Future income tax assets			
Canadian Content Development commitments	$	**5,427**	4,555
Tax loss carryforwards		**3,184**	3,316
Employee benefit plans		**1,467**	1,471
Other		**1,480**	103
Future income tax liabilities			
Property and equipment		**(2,496)**	(2,192)
Broadcast licences and goodwill		**(24,527)**	(20,539)
Other		**(301)**	—
Net future income tax liability	$	**(15,766)**	(13,286)
The net future income tax liability is included under the following captions on the consolidated balance sheets:			
Short-term future income tax assets	$	**4,156**	2,703
Long-term future income tax assets		**2,069**	1,515
Long-term future income tax liabilities		**(21,991)**	(17,504)
	$	**(15,766)**	(13,286)

The Company recognizes as a future income tax asset the benefit of capital and non-capital loss carryforwards to the extent it is more likely than not that the benefit will be realized. As at year end, the Company had available loss carryforwards of approximately $10,529,000. A future income tax asset of $3,184,000 (2007 - $3,316,000) has been recognized in respect of these carryforwards. The available loss carryforwards will expire as follows: $108,000 in 2010; $382,000 in 2011: $5,307,000 in 2015; $865,000 in 2026; $1,053,000 in 2027; and $2,814,000 in 2028.

15 Earnings per share

(thousands)	2008	2007
Weighted average common shares used in calculation of basic earnings per share	**11,016**	11,094
Incremental common shares calculated in accordance with the treasury stock method	**320**	366
Weighted average common shares used in calculation of diluted earnings per share	**11,336**	11,460

16 Supplemental cash flow information

(thousands of dollars)		2008	2007
Change in non-cash working capital relating to operating activities			
Marketable securities, excluding $7,906 related to unrealized losses (2007 – unrealized gains of $400)	$	**4,065**	(3,363)
Receivables		**(2,349)**	(568)
Prepaid expenses		**(1)**	(356)
Accounts payable and accrued liabilities		**(1,261)**	(1,879)
Income taxes payable		**1,424**	77
	$	**1,878**	(6,089)
Interest paid	$	**3,974**	3,352
Income taxes paid (recovered)		**(82)**	2,509

17 Segmented information

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

(thousands of dollars)		Broadcasting	Corporate and other	Total
2008				
Revenue	**$**	**102,210**	**3,571**	**105,781**
Other income (expense)		**—**	**(8,516)**	**(8,516)**
		102,210	**(4,945)**	**97,265**
Operating expenses		**76,097**	**10,856**	**86,953**
Depreciation and amortization		**3,906**	**322**	**4,228**
Operating income (loss)	**$**	**22,207**	**(16,123)**	**6,084**
Assets employed	**$**	**221,526**	**17,108**	**238,634**
Goodwill		**7,045**	**—**	**7,045**
Capital expenditures		**5,311**	**280**	**5,591**
2007				
Revenue	$	95,392	3,426	98,818
Other income		—	155	155
		95,392	3,581	98,973
Operating expenses		68,600	12,759	81,359
Depreciation and amortization		3,797	277	4,074
Operating income (loss)	$	22,995	(9,455)	13,540
Assets employed	$	205,468	25,828	231,296
Goodwill		4,859	—	4,859
Capital expenditures		5,253	728	5,981

18 Commitments and contingencies

(a) Operating leases and other

The Company has total commitments of $22,044,000 under operating leases for properties and equipment. Minimum annual amounts under these leases are as follows: 2009 – $3,490,000; 2010 – $3,055,000; 2011 – $2,584,000; 2012 – $2,394,000; 2013 – $1,980,000 and thereafter $8,541,000.

(b) New CCD commitments

The Company has recently been awarded licences from the CRTC and as a result is committed to CCD. In November, the CRTC approved a transaction whereby the Company's Halifax, Nova Scotia AM licence is exchanged for an AM licence in Sudbury, Ontario plus $5,000,000 cash. It also approved the Company's request to convert the Sudbury AM signal to FM, as well as a conversion in Athabasca, Alberta. The Company's total CCD commitment related to the above is $335,000 which is payable over 7 years.

