NewCap RADIO

# 2015 ANNUAL REPORT

NEWFOUNDLAND CAPITAL CORPORATION LIMITED

**Newfoundland Capital Corporation Limited** (the “Company” or “Newcap”) owns and operates Newcap Radio, which is one of Canada’s leading radio broadcasters with 95 licences across Canada. The Company reaches millions of listeners each week through a variety of formats and is a recognized industry leader in radio programming, sales and networking. It is Canada’s largest pure-play radio company, employing approximately 1,000 of the best radio professionals across the country. The Company’s portfolio of radio assets includes 80 FM and 15 AM licences which can be heard throughout Canada. Most of our stations are globally accessible via the internet and various mobile device applications, allowing listeners the flexibility to tune in to our stations at anytime from anywhere. The shares of the Company trade on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.

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# SCORECARD

## GOAL - GROWTH BY MAXIMIZING RETURNS FROM EXISTING ASSETS

| How | Why | 2015 Results |
|---|---|---|
| By continuously increasing revenue while managing operating costs to enhance EBITDA. | | We posted positive organic revenue growth of 2% in 2015; a year when industry revenue declined 1%. Throughout 2015, the Company also continued to manage spending, resulting in positive organic EBITDA growth of 6%. |
| In order to continue to foster our long-term relationships with our advertisers and listeners alike, we must provide local content, produce creative ads that accomplish our advertisers' objectives and deliver exciting, compelling contests and promotions to fully engage our listeners every day. | By paying close attention to the needs of our advertisers and listeners, and by delivering a quality product that meets those needs, we believe we can increase revenue thereby maximizing EBITDA and shareholder value. | Newcap continues to serve the communities in which we operate through our commitment to local programming as well as sponsorship of local causes. Our strong ratings positions in many of the markets in which we operate, and continued revenue growth, demonstrate our success in this regard. |
| By conducting research and adjusting our content to meet market demand, we strive to be amongst the top rated stations in every market we operate in. | | Newcap has a total of 95 radio licences, of which 36 are in rated markets and 59 are in unrated markets. In the fall 2015 ratings period, Newcap had 7 stations place first, 8 stations place second and 4 stations place third in their respective markets. In the unrated markets, Newcap enjoys a loyal and dedicated listener base which contributes to stable profitability.<br><br>During the year, the Company successfully rebranded a station in Fredericton, New Brunswick to New Country 92.3 which debuted in third spot in this market. |

## GOAL - INTEGRATE ACQUIRED PROPERTIES

| How | Why | 2015 Results |
|---|---|---|
| By effectively executing the plan of integrating the operations of the stations acquired in Toronto, Vancouver and Saint John into our operating platform. | To gain as much as possible from these newly acquired operations in their first full year with the Company. | The Company's revenue and EBITDA have grown due to the inclusion of full year annual results from these stations compared to nine months in 2014. Operationally, the stations have been successfully integrated into Newcap's systems and processes. |

## GOAL - PROVIDE RETURNS TO SHAREHOLDERS

| How | Why | 2015 Results |
|---|---|---|
| Use cash generated from operations to provide returns to shareholders through dividends and share repurchases. | By paying out a portion of the Company's cash flow from operations to shareholders, we have demonstrated our commitment to providing shareholders with a return on their investment. | The Company declared dividends of $0.15 for fiscal 2015. The Company also repurchased for cancellation, 1.6 million of its Class A Subordinate Voting shares for cash consideration of $13.9 million. |

## GOAL - DISCIPLINED GROWTH BY ACQUISITION AND NEW LICENCES

| How | Why | 2015 Results |
|---|---|---|
| By evaluating and pursuing investment opportunities, including business acquistions, new licenses in underserved markets, and repeater signals. | By growth through acquisitions and new licenses, the Company benefits by increasing asset value, reaching a larger audience, and having a larger market presense for the benefit of advertisers. | Throughout 2015, the Company's primary focus was integrating the Toronto and Vancouver operations acquried in the prior year and improving existing station performance. Management will continue to evaluate potential opportunities that will benefit shareholder value. The Company launched a new FM repeater license in Fox Creek, Alberta in December 2015. The Company intends to launch its new FM stations in Clarenville, Newfoundland and Labrador in 2016, and in Hinton, Alberta in early 2017. |

# LETTER TO SHAREHOLDERS

**OPENING REMARK**

On the heels of the largest acquisition in our Company's history, 2015 was a year spent focusing on integration of operations and maximizing value from all of our stations. This focus led the Broadcasting segment to achieve record results. During the year, the Company recruited Ian Lurie to be Chief Operating Officer and use his vast knowledge of major market radio operations to move the Company forward.

## FINANCIAL RESULTS

This year finished strong with revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") growth over the prior year. While growth was primarily attributable to the Toronto and Vancouver expansion, the Company achieved positive organic growth despite operating in an industry with slightly negative growth.

Annual revenue of $165 million represented an increase of 7% compared to the prior year, which contributed to EBITDA growth of 10%. The Company's revenue growth and focus on reducing operating costs resulted in organic EBITDA growth of 6%.

Profit of $23 million in 2015 was an improvement over profit of $11 million in the prior year. In 2014, the Company recognized certain one-time charges that impacted net profit.

The ratings results released in December 2015 showed that our stations are well positioned in their respective markets, achieving top three rankings in thirteen out of seventeen markets and achieving first place in seven of those markets. This strong ratings performance should help the Company maintain its solid financial performance in 2016.

## OPERATIONAL HIGHLIGHTS

In addition to the continued successful integration of stations acquired in the prior year, the Company launched a new FM licence in Fox Creek, Alberta (a repeater of CFXW-FM Whitecourt, Alberta) in December 2015.

The Company declared dividends of $0.15 per share during 2015 and repurchased 1.6 million Class A Subordinate Voting shares for cash consideration of $13.9 million.

## OUTLOOK

Our primary focus is radio and it is our expertise. We have reached a substantial presence in Canada allowing us to have access to better national advertising opportunities and premium on-air talent. We are devoted to making our business and our industry relevant in today's multimedia world.

In 2016, the Company will continue to focus on increasing organic revenue and operating more efficiently in the Broadcasting segment to maintain healthy EBITDA margins despite a challenging economic environment throughout Canada, particularly in Alberta. Listener ratings have positioned the Company well for continued strong performance in certain major markets, including Toronto where the Company achieved first place ranking and Calgary where the Company maintains a key station in the top three. The Company will continue to invest in marketing and research to promote its stations and improve ratings.

## FINAL COMMENTS

2015 was an exciting year for the Company which achieved record results from the Broadcasting segment after the successful integration of the Toronto and Vancouver stations acquired in 2014. The Company also demonstrated its commitment to improving results of existing operations through the reduction of operating costs and growth of revenue from organic operations.

The efforts of our committed employees have helped the Company continue to grow and prosper. Our thanks to our employees; they are some of the best and most talented in the industry. We want to thank our Board of Directors whose ongoing guidance and support are truly valued. And finally to our shareholders, thank you for your continued support of our Company.

Sincerely,

Rob Steele
President and Chief Executive Officer

Harry Steele
Chairman

# 2015

was a critical year for Newcap Radio. Following a year of unprecedented expansion into Canada's two largest radio markets, 2015 presented the Company with the challenge of integration and organic growth.

In 2014 Newcap acquired five radio stations, two in Toronto and three in Vancouver. This $112 million purchase was the largest acquisition in Newcap's history. In addition, the Company acquired a radio station in Saint John, New Brunswick, further cementing the Company's presence in Atlantic Canada.

In Vancouver we faced the challenge of not only integrating three new radio stations into the Company, but also the challenge of integrating these stations with each other. The two FM stations, Z95.3 and LG 104.3, were operating in separate buildings each with unique cultures. Under Newcap's ownership, the stations were merged into one physical operation, along with AM station 650 CISL.

During the course of 2015, we are proud to say this integration went very well. The culture in the Vancouver operation is strong and the three radio stations have merged seamlessly into one unit. The Vancouver market is extremely competitive, and our stations are in a very tight battle for listeners. Z95.3 spent much of the year ranked in the top 5, and was ranked as high as #1 during the spring ratings period. Newly-formatted classic hits station LG 104.3 showed steady growth through the summer and fall, and enters 2016 in a solid position. Meanwhile 650 CISL had a very strong fall ratings period, pleasantly outperforming our expectations.


In Toronto we acquired two radio stations that, until we purchased them, existed in separate buildings and were run as separate operations. Following the purchase, we brought the two stations together into one physical building, but 2015 was truly the year when the two stations came together as one unit culturally. The results were impressive.

Boom 97.3 experienced steady growth all year. The station began the year ranked 3rd, grew to 2nd in the spring and summer, and by the end of the fall ratings period, Boom was ranked #1 in Toronto. This marked the first time in over five years that any station besides perennial market leaders CHFI-FM and CHUM-FM had reached #1 in Toronto. This was absolutely a landmark year for boom 97.3. Sister-station The Move 93.5 also had a great 2015 after being refocused at the start of the year on 90s and 2000s rhythmic music. The Move was rewarded with some of the highest ratings in the station's history, and it enters 2016 well positioned for additional growth.

In Saint John, New Brunswick, the recently acquired Rock 88.9 has quickly established itself as one of the top stations in the city. This city has bonded with a rock station that embodies their values and reflects their community.

Newcap built its success in 2015 on integration and organic growth not only in these three markets, but all across Canada. Format adjustments were made in various markets in order to maximize ratings and revenue, and our focus was squarely on improving our performance in existing markets. In cities like Calgary, Ottawa, Halifax, and St. John's, Newcap continued to dominate the radio market.

# Management's Discussion & Analysis

# MANAGEMENT'S & DISCUSSION & ANALYSIS

*The purpose of the Management's Discussion and Analysis ("MD&A") is to provide readers with additional complementary information regarding the financial condition and results of operations for Newfoundland Capital Corporation Limited (the "Company") and should be read in conjunction with the annual audited consolidated financial statements ("annual financial statements"), prepared as of March 3, 2016, and related notes contained in this 2015 Annual Report.*

*These documents along with the Company's Annual Information Form, its Management Information Circular and other public information are filed electronically with various securities commissions in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed at www.sedar.com. This information is also available on the Company's website at www.ncc.ca.*

*The Company's annual financial statements for the year ended December 31, 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS").*

*All amounts herein are expressed in Canadian dollars. The Board of Directors, upon recommendation of the Audit and Governance Committee, approved the content of this MD&A on March 3, 2016. Disclosure contained in this document is current to this date, unless otherwise stated.*

# 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, Uncertainties 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. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

# PROFILE

Newfoundland Capital Corporation Limited owns and operates Newcap Radio, which is one of Canada's leading radio broadcasters with 95 licences across Canada. The Company reaches millions of listeners each week through a variety of formats and is a recognized industry leader in radio programming, sales and networking. It is Canada's largest pure-play radio company, employing approximately 1,000 of the best radio professionals across the country. The Company's portfolio of radio assets includes 80 FM and 15 AM licences which can be heard throughout Canada. Most of our stations are globally accessible via the internet and various mobile device applications, allowing listeners the flexibility to tune in to our stations at anytime from anywhere. The shares of the Company trade on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.

### STRATEGY AND OBJECTIVES

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

The Company's day-to-day operating objective is to grow its existing operations by increasing advertising revenue and remaining focused on controlling discretionary costs to continuously improve EBITDA margins. The Company will continue to explore acquisition and expansion opportunities that fit the Company's acquisition objectives and it will make applications to the CRTC for new licences. The Company's commitment to its talented employees, its customers, its listeners and to the communities it serves remains critical to its success.

## SIGNIFICANT 2015 FINANCIAL HIGHLIGHTS

Consolidated revenue was 7% higher than 2014 and consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA" [(1)]) increased by 10%. Consolidated profit was $23.2 million, higher than profit of $11.2 million last year for various reasons which are described below. In the Company's core operating segment, Broadcasting, revenue grew by 7% and EBITDA was 11% higher than 2014.

On March 31, 2014, the Company completed the largest business acquisition in its history when it acquired two radio stations in Toronto, Ontario and three radio stations in Vancouver, British Columbia. Revenue and EBITDA have benefited as a result of these new operations which contributed to the full year results in 2015. The comparative year-to-date results include only nine months of operations for these stations.

The following points provide a brief description of the 2015 financial highlights, details of which follow in the *Analysis of Consolidated Results* section:

- The 7% increase in consolidated revenue was due to incremental revenue in the Broadcasting segment as a result of the addition of the Toronto, Vancouver, and Saint John, New Brunswick stations during 2014 which contributed for the full year in 2015.

- The 10% increase in consolidated EBITDA was a result of efforts to increase revenues and reduce spending in organic markets. Also contributing to the increased EBITDA during the year was the incremental impact from the Toronto and Vancouver stations for the full year in 2015 compared to nine months in 2014.