(c) 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.

19 Subsequent event

In January 2009, the Company announced that it would not proceed with its previously announced agreement to acquire 12 FM radio licences from Haliburton Broadcasting Group Inc. The acquisition was subject to CRTC approval; however both parties to the agreement mutually agreed to not proceed with the application. The Company has an option to pursue this transaction under the same terms and conditions until April 30, 2010.

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[2]	The Fox Radio Group	CKBA-FM	Classic Hits	FM	94.1 MHz
Blairmore	Mountain Radio	CJPR-FM	Country	FM	94.9 MHz
Bonnyville	KOOL-FM	CJEG-FM	Contemporary Hit Radio	FM	101.3 MHz
Brooks	Q13	CIBQ	Country	AM	1340 kHz
Brooks	The Fox	CIXF-FM	Classic Hits	FM	101.1 MHz
Calgary	FUEL 90.3 FM	CFUL-FM	Alternative	FM	90.3 MHz
Calgary	XL-103 FM	CFXL	Classic Hits	FM	103.1 MHz
Camrose	CAM-FM	CFCW-FM	Classic Hits	FM	98.1 MHz
Camrose	CFCW	CFCW	Country	AM	790 kHz
Cold Lake	K-Rock/Lakeland	CJXK-FM	Classic Rock	FM	95.3 MHz
Drumheller	Q91	CKDQ	Country	AM	910 kHz
Edmonton	Capital FM	CKRA-FM	Greatest Hits	FM	96.3 MHz
Edmonton	K-97	CIRK-FM	Classic Rock	FM	97.3 MHz
Edson	The Fox Radio Group	CFXE-FM	Classic Hits	FM	94.3 MHz
Elkford	Mountain Radio	CJEV®	Country	AM	1340 kHz
Fort McMurray	K-Rock 100.5	CHFT-FM	Classic Rock	FM	100.5 MHz
Grande Cache	The Fox Radio Group	CFXG®	Classic Hits	AM	1230 kHz
High Prairie	The Fox Radio Group	CKVH	Classic Hits	AM	1020 kHz
Hinton	The Fox Radio Group	CFXH-FM	Classic Hits	FM	97.5 MHz
Jasper	The Fox Radio Group	CFXP-FM®	Classic Hits	FM	95.5 MHz
Lac La Biche	Big Dog	CILB-FM	Classic Hits	FM	103.5 MHz
Lloydminster	CILR	CILR-FM	Tourism Information	FM	98.9 MHz
Lloydminster	Lloyd-FM	CKSA-FM	Country	FM	95.9 MHz
Lloydminster	CBC Affiliate	CKSA-TV	CBC	TV	
Lloydminster	CTV Affiliate	CITL-TV	CTV	TV	
Pincher Creek[1]	Mountain Radio	CJPV-FM®	Country	FM	92.7 MHz
Red Deer	KG Country 95.5	CKGY-FM	Country	FM	95.5 MHz
Red Deer	Z99-FM	CIZZ-FM	Rock	FM	98.9 MHz
Slave Lake	The Fox Radio Group	CHSL-FM	Classic Hits	FM	92.7 MHz
St. Paul	1310 Cat Country	CHLW	Country	AM	1310 kHz
Stettler	Q14	CKSQ	Country	AM	1400 kHz
Wainwright	Key 83	CKKY	Country	AM	830 kHz
Wainwright	Wayne-FM	CKWY-FM	Classic Hits	FM	93.7 MHz
Westlock	The Fox Radio Group	CFOK	Classic Hits	AM	1370 kHz
Wetaskiwin	W 1440	CKJR	Oldies	AM	1440 kHz
Whitecourt	The Rig 96.7	CFXW-FM	Rock	FM	96.7 MHz

Central region

Location	Name	Call Letters	Format	AM/FM/TV	Frequency
Ottawa	Hot 89.9	CIHT-FM	Contemporary Hit Radio	FM	89.9 MHz
Ottawa	LiVE 88.5 FM	CILV-FM	Alternative Rock	FM	88.5 MHz
Sudbury	Big Daddy	CHNO-FM	Classic Hits	FM	103.9 MHz
Thunder Bay	Magic 99.9	CJUK-FM	Adult Contemporary	FM	99.9 MHz
Thunder Bay	The Giant	CKTG-FM	Classic Rock	FM	105.3 MHz
Winnipeg	Hank-FM	CHNK-FM	Country	FM	100.7 MHz
Winnipeg	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	K-Rock	CKQK-FM	Classic Rock	FM	105.5 MHz
Charlottetown	Ocean 100	CHTN-FM	Classic Hits	FM	100.3 MHz
Elmira[1]	K-Rock®	CKQK-FM1	Classic Rock	FM	103.7 MHz
Elmira[1]	Ocean 100®	CHTN-FM1	Classic Hits	FM	99.9 MHz
St. Edwards[1]	K-Rock®	CKQK-FM2	Classic Rock	FM	91.1 MHz
St. Edwards[1]	Ocean 100®	CHTN-FM2	Classic Hits	FM	89.9 MHz
Halifax	KOOL 96.5 FM	CKUL-FM	Classic Hits	FM	96.5 MHz
Halifax	Q104	CFRQ-FM	Current and Classic Rock	FM	104.3 MHz
Halifax[3]	KIXX	CFDR	Country Classics	AM	780 kHz
Kentville	K-Rock 89.3	CIJK-FM	Classic Rock	FM	89.3 MHz
Sydney	The Giant 101.9	CHRK-FM	Contemporary Hit Radio	FM	101.9 MHz
Fredericton	Fred-FM	CFRK-FM	Classic Rock	FM	92.3 MHz
Moncton	C103	CJMO-FM	Classic Rock	FM	103.1 MHz
Moncton	XL96	CJXL-FM	Hot Country	FM	96.9 MHz
Baie Verte	CKIM	CKIM®	News/Talk/Country	AM	1240 kHz
Carbonear	KIXX Country	CHVO-FM	Country	FM	103.9 MHz
Churchill Falls	Radio Labrador	CFLC-FM®	News/Talk/Adult Contemporary	FM	97.9 MHz
Clarenville	K-Rock	VOCM-FM1®	Classic Rock	FM	100.7 MHz
Clarenville	CKVO	CKVO	News/Talk/Country	AM	710 kHz
Corner Brook	CFCB	CFCB	News/Talk/Country	AM	570 kHz
Corner Brook	K-Rock	CKXX-FM	Classic Rock	FM	103.9 MHz
Deer Lake	CFDL	CFDL-FM®	News/Talk/Country	FM	97.9 MHz
Gander	VOCM Radio Network	CKGA	News/Talk/Country	AM	650 kHz
Gander	K-Rock	CKXD-FM	Classic Rock	FM	98.7 MHz
Grand Falls-Windsor	VOCM Radio Network	CKCM	News/Talk/Country	AM	620 kHz
Grand Falls-Windsor	K-Rock	CKXG-FM	Classic Rock	FM	102.3 MHz
Grand Falls-Windsor	K-Rock	CKXG-FM1®	Classic Rock	FM	101.3 MHz
Goose Bay	Radio Labrador	CFLN	News/Talk/Adult Contemporary	AM	1230 kHz
Marystown	CHCM	CHCM	News/Talk/Country	AM	740 kHz
Port aux Basques	CFGN	CFGN®	News/Talk/Country	AM	1230 kHz
Port au Choix	CFNW	CFNW®	News/Talk/Country	AM	790 kHz
St. Andrews	CFCV	CFCV-FM®	News/Talk/Country	FM	97.7 MHz
St. Anthony	CFNN	CFNN-FM®	News/Talk/Country	FM	97.9 MHz
St. John's	590 VOCM	VOCM	News/Talk/Country	AM	590 kHz
St. John's	Radio Newfoundland	CJYQ	Newfoundland Music	AM	930 kHz
St. John's	HITS-FM	CKIX-FM	Contemporary Hit Radio	FM	99.1 MHz
St. John's	K-Rock	VOCM-FM	Classic Rock	FM	97.5 MHz
Stephenville	CFSX	CFSX	News/Talk/Country	AM	870 kHz
Stephenville	K-Rock	CKXX-FM1®	Classic Rock	FM	95.9 MHz
Wabush	Radio Labrador	CFLW®	News/Talk/Adult Contemporary	AM	1340 kHz