- Profit increased to $23.2 million this year compared to $11.2 million last year. In 2014, the Company recognized non-recurring transaction costs of $8.9 million associated with the business acquisitions and an impairment charge of $5.7 million.

- The Company declared dividends of $0.15 per share during 2015, consistent with 2014.

- The Company repurchased a total of 1,569,800 Class A Subordinate Voting shares for cash consideration of $13.9 million.

- The Company amended its credit facilities to reduce interest rates by approximately 0.5% and to extend the maturity date to May 31, 2018.

[(1)] *Refer to page 34 "Non-IFRS Accounting Measure"*

# RECENT OPERATIONAL HIGHLIGHTS

- July 2014 - completed the acquisition of CHNI-FM (Rock 88.9) in Saint John, New Brunswick for cash consideration of $0.8 million.

- March 2014 - acquired five radio stations located in Toronto, Ontario and Vancouver, British Columbia for cash consideration of $111.9 million. The stations acquired consisted of Boom 97.3 and Flow 93.5 in Toronto, and Z95.3, LG104.3 and CISL 650 in Vancouver.

- February 2014 - received CRTC approval for a new FM licence in Hinton, Alberta. After receiving an extension from the CRTC in November 2015, the Company expects to have this station on air by February 2017.

- January 2014 - received CRTC approval for a new FM licence in Fox Creek, Alberta (a repeater of CFXW-FM Whitecourt, Alberta). This licence was launched in December 2015.

- May 2013 - received CRTC approval for a new FM licence to serve Clarenville, Newfoundland and Labrador which is expected to launch in 2016.

# FINANCIAL PERFORMANCE REVIEW

**Business Combinations in 2014**

In 2014, the Company acquired two radio stations in Toronto, three in Vancouver and one in Saint John as previously discussed in the *operational highlights* section.

The financial results of these stations have been included in profit since their respective acquisition dates. For a detailed description of these business combinations, please refer to note 6 of the annual financial statements.

## Selected Financial Highlights

Since 2013, revenue has grown by 24%. This was due to growth in the broadcasting segment, both organic and as a result of incremental growth from stations acquired. Below are some of the other significant factors that affected profit between 2013 and 2015:

- 2013 - The Company recorded a gain on the disposal of the Fort McMurray operations of $3.8 million and recognized a positive adjustment to the provision for income tax in the amount of $5.3 million.
- 2014 - The Company recorded business acquisition transaction costs of $8.9 million and a $5.7 million impairment charge.
- 2015 - The Company realized improved profit due to the first full year of operations with the Toronto and Vancouver radio stations, maximizing its return from the largest acquisition in the Company's history.

Due to the disposal of broadcasting assets in Fort McMurray, Alberta in December 2013, the financial results of operations from this component and its gain on disposal were treated as discontinued operations in the comparative financial results presented below. The impact of discontinued operations was to reduce revenue by $1.3 million in 2013 and to reduce profit from continuing operations by $3.4 million in 2013.

**Selected Financial Highlights**

| *(thousands of Canadian dollars, except share data)* | **2015** | 2014 | 2013 |
|---|---|---|---|
| Revenue | **$ 164,602** | 154,500 | 132,597 |
| Profit from continuing operations | **23,235** | 11,195 | 23,695 |
| Profit | **23,235** | 11,195 | 27,018 |
| Weighted average number of outstanding shares | | | |
| – basic *(thousands)* | **27,355** | 28,152 | 28,685 |
| – diluted *(thousands)* | **28,628** | 29,339 | 29,963 |
| Earnings per share | | | |
| Profit from continuing operations | | | |
| – basic | **$ 0.85** | 0.40 | 0.83 |
| – diluted | **0.81** | 0.38 | 0.79 |
| Profit | | | |
| – basic | **0.85** | 0.40 | 0.94 |
| – diluted | **0.81** | 0.38 | 0.90 |
| Total assets | **$ 364,246** | 356,677 | 235,605 |
| Long-term debt, including current portion | **145,908** | 138,525 | 42,642 |
| Dividends declared | | | |
| Class A shares | **$ 0.15** | 0.15 | 0.15 |
| Class B shares | **0.15** | 0.15 | 0.15 |

## Consolidated Financial Results of Operations

The Company's consolidated financial results of operations for the fourth quarter in 2015 and 2014 and for the year ended December 31, 2015 and 2014 were as follows:

| | Three Months ended December 31 | | | Twelve Months ended December 31 | | |
|---|---|---|---|---|---|---|
| *(thousands of Canadian dollars, except per share data and percentages)* | **2015** | 2014 | % change | **2015** | 2014 | % change |
| Revenue | **$ 45,493** | 44,438 | 2% | **164,602** | 154,500 | 7% |
| Operating expenses | **(31,037)** | (29,496) | 5% | **(118,634)** | (112,879) | 5% |
| **EBITDA** | **14,456** | 14,942 | (3%) | **45,968** | 41,621 | 10% |
| Depreciation and amortization | **(1,348)** | (1,390) | (3%) | **(4,868)** | (4,914) | (1%) |
| Accrection of other liabilities | **(87)** | (116) | (25%) | **(425)** | (680) | (38%) |
| Interest expense | **(1,340)** | (1,925) | (30%) | **(6,382)** | (6,421) | (1%) |
| Other expense | **(247)** | (799) | (69%) | **(571)** | (7,469) | (92%) |
| Impairment charge | **-** | (5,685) | - | **-** | (5,685) | - |
| **Profit before provision for income taxes** | **11,434** | 5,027 | 127% | **33,722** | 16,452 | 105% |
| Provision for income tax | **(3,418)** | (2,434) | 40% | **(10,487)** | (5,257) | 99% |
| **Profit** | **$ 8,016** | 2,593 | 209% | **23,235** | 11,195 | 108% |
| EPS [(1)] - basic | **0.30** | 0.09 | | **0.85** | 0.40 | |
| - diluted | **0.28** | 0.08 | | **0.81** | 0.38 | |

*[(1)] EPS defined as earnings per share*


# ANALYSIS OF CONSOLIDATED RESULTS

A detailed analysis of the variations in revenue, operating expenses and EBITDA are included in the section entitled *Financial Review by Segment.*

### Revenue

Consolidated revenue was $45.5 million in the fourth quarter; a $1.1 million or 2% increase over the fourth quarter of 2014, as a result of organic revenue growth in the broadcasting segment. For the year ended December 31, 2015, consolidated revenue of $164.6 million was $10.1 million or 7% higher than last year. The annual growth was primarily attributable to the inclusion of radio stations acquired in 2014 in Toronto, Vancouver, and Saint John for the full year as compared to nine months in 2014. Also contributing to the increase in revenue was organic growth of 2%.

### Operating Expenses

Consolidated operating expenses for the fourth quarter were $31.0 million, $1.5 million or 5% higher than 2014 as a result of higher operating expenses in the broadcasting segment. The Company incurred $1.1 million in restructuring costs in the fourth quarter of 2015 which negatively impacted results. These restructuring costs are expected to result in approximately $1.5 million of annual savings, which the Company will use to re-invest in programming and sales talent. Corporate operating costs were also higher in the fourth quarter compared to the same period in 2014. For the year ended December 31, 2015, operating expenses were $118.6 million, $5.8 million or 5% higher. The increase in operating expenses was largely attributable to incremental operating costs related to the stations acquired in the broadcasting segment, higher variable costs resulting from higher revenue, higher corporate costs as a result of executive changes at the Company's head office and the restructuring costs noted above.

### EBITDA

Fourth quarter consolidated EBITDA was $14.5 million, $0.5 million or 3% lower than the same time last year as a result of higher operating expenses. For the year ended December 31, 2015, EBITDA of $46.0 million was $4.3 million or 10% higher than 2014 due to the incremental EBITDA derived from the acquired stations as well as the increased organic EBITDA resulting from a focus on revenue growth and cost control.

### Depreciation and Amortization

Depreciation and amortization in the fourth quarter of $1.3 million was 3% lower than the same quarter last year and for the year ended December 31, 2015, depreciation and amortization of $4.9 million was 1% lower than the prior year. The decline in depreciation and amortization expense was a result of reassessed useful lives of certain leasehold assets in 2014 which gave rise to higher depreciation expense at that time.

### 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 quarter and year-to-date were lower than the same periods last year because of the repayment of CCD commitments, which lowered the balance on which accretion was recorded.

### Interest Expense

Interest expense in the fourth quarter of $1.3 million was $0.6 million or 30% lower than the same quarter last year due to lower interest rates. For the year ended December 31, 2015, interest expense was $6.4 million, consistent with the prior year. The Company's average debt balance during 2015 was higher than 2014, however this was offset by lower interest rates as a result of amendments to the Company's credit facilities made during the year.

### Other Expense

*Other expense* generally consists of gains and losses, realized and unrealized, on the Company's marketable securities and items that are not indicative of the Company's core operating results, and not used in the evaluation of the consolidated Company's performance such as acquisition-related costs. *Other expense* in the quarter of $0.2 million were $0.6 million lower than the same quarter last year primarily as a result of lower mark-to-market unrealized losses on the Company's marketable securities of $0.3 million (2014 - $0.8 million).

*Other expense* for the year ended December 31, 2015 of $0.6 million were $6.9 million lower than the prior year primarily as a result of the non-recurring acquisition costs of $8.9 million incurred in the prior year related to the Toronto, Vancouver, and Saint John acquisitions. These acquisition costs included $6.3 million of CCD commitments required to complete the acquisitions, which are payable over seven years. Refer to note 6 in the annual financial statements for additional details on these acquisition-related costs.

During the year, the Company recorded unrealized losses of $0.5 million and realized losses of $0.1 million related to its marketable securities. In 2014, the Company recorded unrealized gains of $0.1 million and realized gains of $0.8 million.

### Impairment Charge

The Company recorded an impairment charge of $5.7 million in the fourth quarter and year ended December 31, 2014. The impairment charge recorded in the prior year was related to the Halifax, Nova Scotia cash-generating unit ("CGU") whereby the recoverable amount was determined to be lower than the carrying amount by $5.7 million. In addition to the increased competition in the Halifax market, the format of one of the stations in Halifax was changed and this has caused ratings to decline which negatively impacted financial results.

Detailed information on broadcast licences, CGU's and related impairment results can be found in note 7 of the annual financial statements.

### Provision for Income Taxes

In the fourth quarter, the provision for income tax was $3.4 million, $1.0 million or 40% higher than last year while the year ended December 31, 2015 provision for income tax of $10.5 million was $5.2 million or 99% higher than the prior year. The increase in provision for income taxes for the fourth quarter and the year ended December 31, 2015 was a result of higher income before provision for income taxes compared to the same periods in the prior year. The effective income tax rate in the quarter was 30% and for the year ended December 31, 2015 was 31%. The Company's statutory rate was 31%.

### Profit

Profit for the fourth quarter of $8.0 million was $5.4 million higher than the same quarter last year due primarily to the impairment charge recognized in the prior year. For the year ended December 31, 2015 profit of $23.2 million was $12.0 million higher than the prior year, primarily as a result of the acquisition costs of $8.9 million and the impairment charge of $5.7 million recorded in 2014. Also contributing to higher profit during 2015 was the growth in EBITDA as a result of the inclusion of the Toronto and Vancouver stations for the full year in 2015 compared to nine months in 2014. Partially offsetting these increases was a higher provision for income taxes for the year ended December 31, 2015 compared to the prior year.

### Other Comprehensive Income (loss) ("OCI")

OCI consists of the net change in the fair value of the Company's cash flow hedges (interest rate swap) and actuarial gains and losses arising from the Company's defined benefit pension plans. The after-tax unrealized income recorded in OCI for the interest rate swap was a loss of less than $0.1 million in the fourth quarter (2014 - $nil) and for the year ended December 31, 2015, was a loss $0.1 million (2014 - loss of less than $0.1 million). Net actuarial gains of $0.1 million were recorded in OCI for the fourth quarter and year ended December 31, 2015 (2014 - actuarial losses of $0.2 million in the fourth quarter and year ended December 31, 2014).

# 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 and segment EBITDA 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 18 of the annual financial statements.

## BROADCASTING SEGMENT

The broadcasting segment derives its revenue from the sale of broadcast advertising from its licences across the country. Advertising revenue can vary based on market and economic conditions, the audience share of a radio station, the quality of programming and the effectiveness of a company's team of sales professionals. CGUs within the broadcasting segment are managed and evaluated based on their revenue and EBITDA. The following summarizes the key operating results of the broadcasting segment.

| | Three months ended December 31 | | | | Twelve months ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Growth | | | | Growth | |
| *(thousands of Canadian dollars, except percentages* | **2015** | 2014 | Total | Organic | **2015** | 2014 | Total | Organic |
| Revenue | **$44,543** | 43,491 | 2% | 2% | **160,598** | 150,614 | 7% | 2% |
| Operating expenses | **(27,995)** | (27,061) | 3% | 3% | **(105,930)** | (101,565) | 4% | (1%) |
| EBITDA | **$16,548** | 16,430 | 1% | 1% | **54,668** | 49,049 | 11% | 7% |
| EBITDA margin | **37%** | 38% | (1%) | - | **34%** | 33% | 1% | - |

### Revenue

Fourth quarter revenue of $44.5 million was $1.1 million or 2% higher than the same quarter last year as a result of organic revenue growth as the Company benefited from its strong ratings performance in various markets which allowed it to outperform the Canadian radio industry, which declined 1%. The Company's revenue also benefited from the federal election during the fourth quarter of 2015, which contributed approximately $0.6 million in advertising revenue.

During the year ended December 31, 2015, revenue of $160.6 million was $10.0 million or 7% higher than the same period in 2014. The revenue growth was primarily attributable to the incremental revenue derived from the business acquisitions in Toronto, Vancouver and Saint John. Organically, revenue increased 2% year-to-date, compared to the Canadian radio industry which declined 1%.

During the year, the Company had strong growth in the Toronto and Calgary markets, while there were challenges in its small market Alberta stations whose revenue declined 10% compared to the prior year.

Ratings results in December 2015 were positive for the Company, achieving top three ranking in thirteen out of seventeen markets and achieving first place in seven of those markets.

### Operating Expenses

Broadcasting operating expenses for the fourth quarter were $28.0 million, $0.9 million or 3% higher than 2014 due to higher variable costs as well as $1.1 million in restructuring costs incurred during the quarter, which are expected to result in annual savings of approximately $1.5 million that the Company will use to re-invest in programming and sales talent. Broadcasting operating expenses for the year ended December 31, 2015 of $105.9 million were $4.4 million or 4% higher than last year. The increases were due to the incremental operating expenses associated with the Toronto, Vancouver, and Saint John stations. Organic expenses, excluding the restructuring costs, were down 2% for the year ended December 31, 2015 compared to the same period in 2014 due to the Company's strict focus on reducing operating costs.

### EBITDA

Fourth quarter broadcasting EBITDA of $16.5 million was 1% higher than the same quarter in 2014 and year-to-date EBITDA of $54.7 million was $5.6 million or 11% higher than last year. The growth in EBITDA and in EBITDA margins was a result of a combination of the business acquisitions in 2014 and organic growth as a result of increased revenue and reduced expenditures.

## CORPORATE AND OTHER SEGMENT

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

| | Three months ended December 31 | | | Twelve months ended December 31 | | |
|---|---|---|---|---|---|---|
| *(thousands of Canadian dollars, except percentages)* | **2015** | 2014 | % change | **2015** | 2014 | % change |
| Revenue | **$ 950** | 947 | - | **$ 4,004** | 3,886 | 3% |
| Operating expenses | **(3,042)** | (2,435) | 25% | **(12,704)** | (11,314) | 12% |
| EBITDA | **$ (2,092)** | (1,488) | (41%) | **$ (8,700)** | (7,428) | (17%) |

### Revenue

Revenue was consistent in the fourth quarter 2015 compared to the same period last year and for the year was $0.1 million or 3% higher than the prior year because of improved revenue growth from the hotel operations.

### Operating Expenses

Operating expenses of $3.0 million in the fourth quarter were $0.6 million or 25% higher than the same quarter last year primarily as a result of higher corporate operating costs, including performance-based compensation arrangements which were lower in 2014 as a result of the Company not meeting its targets. On an annualized basis, the change was not significant, however given the timing of changes in estimates, the expense was higher in the fourth quarter of 2015. For the year ended December 31, 2015, operating expenses were $12.7 million, $1.4 million or 12% higher than 2014 primarily related to costs associated with executive changes at the Company's head office.

### EBITDA

EBITDA declined in the quarter and year ended December 31, 2015 because of the higher operating expenses.

# SELECTED QUARTERLY FINANCIAL INFORMATION

The Company's revenue and operating results vary, depending on the quarter. The first quarter is generally a period of lower retail spending and as a result, advertising revenue is lower. The fourth quarter tends to be a period of higher retail spending. The Company's quarterly results during 2015 were consistent with the expected seasonality. Profit in the fourth quarter of 2014 was negatively impacted by the impairment charge and mark-to-market losses. In the third and second quarter of 2014, results from the Toronto and Vancouver stations increased revenue and profit. During the first quarter of 2014, the Company incurred significant acquisition-related costs arising from the Toronto and Vancouver business acquisition (refer to note 6 of the annual financial statements) which decreased profit.

**Selected Quarterly Financial Information**

| *(unaudited except totals)* | | Quarter | | | | |
|---|---|---|---|---|---|---|
| *(thousands of Canadian dollars, except share data)* | | 1st | 2nd | 3rd | 4th | Year |
| **2015** | | | | | | |
| **Revenue** | **$** | **35,505** | **42,598** | **41,006** | **45,493** | **164,602** |
| **Profit** | | **2,502** | **6,034** | **6,683** | **8,016** | **23,235** |
| **EPS - basic** | | **0.09** | **0.22** | **0.25** | **0.30** | **0.85** |
| **- diluted** | | **0.09** | **0.21** | **0.24** | **0.28** | **0.81** |
| 2014 | | | | | | |
| Revenue | $ | 28,463 | 42,298 | 39,301 | 44,438 | 154,500 |
| Profit (loss) | | (3,204) | 7,541 | 4,265 | 2,593 | 11,195 |
| EPS - basic | | (0.11) | 0.27 | 0.15 | 0.09 | 0.40 |
| - diluted | | (0.11) | 0.26 | 0.15 | 0.08 | 0.38 |

# CASH FLOWS

The following table depicts the major sources of cash inflows and outflows in 2015 and 2014 by operating activities, financing activities and investing activities.

| *(thousands of Canadian dollars)* | | 2015 | 2014 |
|---|---|---|---|
| Funds generated from operations, before undernoted items | **$** | **46,900** | 40,196 |
| Change in working capital | | **(4,809)** | (6,124) |
| Interest and income taxes paid | | **(16,558)** | (7,986) |
| Net cash flows from operating activities | **$** | **25,533** | 26,086 |
| Net long-term debt borrowings | **$** | **7,250** | 96,000 |
| Dividends paid | | **(6,527)** | (4,221) |
| Repurchase of capital stock | | **(13,860)** | - |
| Other, including change in bank indebtedness | | **425** | (199) |
| Net cash flows from financing activities | **$** | **(12,712)** | 91,580 |
| Acquisition of broadcasting assets | **$** | **-** | (112,712) |
| Property and equipment additions | | **(9,712)** | (5,922) |
| Canadian Content Development commitment payments | | **(2,753)** | (2,068) |
| Proceeds from disposal of marketable securities | | **105** | 3,017 |
| Other | | **(461)** | 19 |
| Net cash flows from investing activities | **$** | **(12,821)** | (117,666) |

### Cash Flows - 2015

Cash flows from operating activities of $25.5 million, combined with the $7.3 million net long-term debt borrowings were used to repurchase capital stock for $13.9 million, purchase property and equipment for $9.7 million, pay dividends of $6.5 million, and pay CCD commitments of $2.8 million.

### Cash Flows - 2014

Cash flows from operating activities of $26.1 million, combined with the $96.0 million net long-term debt borrowings and the $3.0 million proceeds from marketable securities, were used to fund the business acquisitions of $112.7 million, to purchase property and equipment for $5.9 million, pay dividends of $4.2 million, and pay CCD commitments in the amount of $2.1 million.

### Capital Expenditures and Capital Budget

The more significant investments in property and equipment in 2015 related to the relocation to new studios in Toronto, the continuation of investment in new broadcasting digital and automation equipment, capital costs associated with improving signals and frequency changes, and an expansion of the Company's head office.

Capital expenditures for 2016 are expected to approximate $6.0 million. The major planned expenditures include the continuation of investment in new broadcasting digital and automation equipment and capital costs associated with improving signals and frequency changes. The Company continuously upgrades its broadcast equipment to improve operating efficiencies.

## FINANCIAL CONDITION

### Total Assets

Assets of $364.2 million were $7.6 million higher than 2014 due to property and equipment additions in 2015 and a higher balance of receivables outstanding at December 31, 2015.

### Liabilities, Shareholder's Equity and Capital Structure

As at December 31, 2015, the Company had $1.7 million of current bank indebtedness and $145.9 million of long-term debt, of which $11.3 million was current. The capital structure consisted of 40% equity ($146.0 million) and 60% liabilities ($218.3 million) at year end.

## LIQUIDITY

### Liquidity Risk

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

### Credit Facilities and Covenants

The Company has two syndicated credit facilities. The first one is a $90.0 million revolving credit facility. This type of facility provides flexibility with no scheduled repayment terms. The Company also has a $90.0 million non-revolving credit facility that was drawn on March 31, 2014 to finance the Toronto and Vancouver business acquisition. The non-revolving facility is being amortized over eight years and is repayable in quarterly instalments of $2.8 million.

In May 2015, the Company amended its credit facilities to reduce interest rates by 0.5%, change certain covenants and to extend the maturity date for both credit facilities to May 31, 2018.

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

Cash flow from operations and funds available from the Company's $90.0 million revolving credit facility have been the primary funding sources of working capital, capital expenditures, CCD payments, dividend payments, debt repayments, and other contractually required payments through the past several years.

### Positive Cash Balances

The Company does not maintain any significant positive cash balances; instead it uses its cash balances to reduce debt and minimize interest expense. The fact that the Company does not have positive cash positions on its balance sheet does not pose an increase to its liquidity risk because the Company generates cash from operations and included in the $90 million revolving credit facility is $5.0 million available to fund any current obligations, $3.8 million of which the Company had drawn at December 31, 2015. The Company can access this remaining available amount of $1.2 million as well as the additional $11.5 million undrawn amount on its revolving credit facility to fund obligations.

### Working Capital Requirements

As at December 31, 2015, the Company had a working capital surplus of $5.7 million. The cash from current receivables will be sufficient to cover the Company's current obligations to its suppliers and employees and in combination with ongoing cash from operations and the availability of cash from the undrawn portion of its credit facility, the Company will be able to meet all other current cash requirements as they arise. If cash inflows from customers are not sufficient to cover current obligations, because of timing issues, the Company has access to the undrawn amount of its credit facilities.

### Future Cash Requirements

Other than for ongoing operations, the Company's cash requirements are primarily for interest payments, repayment of debt, capital expenditures, Canadian Content Development payments, dividends and other contractual obligations. Management anticipates that its cash flows from operations will provide sufficient funds to meet its cash requirements. The Company's future cash requirements are summarized in a table in the *contractual obligations* section.

# CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's significant contractual obligations and commitments as at December 31, 2015 and the future periods in which the obligations become due and payable. Additional details regarding these obligations are provided in the notes of the annual financial statements, as referenced in the table.

**Contractional Obligations**

| *(thousands of Canadian dollars)* | 2016 | 2017 | 2018 | 2019 | 2020 | thereafter | **Total** |
|---|---|---|---|---|---|---|---|
| Long-term debt *(note 8)* | $ 11,250 | 11,250 | 124,125 | - | - | - | **146,625** |
| CCD commitments, undiscounted *(note 9)* | 2,551 | 1,667 | 1,454 | 1,240 | 1,597 | - | **8,509** |
| Operating leases *(note 17)* | 4,552 | 3,763 | 3,028 | 1,809 | 854 | 2,064 | **16,070** |
| Pension funding obligation | 531 | 534 | 537 | 540 | 543 | 4,461 | **7,146** |
| Total contractual obligations | $ 18,884 | 17,214 | 129,144 | 3,589 | 2,994 | 6,525 | **178,350** |

The Company expects its long-term debt will be renewed in 2018, which is consistent with past practice, and that the annual required payments in the years 2018 and thereafter would continue to be $11.3 million per year.

The Company recognizes long-term debt and CCD commitments (when stations are launched) as liabilities on the balance sheet.

The Company also has obligations with respect to its employee benefit plans, as discussed in note 10 of the annual 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.

# SHARE CAPITAL

### Outstanding Share Data

The weighted average number of shares outstanding for the year ended December 31, 2015 was 27,355,000 (2014 - 28,152,000). As of this date, there are 22,860,336 Class A Subordinate Voting Shares ("Class A shares") and 3,769,322 Class B Common Shares ("Class B shares") outstanding.

### Dividends Declared

In 2015, the Board of Directors declared dividends of $0.15 (2014 - $0.15) per share on each of its Class A shares and Class B shares. Dividends of $6.5 million were paid during the year (2014 - $4.2 million) and there were no dividends payable at December 31, 2015 (2014 - $2.5 million) as the dividends declared in the fourth quarter were paid in December.

### Share Repurchases

The Company has approval under a Normal Course Issuer Bid to repurchase up to 1,200,495 Class A shares and 75,386 Class B shares. This bid expires May 24, 2016. During the year, 1,569,800 Class A shares were repurchased for cash consideration of $13.9 million (no shares were repurchased in 2014). Share repurchases of 405,000 were made under the Normal Course Issuer Bid that was in effect until May 21, 2015 and share repurchases of 1,164,800 were made under the Normal Course Issuer Bid currently in effect.