® Repeating Signal

[1] New licence awarded by CRTC in 2008

[2] The Company has received approval to convert this station to FM

[3] Pending licence exchange with third party

BOARD OF DIRECTORS

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 and Labrador 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 and Labrador Institute of Chartered Accountants and was awarded the designation of F.C.A. in 1983 for outstanding service to the profession and the community.

Michael (Mickey) C. MacDonald[1]
Halifax, Nova Scotia
Director since 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 2008 Nova Scotia Humanitarian of the Year, 2004 Newfoundland and Labrador 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.

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.

David I. Matheson, Q.C.[1]
Toronto, Ontario
Director since 2004 (and from 1986 and 1998)
Barrister and Solicitor

During 2008, David Matheson was counsel to the law firm of McMillan LLP of Toronto. He has since retired from McMillan LLP and continues his own corporate practice in Toronto. He has a Bachelor of Commerce degree, with a major in accounting, and a Law degree. He specialized as a tax lawyer and worked extensively with the accounting profession in tax reform and on financial reporting issues for tax purposes. He has an extensive corporate and corporate governance practice, nationally and internationally. He has served as a Chair and a member of public company audit committees for a number of years. In addition to his current role as the Company's Chairman of the Audit and Governance Committee, Mr. Matheson is also a Director and Chairman of the Audit Committee of Clarke Inc., and a Director and Chairman of the Audit and Governance Committee of Tonbridge Power Inc. He has written and spoken extensively, nationally and internationally, on tax-related financial reporting, corporate governance and securities law compliance. His knowledge of the Company's financial affairs and internal control and systems is extensive.

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 and having been a member of the Board of Directors since 1997. Prior to joining the Company, Mr. Steele built one of the most diversified auto groups in Atlantic Canada, consisting of fourteen dealerships. He is currently a member of the Young Presidents Organization and is actively involved in several local charitable groups.

[1] Member of the Audit and Governance Committee

OUR MANAGEMENT TEAM

Philip Reid
Vice-President, Administration

Linda A. Emerson
Assistant Corporate Secretary

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

Kim Day
Corporate Controller

David J. Murray
Chief Operating Officer

Steve Jones
Vice-President, Programming

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 examples of our commitment to transparency, integrity and duty of care are:

- All of our Audit and Governance Committee members are independent and financially literate.
- Our Policy on Corporate Governance formalizes the principal corporate governance applications and practices of the Company.
- The Company has a written Code of Business Conduct and Ethics ("Code") which is reviewed and updated at least annually. The overall goal of the Code is to deter wrongdoing and promote honest and ethical conduct throughout our organization.
- A whistleblower policy and procedure is in place that allows persons to report a complaint or concern regarding accounting or audit matters, or behaviour or acts that are inconsistent with the Company's Code.
- A Disclosure Committee is in place and it is charged with ensuring 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 when required.
- Mandates have been established for the Board of Directors, the Audit and Governance Committee, the Disclosure Committee, the respective Chairpersons, 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

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 Limited
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.

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

Telephone: 902-468-7557
e-mail: investorrelations@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, Thursday, May 7, 2009, Admiral's Room, Four Points by Sheraton Conference Centre, B1 Level, 1505 Barrington St., Halifax, NS.

RADIO
A SOUND BUSINESS

Immediate

Profitable

Inclusive

Accessible

Connected

Newcap RADIO