## SHARE-BASED COMPENSATION PLANS

### Executive Stock Option Plan

As of this date, the number of Class A shares reserved for issuance pursuant to the executive stock option plan is 3,104,991. The number of Class A shares underlying outstanding options under the executive stock option plan is 2,272,500, of which 2,197,500 are vested, at prices ranging from $2.43 to $9.69. As of this date, 832,491 options remain available to grant.

During the year, the Company granted 100,000 executive stock options. In 2015, 175,000 options were exercised using the cashless exercise method resulting in 44,488 shares being issued from treasury. In 2014, no options were granted; 15,000 options were forfeited and 107,500 options were exercised using the cashless exercise method resulting in 26,767 shares being issued from treasury.

Compensation expense related to the executive stock option plan in the year was $0.1 million (2014 - less than $0.1 million).

### Stock Appreciation Rights Plan

There are no stock appreciation rights outstanding as at December 31, 2015. During the year, the last 50,000 rights were exercised for cash consideration of $0.1 million (2014 - 52,500 rights exercised for $0.2 million).

Compensation expense related to stock appreciation rights in the year was $nil (2014 - recovery of less than $0.1 million). The total obligation for these rights at the end of the year was $nil (2014 - $0.1 million).

For more detailed disclosures about the Company's share-based compensation plans, refer to note 11 of the annual financial statements.

## FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Interest Rate Risk Management

The Company is exposed to interest rate risk on the long-term debt issued at floating rates under its credit facilities. A 0.5% change in the floating interest rates would have a $358,000 impact on profit for the year.

The Company has in place an interest rate swap agreement with a Canadian chartered bank to hedge its exposure to fluctuating interest rates on its long-term debt. The swap has a notional amount of $45,000,000 and expires in May 2017.

The swap agreement involves 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. A 0.5% change in the projected floating interest rates during the remaining term of the hedge agreement would have impacted the fair value of the interest rate swap by approximately $0.2 million which would have flowed through profit since the swap was deemed ineffective for accounting purposes in June 2014.

As at December 31, 2015, the aggregate fair value payable of the swap agreement was $0.9 million (2014 - $0.7 million).

### Market Risk Management

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 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. As at December 31, 2015, a 10% change in the share prices of each marketable security would result in a $0.1 million after-tax change in profit.

### 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.

The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize the concentration of credit risk. Credit exposure is managed through credit approval and monitoring procedures. The Company does not require collateral or other security from clients for trade receivables; however the Company 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 $0.9 million as at December 31, 2015. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Approximately 87% 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 2015, $0.5 million was written off. The Company believes its provision for potential credit losses is adequate at this time given the current economic circumstances.

With regard to the Company's derivative instruments, the counterparty risk is managed by only dealing with Canadian chartered banks having high credit ratings.

### Capital Management

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

For more detailed disclosure about the Company's financial instruments and financial risk management, refer to note 13 of the annual financial statements.

## ADOPTION OF NEW ACCOUNTING STANDARDS

### *IAS 19, Employee Benefits*

In November 2013, the International Accounting Standards Board ("IASB") amended IAS 19, Employee Benefits, in order to simplify the accounting for contributions of defined benefit plans that are independent of the number of years of employee service. An example would be employee contributions that are calculated according to a fixed percentage of salary. This amendment was adopted effective January 1, 2015. The adoption of this amendment had no significant impact on the consolidated financial statements of the Company.

### *IFRS 8, Operating Segments*

On January 1, 2015, the Company adopted the amendment to IFRS 8. The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

These amendments did not result in a material impact to the consolidated financial statements.

## FUTURE ACCOUNTING STANDARDS

Standards issued but not yet effective up to the date of issuance of the Company's annual financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

### *IFRS 9, Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. Management is assessing the impact the adoption of IFRS 9 will have on the classification and measurement of the Company's financial assets and financial liabilities.

### *IFRS 15, Revenue from Contracts with Customers*

IFRS 15 applies to all revenue contracts and provides a five step model for the recognition and measurement of revenue earned from a contract with a customer. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not an output of the entity's ordinary activities. In July 2015, the IASB deferred the effective date from January 1, 2017 to January 1, 2018, with earlier adoption permitted. The Company is assessing the impact this new standard will have on its consolidated financial statements.

### *IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16, Leases, which addresses the recognition, measurement, presentation, and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard comes into effect on January 1, 2019. The Company is assessing the impact this new standard will have on its consolidated financial statements.

## CRITICAL ACCOUNTING ESTIMATES

Financial statements prepared in conformity with IFRS 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 these estimates.

The most significant judgments made in the preparation of the Company's financial statements include judgments related to the determination that broadcast licences have indefinite lives and identifying cash-generating units ("CGUs") based on whether or not there exists interdependency of revenue between radio stations.

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.

### Impairment of Non-Financial Assets

The Company's primary non-financial assets subject to impairment include broadcast licences, goodwill, and property and equipment. Broadcast licences and goodwill are not amortized but are tested annually for impairment, or more frequently if events or circumstances indicate that it is more likely than not that the value of broadcast licences and/or goodwill may be impaired. For other non-financial assets, the Company assesses whether there is any indication that an asset may be impaired and if so, the Company estimates the recoverable amount of the asset.

Impairment exists when the carrying value of an asset or cash-generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in note 7 of the annual financial statements.

### Employee Future Benefit Plans

The cost of defined benefit pension plans and the present value of the net pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the net pension obligation is highly sensitive to changes in these assumptions.

Management engages the services of external actuaries to assist in the determination of the appropriate discount rate. Management, with the assistance of actuaries, consider the interest rates of high quality corporate bonds that have terms to maturity approximating the terms related to the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are given in note 10 of the annual financial statements.

### Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the statements of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The estimates include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### Income Taxes

Deferred 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 deferred tax assets to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized. To determine the provision for income taxes, certain assumptions are made, including filing positions on certain items and the ability to realize deferred tax assets. In the event the outcome differs from management's assumptions and estimates, the effective tax rate in future periods could be affected.

## OFF BALANCE SHEET ARRANGEMENTS

As at December 31, 2015, there were no off-balance sheet arrangements other than operating leases which are considered in the ordinary course of business.

## RELATED PARTY TRANSACTIONS

These annual financial statements include the financial statements of the following wholly-owned subsidiaries: Newcap Inc., the Glynmill Inn Incorporated, 8504580 Canada Inc., 8384827 Canada Inc., 8384860 Canada Inc., 8384886 Canada Inc. and 8384878 Canada Inc. Any balances owing or receivable between these entities are eliminated on consolidation.

In addition to transactions between the parent and subsidiaries, the Company has entered into certain transactions and agreements with certain other related parties. Transactions with these parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, having normal trade terms. Related party transactions are reviewed by the Company's Audit and Governance Committee which is comprised entirely of independent directors.

The Company provided advertising services, information technology support and had cost recoveries from companies controlled by the President and Chief Executive Officer ("CEO") during the reporting period. Included in the consolidated statements of income is $0.9 million (2014 - $0.3 million) for services provided. Included in receivables at December 31, 2015 is $0.1 million (2014 - $0.1 million) for services provided.

The Company purchased goods and services from companies controlled by the CEO and other directors during the year. Included in operating expenses is $0.3 million (2014 - $0.3 million) related to goods and services purchased during the year. Included in accounts payable and accrued liabilities at December 31, 2015 is less than $0.1 million (2014 - less than $0.1 million) for goods and services purchased.

# CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

The Company's CEO and the Chief Financial Officer ("CFO") have designed or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that:

- material information relating to the Company is made known to the CEO and the CFO by others, to make a determination as to the appropriateness and timing of public disclosure, if any; and
- information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Company's Disclosure Committee along with management and the CEO and CFO assist with the evaluation of DC&P design and operating effectiveness. Throughout the year, 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.

As at December 31, 2015, the CEO and the CFO, based on their evaluation, concluded that DC&P were properly designed and were operating effectively.

### Internal Controls over Financial Reporting

The Company's CEO and CFO have designed, or caused to be designed under their supervision, Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As at December 31, 2015, 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 IFRS.

Using the framework set forth in *The 2013 COSO Internal Control Intergrated 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, 2015. 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 IFRS.

### Changes in Internal Controls over Financial Reporting

During fiscal 2015, 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.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

## RISKS, UNCERTAINTIES AND OPPORTUNITIES

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

### 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 licensing 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 Copyright collective societies ("Collectives") which include the Society of Composers, Authors and Music Publishers of Canada ("SOCAN"), Re:Sound, the Canadian Musical Reproduction Rights Agency, Society for Reproduction Rights of Authors, Composers and Publishers in Canada ("CSI") and the Audio-Video Licensing Agency ("AVLA") based on rates set by the Copyright Board of Canada.

The Collectives can apply at any time to the Copyright Board for amendments to the fees which could affect future results. The Copyright Committee of the Canadian Association of Broadcasters ("CAB") is comprised of broadcaster members who represent jointly the interests of the industry in matters of copyright negotiation between broadcasters, Collectives and the Copyright Board of Canada. Newcap is a member of this committee.

CRTC licence fees and copyright fees, combined, are currently approximately 7.8% of revenue, subject to certain exemptions for low use and low revenue stations. Tariff rates have remained constant at the levels set in 2010. In 2014 a Copyright Board of Canada hearing was held to review applications made by the following collectives for tariffs to remain at the 2010 rates: SOCAN (2011-2013), Re:Sound (2012-2014), CSI (2012-2013) and AVLA (2012-2017). A Copyright Board of Canada Decision regarding this hearing is not expected to be released until sometime in 2016. The outcome of this hearing is not determinable at this time.

The Copyright Committee of the CAB continues to dispute the reproduction tariffs, CSI and AVLA, as unfair. Bill C-11, the Copyright Modernization Act, passed in Parliament on June 8, 2012 and received Royal Assent on June 29, 2012. This Act oversees the tariffs levied by CSI and AVLA. In theory, an exception for these tariffs exists for broadcasters, but in practice the exception can only be realized if a radio station chooses to delete and reconstitute its entire playlist each 30 days. While Bill C-11 updated several copyright provisions, it left this 30-day destroy exception intact. In the interim, radio broadcasters will continue to pay these two tariffs.

In July 2012, the CRTC announced that it was systematically phasing out the television Local Programming Improvement Fund ("LPIF") by August 31, 2014. This has impacted the financial results of the Company's television stations operated in Lloydminster, Alberta. The Company first began receiving LPIF funds in 2009. The Small Market Independent Television Coalition, which is a committee facilitated by the CAB, submitted a plan for a replacement fund at the CRTC's Television Policy hearing in September of 2014. The CRTC held a public hearing commencing January 25, 2016 to review the policy framework for local and community television. From this hearing the CRTC will decide on funding changes, if any, for local television. Funding determinations from this hearing are anticipated to be released late in 2016. In the interim, management is focussed on mitigating the decline in EBITDA by scrutinizing all operating costs in the television operation.

### 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

In recent years, the CRTC had been awarding an increasing number of new FM licences in markets. While the Company 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.

### Technological Developments

With the advent of new or alternative media technologies such as satellite radio, digital radio, the Internet, wireless broadcasting, podcasting and mobile advertising, competition for 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 highly localized service offering to its audience.

### 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. Recently radio national advertising has declined compared to previous years. The Company takes steps to mitigate this risk by retaining a degree of geographic and sectoral diversification.

Other media compete for advertising dollars, such as print, television, yellow pages, outdoor, direct mail, on-line services and more recently, advertising via social media. 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 is focused on mitigating any loss to other media by creating long-term relationships with customers and providing innovative, high-quality marketing campaigns. Over the past number of years, Radio's percentage share of advertising dollars has remained relatively constant with the increase of on-line advertising coming from the decline in print advertising.

### Broadcast Licences and Goodwill

As previously disclosed in the *Critical Accounting Estimates* section, broadcast licences and goodwill are not amortized but are tested annually for impairment, or more frequently if events or circumstances indicate that it is more likely than not that the value of broadcast licences and/or goodwill may be impaired. Expected future cash flows are discounted by the Company to assess the value-in use (or fair value) of its broadcast licences and goodwill. Discount rates used are influenced by assumptions, based on prevailing economic conditions. During a period of economic volatility, there can be no assurance that the Company's broadcast licences or goodwill would not be adversely affected following changes in the assumptions used to determine the discount rate. The Company monitors this on an ongoing basis and any changes to the fair value of broadcast licences or goodwill would result in a non-cash impairment charge in the Company's consolidated income statements.

### Tax Matters

As previously disclosed in the *Critical Accounting Estimates* section, in order to calculate income tax, certain assumptions are made, including filing positions on certain items and the ability to realize deferred tax assets. In addition, the Company, like all companies, is subject to audits from different taxation authorities. The outcome of any audits could materially affect the amount of income taxes payable recorded on the Company's consolidated statements of financial position and provision for income tax expense in the consolidated income statements. Any cash payment or receipts arising from tax audits could have a material impact on the Company's cash flow from operating activities. To mitigate these risks, the Company has engaged external advisors to work with management in preparing the Company's income tax returns and to assist with all transactions that are outside of the normal course of operations. Management, along with the external advisors, have up-to-date knowledge of Canadian and provincial income tax laws and their interpretations. Although these risks exist, management believes that it has sufficient amounts accrued for outstanding tax matters based on all of the information currently available.

### Defined Benefit Pension Plans

The Company's defined benefit pension plans are impacted by economic conditions and there can be no assurance that pension expense and funding of its defined benefit pension plans will not increase in the future and negatively impact operating results and financial condition. Defined benefit funding risks arise when pension liabilities exceed the value of the plan assets. These unfunded differences can arise from lower than expected plan asset returns, changes in the discount rate used to value pension obligations and actuarial loss experiences. The Company mitigates the risk by continuously monitoring the performance of the plan assets and the funding position of the plans. Risk is also mitigated due to the fact that there are only a small number of retirees and employees covered under these plans. All other employees are included in the Company's defined contribution pension plan.

### 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.

## OUTLOOK

Throughout 2015, the Company successfully focused on efforts to increase organic revenue and to operate more efficiently in the Broadcasting segment. The Company will continue to focus on these initiatives in 2016 in an effort to maintain consistent EBITDA margins despite a challenging economic environment throughout Canada, particularly in Alberta. Listener ratings have positioned the Company well for continued strong performance in certain major markets, including Toronto where the Company achieved first place ranking and Calgary where the Company maintains a key station in the top three.

The Company will continue to invest in marketing and research to promote all of its stations and improve ratings. In 2016, the Company will concentrate on improving results at certain stations in Vancouver and Toronto that represent opportunities to improve the already positive results achieved from the acquisition in 2014. The Company will also focus on improving results in the Halifax operation which has been challenging as a result of increased competition in the market and the negative impact of a previous format change at one of the stations.

The efforts and commitment of our employees, some of the best and most talented individuals in the industry, have allowed the Company to continue to grow and prosper. The Company is committed to being actively involved in the communities where it operates and in maintaining the relationships formed with advertisers and listeners alike.

## *Non-IFRS Accounting Measure*

*(1) **EBITDA** is calculated as revenue less operating expenses (which include direct cost of sales and general and administrative expenses) as reported in the Company's annual consolidated income statements. EBITDA may be calculated and presented by operating segment or for the consolidated results of the Company. The Company believes this is an important measure because the Company's key decision makers use this measure internally to evaluate the performance of management. The Company's key decision makers also believe certain investors use it as a measure of the Company's financial performance and for valuation purposes.*

*EBITDA is therefore calculated before (i) non-cash expenses such as depreciation and amortization as well as accretion of other liabilities, (ii) interest expense and (iii) items not indicative of the Company's core operating results, and not used in the evaluation of the operating segments or the consolidated Company's performance such as: impairment charge and other expense. A calculation of this measure is as follows:*

| | | Three months ended December 31 | | Twelve months ended December 31 | |
|---|---|---|---|---|---|
| *(thousands of Canadian dollars)* | | **2015** | 2014 | **2015** | 2014 |
| *Profit* | $ | **8,016** | 2,593 | **23,235** | 11,195 |
| *Provision for income taxes* | | **3,418** | 2,434 | **10,487** | 5,257 |
| *Impairment charge* | | **-** | 5,685 | **-** | 5,685 |
| *Other expense* | | **247** | 799 | **571** | 7,469 |
| *Interest expense* | | **1,340** | 1,925 | **6,382** | 6,421 |
| *Depreciation and amortization* | | **1,348** | 1,390 | **4,868** | 4,914 |
| *Accretion of other liabilities* | | **87** | 116 | **425** | 680 |
| *EBITDA* | $ | **14,456** | 14,942 | **45,968** | 41,621 |

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


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# Consolidated Financial Statements



# Management's Responsibility for Financial Information

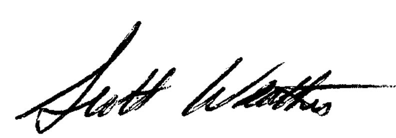
The consolidated financial statements and other information in this Annual Report are the responsibility of the management of Newfoundland Capital Corporation Limited. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include certain 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, 2015, 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, 2015, 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 International Financial Reporting Standards.

The Board of Directors ("Board") 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 four 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.  Their opinion is presented hereafter.

March 3, 2016



Robert G. Steele
President and Chief Executive Officer

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

# Independent Auditors' Report

**To the Shareholders of Newfoundland Capital Corporation Limited**

We have audited the accompanying consolidated statements of financial position of Newfoundland Capital Corporation Limited as at December 31, 2015 and 2014 and the consolidated income statements, statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Newfoundland Capital Corporation Limited as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants

Halifax, Canada
March 3, 2016

# Newfoundland Capital Corporation Limited

## Consolidated Statements of Financial Position - As at December 31

| *(thousands of Canadian dollars)* | *Notes* | | **2015** | 2014 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current assets** | | | | |
| Marketable securities | *13(a)* | **$** | **829** | 1,532 |
| Receivables | *13* | | **38,960** | 35,615 |
| Prepaid expenses | | | **1,494** | 1,186 |
| *Total current assets* | | | **41,283** | 38,333 |
| | | | | |
| **Non-current assets** | | | | |
| Property and equipment | *4* | | **43,098** | 38,342 |
| Other assets | *5* | | **1,580** | 1,583 |
| Broadcast licences | *6 & 7* | | **262,029** | 262,029 |
| Goodwill | *6 & 7* | | **12,014** | 12,014 |
| Deferred income tax assets | *6 & 14* | | **4,242** | 4,376 |
| *Total non-current assets* | | | **322,963** | 318,344 |
| **Total assets** | *8* | **$** | **364,246** | 356,677 |
| | | | | |
| **Liabilities and Shareholders' Equity** | | | | |
| **Current liabilities** | | | | |
| Bank indebtedness | *8* | **$** | **1,748** | 1,125 |
| Accounts payable and accrued liabilties | *9 & 11* | | **20,747** | 21,817 |
| Dividends payable | *12* | | **-** | 2,534 |
| Income taxes payable | *14* | | **1,840** | 4,165 |
| Current portion of long-term debt | *8* | | **11,250** | 11,250 |
| *Total current liabilities* | | | **35,585** | 40,891 |
| | | | | |
| **Non-current liabilities** | | | | |
| Long-term debt | *8* | | **134,658** | 127,275 |
| Other liabilities | *9 & 13(b)* | | **14,833** | 17,078 |
| Deferred income tax liabilities | *6 & 14* | | **33,179** | 30,904 |
| *Total non-current liabilities* | | | **182,670** | 175,257 |
| | | | | |
| **Total liabilities** | | | **218,255** | 216,148 |
| | | | | |
| **Shareholders' equity** | | | **145,991** | 140,529 |
| **Total liabilities and shareholders' equity** | | **$** | **364,246** | 356,677 |

*Commitments and contingencies (note 17)*

*See accompanying notes to the consolidated financial statements*

On behalf of the Board

H.R. Steele
Director

D.I. Matheson
Director

# Newfoundland Capitial Corporation Limited

## Consolidated Income Statements - For the years ended December 31

| *(thousands of Canadian dollars, except per share data)* | *Notes* | **2015** | 2014 |
|---|---|---|---|
| Revenue | | **$ 164,602** | 154,500 |
| Operating expenses | | **(118,634)** | (112,879) |
| Depreciation and amortization | *4* | **(4,868)** | (4,914) |
| Accretion of other liabilities | *9* | **(425)** | (680) |
| Interest expense | *8* | **(6,382)** | (6,421) |
| Other expense | *6 & 13(a)* | **(571)** | (7,469) |
| Impairment charge | *7* | **-** | (5,685) |
| **Profit before provision for income taxes** | | **33,722** | 16,452 |
| Provision for income taxes | *14* | | |
| Current | | **(8,083)** | (2,767) |
| Deferred | | **(2,404)** | (2,490) |
| | | **(10,487)** | (5,257) |
| **Profit** | | **$ 23,235** | 11,195 |
| **Earnings per share** | *15* | | |
| - Basic | | **$ 0.85** | 0.40 |
| - Diluted | | **0.81** | 0.38 |

*See accompanying notes to the consolidated financial statements*

# Newfoundland Capitial Corporation Limited

## Consolidated Statements of Comprehensive Income - For the years end December 31

| *(thousands of Canadian dollars)* | *Notes* | **2015** | 2014 |
|---|---|---|---|
| **Profit** | | **$ 23,235** | 11,195 |
| **Other comprehensive income (loss)** | | | |
| Cash flow hedges: | | | |
| Net movement on interest rate swap | *13(b)* | **(113)** | (60) |
| Income tax recovery | *14* | **32** | 16 |
| **Amounts reclassified to profit and loss** | | **(81)** | (44) |
| Defined benefit plan actuarial gains (losses) | *10* | **119** | (301) |
| Income tax (expense) recovery | *14* | **(37)** | 94 |
| **Amounts that will not be reclassified to profit and loss** | | **82** | (207) |
| **Other comprehensive income (loss)** | | **1** | (251) |
| **Comprehensive income** | | **$ 23,236** | 10,944 |

*See accompanying notes to the consolidated financial statements*

# Newfoundland Capital Corporation Limited

## Consolidated Statements of Changes in Shareholders' Equity - For the years ended December 31

| *(thousands of Canadian dollars)* | **Issued share capital (note 12)** | **Contributed surplus** | **Accumulated other comprehensive income (loss)** | **Retained earnings (note 12)** | **Total shareholders' equity** |
|---|---|---|---|---|---|
| Balance at January 1, 2015 | $ 36,596 | 2,602 | (144) | 101,475 | 140,529 |
| Profit | - | - | - | 23,235 | 23,235 |
| Other comprehensive income | - | - | 1 | - | 1 |
| Total comprehensive income | - | - | 1 | 23,235 | 23,236 |
| Dividends declared | - | - | - | (3,993) | (3,993) |
| Repurchase of share capital | (2,306) | - | - | (11,554) | (13,860) |
| Exercise of executive stock options | 198 | (198) | - | - | - |
| Executive stock option compensation expense | - | 79 | - | - | 79 |
| **Balance at December 31, 2015** | **$ 34,488** | **2,483** | **(143)** | **109,163** | **145,991** |

*See accompanying notes to the consolidated financial statements*

| *(thousands of Canadian dollars)* | **Issued share capital (note 12)** | **Contributed surplus** | **Accumulated other comprehensive income (loss)** | **Retained earnings (note 12)** | **Total shareholders' equity** |
|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ 36,495 | 2,680 | 107 | 94,503 | 133,785 |
| Profit | - | - | - | 11,195 | 11,195 |
| Other comprehensive loss | - | - | (251) | - | (251) |
| Total comprehensive loss | - | - | (251) | 11,195 | 10,944 |
| Dividends declared | - | - | - | (4,223) | (4,223) |
| Exercise of executive stock options | 101 | (101) | - | - | - |
| Executive stock option compensation expense | - | 23 | - | - | 23 |
| **Balance at December 31, 2014** | $ 36,596 | 2,602 | (144) | 101,475 | 140,529 |

*See accompanying notes to the consolidated financial statements*

# Newfoundland Capitial Corporation Limited

## Consolidated Statements of Cash Flows - For the years ended December 31

| *(thousands of Canadian dollars)* | *Notes* | **2015** | 2014 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before provision for income taxes | | **$ 33,722** | 16,452 |
| Items not involving cash | | | |
| Depreciation, amortization and accretion of other liabilities | | **5,293** | 5,594 |
| Share-based compensation expense | *11* | **79** | 28 |
| Impairment charge | *7* | **-** | 5,685 |
| Realized and unrealized losses (gains) on marketable securities | *13(a)* | **598** | (884) |
| Canadian Content Development commitments arising from business combinations | | **-** | 6,288 |
| Interest expense | | **6,382** | 6,421 |
| Other | | **826** | 612 |
| | | **46,900** | 40,196 |
| Net change in non-cash working capital balances related to operations | *16* | **(4,809)** | (6,124) |
| Cash generated from operations | | **42,091** | 34,072 |
| Interest paid | | **(6,122)** | (5,663) |
| Income taxes paid | | **(10,436)** | (2,323) |
| Net cash flow from operating activities | | **25,533** | 26,086 |
| **Financing activities** | | | |
| Change in bank indebtedness | | **623** | 127 |
| Long-term borrowings | | **18,500** | 113,000 |
| Long-term debt repayments | | **(11,250)** | (17,000) |
| Dividends paid | *12* | **(6,527)** | (4,221) |
| Repurchase of share capital | *12* | **(13,860)** | - |
| Other | | **(198)** | (326) |
| Net cash flow (used in) from financing activities | | **(12,712)** | 91,580 |
| **Investing activities** | | | |
| Acquisition of broadcasting assets | *6* | **-** | (112,712) |
| Property and equipment additions | *4* | **(9,712)** | (5,922) |
| Canadian Content Development commitment payments | | **(2,753)** | (2,068) |
| Proceeds from disposal of marketable securities | | **105** | 3,017 |
| Other | | **(461)** | 19 |
| Net cash flow used in investing activities | | **(12,821)** | (117,666) |
| **Cash, beginning and end of year** | | **$ -** | - |

*See accompanying notes to the consolidated financial statements*

# 1. REPORTING ENTITY

Newfoundland Capital Corporation Limited (the "Company") is incorporated under the laws of the Province of Nova Scotia, Canada. The address of the Company's registered office of business is 8 Basinview Drive, Dartmouth, Nova Scotia, B3B 1G4. The Company's primary activity is radio broadcasting. These consolidated financial statements comprise the financial position of the Company and its subsidiaries, together referred to as the "Company". The Company's revenue is derived primarily from the sale of advertising airtime.

These consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on March 3, 2016.

# 2. BASIS OF PREPARATION

**Statement of compliance**
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the IFRS Interpretations Committee ("IFRIC") interpretations issued and effective or issued and early adopted as of the date of these consolidated financial statements. The policies set out below have been consistently applied to all the periods presented.

These consolidated financial statements contain all of the information and disclosures required by IFRS for annual consolidated financial statements. All amounts are expressed in Canadian dollars, rounded to the nearest thousand (unless otherwise specified). The functional currency of the Company and each of its subsidiaries is the Canadian dollar.

**Basis of measurement**
These consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statement of financial position:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- the defined benefit pension liability is recognized as the net total of the plan assets and the present value of the defined benefit obligation.

**Significant accounting estimates and assumptions**
Financial statements prepared in conformity with IFRS 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

The most significant judgments made in the preparation of the Company's financial statements include judgments related to the determination that broadcast licences have indefinite lives and identifying cash-generating units ("CGUs") based on whether or not there exists interdependency of revenue between radio stations.

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

# 2. BASIS OF PREPARATION *(continued)*

**Significant accounting estimates and assumptions** ***(continued)***

***Impairment of Non-Financial Assets***

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in note 7.

***Employee Future Benefit Plans***

The cost of defined benefit pension plans and the present value of the net pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the net pension obligation is highly sensitive to changes in these assumptions.

Management engages the services of external actuaries to assist in the determination of the appropriate discount rate. Management, with the assistance of actuaries, considers the interest rates of high quality corporate bonds that have terms to maturity approximating the terms related to the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about the assumptions used are further explained in note 10.

***Fair Value of Financial Instruments***

Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The estimates include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

***Income Taxes***

Deferred 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 deferred tax assets to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized. To determine the provision for income taxes, certain assumptions are made, including filing positions on certain items and the ability to realize deferred tax assets. In the event the outcome differs from management's assumptions and estimates, the effective tax rate in future periods could be affected.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

**Basis of consolidation**
The consolidated financial statements include the accounts of the Company and the following subsidiaries, all of which have a principal place of business in Canada:

| Company | Principal Activity |
|---|---|
| Newcap Inc. | Radio broadcasting |
| Glynmill Inn Inc. | Hotel operation |
| 8504580 Canada Inc. | Radio broadcasting |
| 8384827 Canada Inc. | Radio broadcasting |
| 8384860 Canada Inc. | Radio broadcasting |
| 8384886 Canada Inc. | Radio broadcasting |
| 8384878 Canada Inc | Radio broadcasting |

These subsidiaries are controlled by the Company and are wholly-owned. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

**Cash and cash equivalents**
The Company's cash and cash equivalents comprise deposits in banks. The Company nets its cash and cash equivalents with bank indebtedness.

**Business combinations, broadcast licences and goodwill**
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value. Acquisition costs incurred are expensed and included in other expense. The cost of a business combination is allocated to the fair value of the related net identifiable tangible and intangible assets. 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. If the consideration is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

To receive approval to launch a new broadcast licence pursuant to applications made by the Company to the Canadian Radio-television and Telecommunications Commission ("CRTC"), the CRTC may require the Company to commit to fund Canadian Content Development ("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. Any other direct costs related to the award and launch of new broadcast licences are also capitalized as broadcast licences. CCD that arises from a business acquisition is considered a transaction cost and is expensed in the consolidated income statement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Business combinations, broadcast licences and goodwill**

After initial recognition, goodwill and broadcast licences are recorded at cost less any accumulated impairment losses. Both goodwill and broadcast licences have indefinite useful lives and are not amortized. Broadcast licences are deemed indefinite life assets since they are renewed every seven years without significant cost, with the unlikely chance that the renewal will be denied; therefore, there is no foreseeable limit to the period over which broadcast licences are expected to generate net cash flows for the Company.

**Impairment testing of goodwill, other intangible assets and property and equipment**

Goodwill and intangible assets with indefinite useful lives, like broadcast licences, are not amortized but are tested for impairment annually as of October 31, either individually or at the CGU level. Intangible assets with finite lives and property and equipment are amortized over their useful life and assessed for impairment whenever there is an indication that the asset may be impaired.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). As a result, some assets are tested individually for impairment and some are tested at the CGU level when cash inflow interdependencies exist. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill.

An impairment loss is recognized for the amount by which the assets or CGU's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management considers the higher of fair value less costs to sell ("FVLCS") and value-in-use ("VIU"). For VIU, management estimates expected future cash flows from each asset or CGU and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved five-year budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements.

Discount factors are determined individually for each asset or CGU and reflect their respective risk profiles as assessed by management.

Impairment losses for CGUs first reduce the carrying amount of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro rata to the other long-lived assets in the CGU. However, an individual asset is not impaired below its recoverable amount if determinable. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the asset's or CGU's recoverable amount exceeds its carrying amount.

**Property and equipment**

Property and equipment is carried at cost, net of accumulated depreciation and amortization, and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the assets and restoring the site on which they are located, and capitalized borrowing costs.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Property and equipment** ***(continued)***

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on the derecognition of the asset is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within *other expense* in profit or loss.

Depreciation and amortization is recognized on a straight-line basis over the estimated useful life of each component part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of the assets are as follows:

| | |
|---|---|
| Building structures | 60 years |
| Major building components | 20 - 30 years |
| Computer hardware and software | 4 - 6 years |
| Vehicles | 5 years |
| Radio equipment and digital automation | 10 years |
| Furniture, fixtures and office equipment | 5 - 10 years |
| Towers and transmitters | 8 - 25 years |
| Leasehold improvements | Over the term of the lease plus one renewal period |

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed at each financial year-end and adjusted prospectively.

**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 a reduction in rental expense on a straight-line basis over the term of the lease.

**Income taxes**

***Current income taxes***

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the provinces where the Company operates and generates taxable income.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

***Current income taxes (continued)***

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated income statements. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The Company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to tax matters. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at each consolidated balance sheet date. It is possible that additional liability could result. Where the final tax outcome of these matters is different from the amounts that were recorded, the tax provision will be affected in the period in which the final outcome is determined.

***Deferred income taxes***

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

***Deferred income taxes (continued)***

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The Company has not recognized any deferred tax liability for temporary differences associated with investments in subsidiaries on the basis that the Company is able to control the timing of the reversal of such temporary differences and such reversal is not probable in the foreseeable future.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is recognized during the measurement period and reflects facts and circumstances in place at the acquisition date or in profit or loss.

**Reportable segments**

The Company has two reportable segments - Broadcasting and Corporate and Other. The Broadcasting segment consists of the operations of the Company's radio and television licences. This segment derives its revenue from the sale of broadcast advertising. This reportable segment is a strategic business unit that offers different services and is managed separately. Corporate and Other consists of a hotel and the head office functions. Its revenue relates to hotel operations.

**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 services are provided.

The Company, from time to time, exchanges airtime for products and services. These non-monetary transactions are measured at the fair value of the consideration received or receivable.

*Other expense* generally 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.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits related to the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. Upon initial recognition, financial instruments are measured at fair value and classified as either financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, available-for-sale assets, loans and receivables, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge. Financial instruments are included on the consolidated statements of financial position and measured at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities, which are measured at amortized cost. Fair values are based on quoted market prices where available from active markets; otherwise, fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible. Gains and losses on fair value through profit or loss financial assets and financial liabilities are recognized in income before income taxes in the period in which they are incurred. Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method ("EIM").

The Company's financial instruments have been classified as either financial assets or financial liabilities at fair value through profit or loss ("FVTPL"), loans and receivables or other liabilities. The following table illustrates the classification of the Company's financial instruments and the related measurement basis for accounting purposes:

| Asset/Liability | Classification | Measurement |
|---|---|---|
| Marketable securities | FVTPL | Fair value |
| Receivables | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Interest rate swap payable | FVTPL | Fair value |
| Long-term debt | Other liabilities | Amortized cost |
| Other liabilities | Other liabilities | Amortized cost |

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Marketable securities are held for trading which is why they are classified as FVTPL. Financial instruments classified as fair value through profit or loss 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).

**Loans, receivables and other liabilities**

Loans, receivables and other liabilities are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Financial instruments classified as loans and receivables and other liabilities are measured at amortized cost using the EIM less any impairment. Under the EIM, interest income and expense are calculated and recorded using the effective interest rate which is the rate that discounts estimated future cash receipts or payments throughout the expected life of the financial instrument to the fair value at initial recognition.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Impairment of financial instruments**

An assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each consolidated balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the future cash flows of the financial asset or group of assets occur after initial recognition of the financial asset and the loss can be reliably measured. This assessment is done on an individual financial asset basis or on a portfolio of financial assets basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial instrument's original effective interest rate and is recorded as an allowance for losses. If, in a subsequent period, the impairment loss decreases, the previously recognized impairment is reversed to the extent of the impairment.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

**Hedges**

The Company has a derivative financial instrument designated as a cash flow hedge which is recorded on the consolidated statements of financial position at fair value. The Company has designated the interest rate swap as a hedging instrument in a cash flow hedge relationship. The Company entered into the interest rate swap to mitigate its exposure to fluctuating interest rates in relation to its long-term debt.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The derivative financial instrument used for hedge accounting is recognized initially at fair value and reported subsequently at fair value in the consolidated statements of financial position. To the extent that the hedge is effective, changes in the fair value of the derivative designated as a hedging instrument in a cash flow hedge is recognized in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognized immediately in the income statement.

At the time the hedged item affects profit or loss, any gain or loss previously recognized in other comprehensive income is reclassified to the consolidated income statements and presented as a reclassification adjustment within other comprehensive income.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Hedges *(continued)***

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the consolidated income statements. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

**Pension benefits**

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

***Defined contribution pension plan***

The Company matches employee contributions under the defined contribution pension plan. Under this plan, contributions are funded to a separate entity and the Company has no legal or constructive obligation to pay further amounts. The Company's portion is recorded as compensation expense as contributions are made which coincides with the periods during which services are rendered by employees.

***Defined benefit pension plans***

The cost of providing benefits under the defined benefit pension plans is determined on an annual basis by independent actuaries separately for each plan using the projected unit credit costing method. Actuarial gains and losses for both defined benefit plans are recognized immediately in full in the period in which they occur in other comprehensive income. Actuarial gains and losses are not reclassified to the consolidated statements of income in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of: (i) the date of the plan amendment or curtailment, and (ii) the date that the Company recognizes restructuring-related costs.

The discount rate is applied to the net defined benefit asset or liability to determine net interest expense or income. The Company recognizes the following changes in the net defined benefit obligation under operating expenses in the consolidated statements of income: (i) service costs comprising current service costs, past service costs, gains and losses on curtailments and settlements, and (ii) net interest expense or income.

The value of any defined benefit asset recognized is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

**Share-based payments**

The Company has a cash-settled 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 a cash-settled Stock Appreciation Right Plan ("SARS"), a form of stock-based compensation. Compensation expense is accrued with a corresponding increase in liabilities in an amount which represents the fair value of the amount payable to employees in respect of SARS, over the period that the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as compensation expense in the consolidated income statements. Fair value is measured using the Black-Scholes option pricing model.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Share-based payments *(continued)***
Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

**Leases**
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The Company has several operating lease commitments for which lease payments are recognized as an expense in the consolidated income statements on a straight-line basis over the lease term.

**New and future accounting standards**
The following are the accounting standards adopted by the Company in 2015 and future accounting standards not yet effective.

**Adoption of new accounting standards**

***IAS 19, Employee Benefits***
In November 2013, the International Accounting Standards Board ("IASB") amended IAS 19, Employee Benefits, in order to simplify the accounting for contributions of defined benefit plans that are independent of the number of years of employee service. An example would be employee contributions that are calculated according to a fixed percentage of salary. This amendment was adopted effective January 1, 2015. The adoption of this amendment had no significant impact on the consolidated financial statements of the Company.

***IFRS 8, Operating Segments***
On January 1, 2015, the Company adopted the amendment to IFRS 8. The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

These amendments did not result in a material impact to the consolidated financial statements.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Future accounting standards**

***IFRS 9, Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. Management is assessing the impact the adoption of IFRS 9 will have on the classification and measurement of the Company's financial assets and financial liabilities.

***IFRS 15, Revenue from Contracts with Customers***

IFRS 15 applies to all revenue contracts and provides a five step model for the recognition and measurement of revenue earned from a contract with a customer. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not an output of the entity's ordinary activities. In July 2015, the IASB deferred the effective date from January 1, 2017 to January 1, 2018, with earlier adoption permitted. The Company is assessing the impact this new standard will have on its consolidated financial statements.

***IFRS 16, Leases***

In January 2016, the IASB issued IFRS 16, Leases, which addresses the recognition, measurement, presentation, and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach of IFRS 16 to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard comes into effect on January 1, 2019. The Company is assessing the impact this new standard will have on its consolidated financial statements.

# 4. PROPERTY AND EQUIPMENT

The table below reconciles the activity in cost and accumulated depreciation and amortization of property and equipment.

| *(thousands of Canadian dollars)* | Land | Building structures | Major building components | Radio equipment | Towers and transmitters | Computer hardware, software and peripherals | Furniture and fixtures | Leasehold improvements | Vehicles | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| **Balance at January 1, 2014** | $2,272 | 3,660 | 4,803 | 17,455 | 26,600 | 5,885 | 6,294 | 8,081 | 961 | **76,011** |
| Additions | 50 | 60 | 90 | 1,511 | 2,772 | 529 | 233 | 641 | 194 | **6,080** |
| Additions though business acquisitions (note 6) | - | - | - | 56 | 493 | 21 | 64 | 345 | - | **979** |
| Disposals | - | (20) | (2) | (97) | (323) | (367) | (3) | - | (16) | **(828)** |
| **Balance at December 31, 2014** | 2,322 | 3,700 | 4,891 | 18,925 | 29,542 | 6,068 | 6,588 | 9,067 | 1,139 | **82,242** |
| Additions | - | 946 | 616 | 2,253 | 2,304 | 634 | 400 | 2,469 | 122 | **9,744** |
| Disposals | (60) | - | (62) | (769) | (18) | (2) | - | - | (59) | **(970)** |
| **Balance at December 31, 2015** | **$2,262** | **4,646** | **5,445** | **20,409** | **31,828** | **6,700** | **6,988** | **11,536** | **1,202** | **91,016** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | | |
| **Balance at January 1, 2014** | - | (472) | (2,248) | (11,547) | (11,343) | (4,851) | (4,589) | (3,941) | (560) | **(39,551)** |
| Depreciation and amortization for the year | - | (47) | (192) | (1,239) | (1,313) | (532) | (342) | (1,101) | (146) | **(4,912)** |
| Disposals | - | 1 | 2 | 92 | 80 | 369 | 3 | - | 16 | **563** |
| **Balance at December 31, 2014** | - | (518) | (2,438) | (12,694) | (12,576) | (5,014) | (4,928) | (5,042) | (690) | **(43,900)** |
| Depreciation and amortization for the year | - | (52) | (201) | (1,274) | (1,451) | (537) | (347) | (829) | (177) | **(4,868)** |
| Disposals | - | - | 58 | 746 | 10 | 1 | - | - | 35 | **850** |
| **Balance at December 31, 2015** | **$ -** | **(570)** | **(2,581)** | **(13,222)** | **(14,017)** | **(5,550)** | **(5,275)** | **(5,871)** | **(832)** | **(47,918)** |
| **Net Book Value** | | | | | | | | | | |
| At December 31, 2014 | $2,322 | 3,182 | 2,453 | 6,231 | 16,966 | 1,054 | 1,660 | 4,025 | 449 | **38,342** |
| **At December 31, 2015** | **2,262** | **4,076** | **2,864** | **7,187** | **17,811** | **1,150** | **1,713** | **5,665** | **370** | **43,098** |

## 5. OTHER ASSETS

| *(thousands of Canadian dollars)* | | **2015** | 2014 |
|---|---|---|---|
| Accrued pension benefit asset *(note 10)* | **$** | **825** | 1,263 |
| Other | | **755** | 320 |
| | **$** | **1,580** | 1,583 |

## 6. ACQUISITION OF BROADCASTING ASSETS

**Saint John, New Brunswick**

On July 28, 2014, the Company acquired the CHNI-FM broadcasting assets in Saint John, New Brunswick. Cash consideration, including an amount for working capital, was $790,000. The assets acquired included the FM broadcast licence, capital assets and certain working capital. The primary working capital amount consisted of trade accounts receivable having a gross contractual amount receivable of $39,000. The contractual cash flows not expected to be collected were estimated to be $2,000 and this was factored into the determination of fair value.

The purchase price was allocated to the net assets acquired on the basis of the estimated fair values on the acquisition date using the acquisition method of accounting. The assets acquired and their estimated acquisition date fair values were as follows: working capital - $40,000, capital equipment - $200,000 and broadcast licences - $550,000. The purchase price allocation has been finalized.

The Company completed this transaction to increase the value of its assets and profitability. The purchase was financed by the Company's credit facilities which are described in note 8.

**Toronto, Ontario and Vancouver, British Columbia**

On March 31, 2014, the Company acquired the shares of five companies that held the radio broadcasting assets of two radio stations in Toronto, Ontario and three radio stations in Vancouver, British Columbia for total cash consideration of $111,922,000. Because this was a share deal, the Company did not receive full tax basis on the assets acquired and this resulted in the recognition of deferred tax assets and deferred tax liabilities as set out in the table below.

The major assets acquired included broadcast licences, goodwill and capital assets while certain accrued liabilities along with CCD obligations were assumed. No trade receivables or trade payables were acquired. Goodwill arose as a result of the combination of sales forces and the cost synergies that will benefit the Company by combining the operations of the two radio stations in Toronto and by combining the operations of the three radio stations in Vancouver. The accounting value of goodwill in the table below does not have any deferred tax liability associated with it because it is not deductible for tax purposes.

The Company completed this transaction to increase the value of its assets and profitability and also to have a presence in these large markets which offer great growth potential. The purchase was financed by the Company's credit facilities which are described in note 8.

# 6. ACQUISITION OF BROADCASTING ASSETS *(continued)*

**Toronto, Ontario and Vancouver, British Columbia** ***(continued)***

The purchase price was allocated to the net assets acquired on the basis of the estimated fair values on the acquisition date using the acquisition method of accounting. The purchase price allocation has been finalized. The following table sets out the net assets acquired and their estimated acquisition date fair values, aggregated at the CGU level:

| *(thousands of Canadian dollars)* | | Toronto CGU | Vancouver CGU | Saint John CGU | Total |
|---|---|---|---|---|---|
| Working capital | $ | - | - | 40 | 40 |
| Property and equipment | | 397 | 382 | 200 | 979 |
| Broadcast licences | | 78,266 | 30,862 | 550 | 109,678 |
| Goodwill | | 6,827 | 1,285 | - | 8,112 |
| Deferred tax assets | | 398 | 2,197 | - | 2,595 |
| Total assets acquired | | 85,888 | 34,726 | 790 | 121,404 |
| Accrued liabilities | | (282) | (135) | - | (417) |
| CCD commitments assumed | | (708) | (2,491) | - | (3,199) |
| Deferred tax liabilities | | (5,076) | - | - | (5,076) |
| Net assets acquired | $ | 79,822 | 32,100 | 790 | 112,712 |

**Acquisition-related costs**

As a result of the acquisitions, the Company has become obligated to fund $11,213,000 of CCD commitments. For accounting purposes, the CCD commitments must be recorded on the consolidated statements of financial position as *other liabilities* at fair value which was determined based on discounting cash flows using the EIM. Under EIM, accretion expense is calculated and recorded using the effective interest rate (5.0%) that discounts estimated future cash payments throughout the life of the CCD commitment to the fair value at initial recognition. The discounted fair value of the total CCD commitments was determined to be $9,487,000 and was recognized in *other liabilities*. Of this liability, $3,199,000 represents the existing obligations that the Company assumed on acquisition, while the remaining $6,288,000 was the commitment required in order for the CRTC to approve the transactions. The $6,288,000 liability was a separate transaction and not factored into the purchase price allocations and as such has been expensed in *other expense*. Additional incremental costs approximating $2,600,000 directly related to these acquisitions were also expensed in *other expense* in the consolidated income statements and these included audit fees, legal fees, consulting charges, severances, research, travel and certain other regulatory required amounts.

# 7. GOODWILL, BROADCAST LICENCES AND OTHER INTANGIBLE ASSETS

Goodwill and broadcast licences are tested for impairment annually on October 31 and when circumstances indicate the carrying value may be impaired. The Company's impairment test for goodwill and broadcast licences having indefinite useful lives was based on value-in-use calculations as of the fiscal years ended December 31, 2015 and 2014. A discounted cash flow model is used to determine the Company's VIU. The key assumptions used to determine the recoverable amount for the different CGUs is discussed below with respect to the most recently completed impairment calculation as of the fiscal years ended December 31, 2015 and 2014.

## 7. GOODWILL, BROADCAST LICENCES AND OTHER INTANGIBLE ASSETS *(continued)*

| *(thousands of Canadian dollars)* | | Goodwill | Broadcast licences |
|---|---|---|---|
| **Cost** | | | |
| Balance, January 1, 2014 | $ | 8,358 | 162,666 |
| Additions | | - | 35 |
| Business acquisitions *(note 6)* | | 8,112 | 109,678 |
| **Balance, December 31, 2014 and 2015** | | 16,470 | 272,379 |
| **Accumulated impairment** | | | |
| Balance January 1, 2014 | | (936) | (8,185) |
| Impairment charge | | (3,520) | (2,165) |
| **Balance, December 31, 2014 and 2015** | $ | (4,456) | (10,350) |
| **Net book value** | | | |
| At December 31, 2014 | $ | 12,014 | 262,029 |
| **At December 31, 2015** | | **12,014** | **262,029** |

**Additions**

The 2014 additions to broadcast licences and goodwill were primarily a result of the business acquisitions in Toronto, Ontario, Vancouver, British Columbia and Saint John, New Brunswick. An additional $35,000 was added to broadcast licences in 2014 due to the launch of an FM radio station in Alberta.

**Impairment charges**

In 2015, there were no impairment charges and no reversals of any prior year impairment charges. In 2014, the Company recognized a goodwill impairment charge of $3,520,000 and a broadcast licence impairment charge of $2,165,000. There were no reversals of any prior year impairment charges in 2014.

The impairment charge in 2014 related to the CGU in Halifax, Nova Scotia because of a reduction in its financial results due to increased market competition and a change in format of one station. The recoverable amount of this CGU was calculated to be $10,869,000 which was $5,685,000 lower than its carrying value of $16,554,000. The impairment amount was first applied against goodwill in the amount of $3,520,000 with the remaining $2,165,000 applied to reduce licence value.

**Annual impairment assessments**

For the purposes of assessing impairment, broadcast licences are grouped at the CGU level which is the lowest level for which there are largely independent cash inflows. As a result, some broadcast licences are tested individually for impairment and some are tested at the CGU level. For broadcast licence impairment testing purposes, the Company has identified twenty-two CGUs, based on geographical areas where interdependent cash inflows exist. Impairment charges and reversals are included as a separate line on the consolidated income statements.

Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill.

# 7. GOODWILL, BROADCAST LICENCES AND OTHER INTANGIBLE ASSETS *(continued)*

**Cash-generating units**

The carrying amounts of goodwill and broadcast licences allocated to each CGU and/or group of CGUs are set out in the following tables:

| *(thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| **Goodwill** | | |
| Toronto | **$ 6,827** | 6,827 |
| Red Deer | **1,668** | 1,668 |
| Vancouver | **1,285** | 1,285 |
| Sydney | **1,313** | 1,313 |
| All other CGUs [(1)] | **921** | 921 |
| | **$ 12,014** | 12,014 |
| **Broadcast licences** | | |
| Toronto | **$ 78,266** | 78,266 |
| Vancouver | **30,860** | 30,860 |
| Edmonton | **29,278** | 29,278 |
| All other CGUs [(1)] | **123,625** | 123,625 |
| | **$ 262,029** | 262,029 |

(1) *The carrying values of goodwill and broadcast licences in all other CGUs are less than 10% of the total carrying values of goodwill and broadcast licences and are therefore grouped together.*

**Recoverable amounts**

The recoverable amounts of the CGUs have been determined based on a VIU calculation using cash flow projections from financial budgets approved by the Board of Directors covering a five-year period. Cash flows beyond the five-year period were extrapolated using a 2.0% growth rate which is based upon historical inflation rates. The pre-tax discount rates applied to cash flow projections, which were derived from the Company's weighted average cost of capital, ranged from 10.0% to 10.7% as at October 31, 2015 and from 10.2% to 10.9% as at October 31, 2014. Cash flow projections are extended beyond the five year budget period because broadcast licences and goodwill are indefinite life assets.

**Key assumptions used in VIU calculations**

The calculations of VIU for the CGUs are most sensitive to the following assumptions:

- Discount rates;
- Growth rates and market share during the budget period; and
- Growth rates used to extrapolate cash flows beyond the budget period.

*Discount rates* - Discount rates represent the current market assessment of the risks specific to each CGU, regarding the time value of money and individual risks of the underlying assets. The discount rate calculation is based on the specific circumstances of the Company and its CGUs and derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest bearing borrowings the Company is obliged to service. CGU specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

## 7. GOODWILL, BROADCAST LICENCES AND OTHER INTANGIBLE ASSETS *(continued)*

**Key assumptions used in VIU calculations *(continued)***

*Growth rates and market share assumptions* - Growth rates used over the five-year budget period are largely based on historical growth rates achieved for two to three years preceding the start of the budget period. The rates are increased over the budget period for anticipated improvements. The growth rates depend also on whether the CGU is a mature market station versus a start-up (defined to be in its first 5 years of operations). Management assesses how the CGU's market position, relative to its competitors, might change over the budget period. For most CGUs, the average growth rates used in the five-year budget period ranged between 1% and 10%. For certain recently acquired stations, those in start-up mode, and others where improvement initiatives are planned or in progress, the growth rates were as high as 25% in initial years.

*Long-term growth rate estimates* - Cash flows beyond the five-year period were extrapolated using a 2% growth rate which is based upon historical inflation rates. Management expects the Company's share of the market to be stable over the long-term budget period.

**Sensitivity to changes in assumptions**

The possibility of new market entrants can have an impact on growth rate assumptions, as can adverse ratings results which would impact market share. However, management does not believe these would have a significant adverse effect on the forecasts included in the budget and management's conclusions on impairment would not be materially different as a result. The determination of VIU is sensitive to the discount rates used and therefore management's conclusions on impairment could be materially different if the assumptions used to determine the discount rates changed.

An increase of 50 basis points in the pre-tax discount rate, a decrease of 50 basis points in the earnings growth rate for each of the five years in the budget period, or a decrease of 50 basis points in the terminal growth rate, each used in isolation to perform the goodwill impairment test, would have resulted in goodwill impairment of between $nil and $500,000. If each of these same assumptions were used in isolation to perform the broadcast licence impairment test, it would have resulted in broadcast licence impairment of between $200,000 and $1,000,000.

## 8. BANK INDEBTEDNESS AND LONG-TERM DEBT

| *(thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| Revolving term credit facility of $90 million, renewable, expires in May 2018 | **$ 73,500** | 55,000 |
| Non-revolving term credit facility of $90 million, repayable in quarterly instalments, expires in May 2018 | **73,125** | 84,375 |
| | **146,625** | 139,375 |
| Less: Current portion of non-revolving credit facility | **(11,250)** | (11,250) |
| Less: Debt transaction costs, net of accumulated amortization of $682 (2014 - $352) | **(717)** | (850) |
| | **$ 134,658** | 127,275 |

## 8. BANK INDEBTEDNESS AND LONG-TERM DEBT *(continued)*

The $90 million revolving term credit facility has no set terms of repayment. The $12,746,000 undrawn amount may be used to fund future operations, capital requirements and investing activities, subject to the debt covenants which are disclosed in note 13. The Company secured the $90 million non-revolving term credit facility which was drawn on March 31, 2014 when the business acquisition disclosed in note 6 closed. The facility is being amortized over eight years and is repayable in quarterly instalments of $2,812,500. The first quarterly instalment was made in September 2014.

In May 2015, the Company amended the credit facilities to extend the maturity date to May 31, 2018, to reduce interest rates by approximately 0.5% and to change certain covenants.

Long-term debt bears interest at bankers' acceptance rates plus a premium based on certain financial ratios. To manage interest rate risk and ensure stability in the Company's interest costs, the Company has in place an interest rate swap agreement (see note 13(b)) for a portion of its debt which fixes the floating bankers' acceptance rates. Interest on long-term debt during the year was $6,139,000 (2014 - $6,019,000).

Bank indebtedness bears interest at prime and is due on demand. The Company has provided a general assignment of book debts and a first ranking fixed charge demand debenture over all freehold and leasehold real property and all equipment and a security interest and floating charge over all other property as collateral for the bank indebtedness and the revolving term credit facility.

## 9. OTHER LIABILITIES

| *(thousands of Canadian dollars)* | | **2015** | 2014 |
|---|---|---|---|
| CCD commitments, net of current portion of $2,313 (2014 - $2,579) included in accounts payable and accrued liabilities | **$** | **5,477** | 7,539 |
| Accrued pension benefit liability *(note 10)* | | **7,146** | 7,638 |
| Deferred tenant inducements | | **1,371** | 1,229 |
| Interest rate swap payable, net of current portion of $52 (2014 - $32) included in accounts payable and accrued liabilitues *(note 13(b))* | | **839** | 672 |
| | **$** | **14,833** | 17,078 |

CCD commitments are measured based on the amortized cost using the EIM which gives rise to accretion expense which amounted to $425,000 (2014 - $680,000). The EIM rates used to determine the value of CCD commitments ranged from 3.9% to 8.0%. The discounted CCD commitments are due as follows: 2016 - $2,313,000; 2017 - $1,371,000; 2018 - $1,241,000; 2019 - $1,178,000; and 2020 - $1,687,000. The undiscounted amount payable for CCD commitments is $8,509,000, of which $2,551,000 is current (2014 - $11,340,000, of which $2,889,000 was current).

The Company has a letter of credit totaling $750,000 in support of a portion of the pension benefit obligation.

# 10. EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution pension plan and defined benefit pension plans.

**Defined contribution pension plan**

The defined contribution pension plan covers the majority of the Company's employees. The Company's contributions to the defined contribution plan are based on percentages of gross salaries and totaled $1,848,000 (2014 - $1,760,000).

**Defined benefit pension plans**

The Company maintains a defined benefit pension plan (the "Basic Plan") for a small group of the Company's current and former employees which is not accepting new entrants at this time. The plan provides pension benefits based on the 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 Basic plan meets the definition of a designated plan under the Income Tax Act.

In addition, the Company has two individual Supplementary Retirement Pension Arrangements ("SRPAs") that each provides pension benefits to a retired executive. These SRPAs provide benefits above the Income Tax Act limit. These plans are not funded and are paid from the Company's operations.

Items related to the Company's defined benefit pension plans are presented as follows in the consolidated financial statements:

| *(thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| **Statement of financial position** | | |
| Accrued pension benefit liability, included in other liabilities *(note 9)* | **$ (7,146)** | (7,638) |
| Accrued pension benefit asset (*note 5)* | **825** | 1,263 |
| Net accrued pension liability | **$ (6,321)** | (6,375) |
| **Income statement** | | |
| Pension benefit expense, included in operating expenses | **$ 372** | 395 |
| **Other comprehensive (gains) losses and accumulated other comprehensive losses** | | |
| Actuarial (gains) losses recognized in the consolidated statement of other comprehensive income | **$ (119)** | 301 |
| Cumulative actuarial losses recognized in the consolidated statement of other comprehensive income | **391** | 510 |

# 10. EMPLOYEE BENEFIT PLANS *(continued)*

**Defined benefit pension plans** ***(continued)***

The following summarizes the movements in the defined benefit pension plan balances:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| *(thousands of Canadian dollars)* | **Basic Plan** | **SRPAs** | Basic Plan | SRPAs |
| **Accrued benefit obligations** | | | | |
| Balance, beginning of year | **$ 5,783** | **7,638** | 5,211 | 7,641 |
| Current service cost | **114** | **-** | 98 | - |
| Interest cost | **218** | **265** | 235 | 317 |
| Benefits paid | **(179)** | **(529)** | (183) | (525) |
| Actuarial (gains) losses: | | | | |
| Impact of changes in demographic assumptions | **(98)** | **(138)** | (14) | (2) |
| Impact of changes in financial assumptions | **(69)** | **(46)** | 522 | 302 |
| Impact of changes in experience adjustments | **(48)** | **(44)** | (86) | (95) |
| Balance, end of year | **$5,721** | **7,146** | 5,783 | 7,638 |
| **Plan assets** | | | | |
| Fair value, beginning of year | **$ 7,046** | **-** | 6,536 | - |
| Interest income | **262** | **-** | 292 | - |
| Actuarial gains: | | | | |
| Return on plan assets, excluding interest income | **(324)** | **-** | 327 | - |
| Administrative expenses | **(40)** | **-** | (40) | - |
| Employer (refunds) contributions | **(222)** | **-** | 111 | - |
| Employee contributions | **3** | **-** | 3 | - |
| Benefits paid | **(179)** | **-** | (183) | - |
| Fair value, end of year | **6,546** | **-** | 7,046 | - |
| | **$ 825** | **(7,146)** | 1,263 | (7,638) |

The Company determined that there was no limit on the defined benefit asset (asset ceiling) because the Company has unimpaired rights to the surplus in the Basic Plan and it has the right to take contribution holidays when available.

As a result of a revised valuation report as at December 31, 2012 that limits the amount of eligible contributions that can be made into the Basic Plan, a refund of employer contributions of $333,000 is reflected as at December 31, 2015. Employer contributions to the SRPAs are estimated to be $531,000 in 2016.

# 10. EMPLOYEE BENEFIT PLANS *(continued)*

**Defined benefit pension plans *(continued)***

Pension benefit expense recognized in the income statement as operating expenses is as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| *(thousands of Canadian dollars)* | **Basic Plan** | **SRPAs** | Basic Plan | SRPAs |
| Current service cost, net of employee contributions | **$ 111** | **-** | 95 | - |
| Interest cost | **218** | **265** | 235 | 317 |
| Interest income on plan assets | **(262)** | **-** | (292) | - |
| Administrative expenses | **40** | **-** | 40 | - |
| Defined benefit plan expense | **$ 107** | **265** | 78 | 317 |

Actuarial gains and losses recognized in other comprehensive income are as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| *(thousands of Canadian dollars)* | **Basic Plan** | **SRPAs** | **Total** | Basic Plan | SRPAs | Total |
| Cumulative actuarial (gains) losses, beginning of year | **$ (139)** | **649** | **510** | (235) | 444 | 209 |
| Recognized actuarial losses (gains) during the year | **109** | **(228)** | **(119)** | 96 | 205 | 301 |
| Cumulative actuarial (gains) losses, end of year | **$ (30)** | **421** | **391** | (139) | 649 | 510 |

The principal actuarial assumptions were as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Basic Plan** | **SRPAs** | Basic Plan | SRPAs |
| Discount rate for the accrued net benefit obligation | **3.7%** | **3.7%** | 3.8% | 3.8% |
| Future pension increases | **1.5%** | **0.1%** | 1.7% | 0.3% |
| Future compensation increases for the accrued benefit obligation | **3.0%** | **3.0%** | 3.5% | 3.5% |

As at December 31, 2015 and based on an actuarial review, the net re-measurements gain recorded in other comprehensive income of $119,000 was reflective of a decrease in estimated discount rate, updated mortality and liability experience assumptions, and an incremental loss on plan assets.

Plan assets for the Basic Plan consist of:

| | 2015 | 2014 |
|---|---|---|
| Equity funds | **62%** | 64% |
| Fixed income funds | **35%** | 29% |
| Money market funds | **3%** | 7% |
| | **100%** | 100% |

## 10. EMPLOYEE BENEFIT PLANS *(continued)*

**Defined benefit pension plans *(continued)***

The pension plan has no direct investments in the Company nor any of its affiliates. Investments are diversified such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in equities, although there is a good portion also invested in bonds and other highly liquid assets. The Company believes that equities offer the best returns over the long-term with an acceptable level of risk.

Since the benefit obligation is adjusted to the Consumer Price Index, the pension plan is exposed to inflation. It is also exposed to interest rate risks and changes in life expectancy of pensioners. A large portion of the plan assets consist of equity shares which are exposed to equity market risk.

A quantitative sensitivity analysis of the significant assumptions for the benefit obligations as at December 31, 2015 is presented below:

| | Discount rate | | Future salary increase | | Future pension cost | |
|---|---|---|---|---|---|---|
| **Sensitivity level** | **0.5% increase** | **0.5% decrease** | **0.5% increase** | **0.5% decrease** | **1.0% increase** | **1.0% decrease** |
| *(thousands of Canadian dollars)* | | | | | | |
| **Impact on net defined benefit obligation, increase (decrease)** | **$ (625)** | **690** | **2** | **(2)** | **726** | **(234)** |

| | Life expectancy | |
|---|---|---|
| **Sensitivity level** | **Increase by 1 year** | **Decrease by 1 year** |
| *(thousands of Canadian dollars)* | | |
| **Impact on net defined benefit obligation, increase (decrease)** | **$ 737** | **(765)** |

The sensitivity analysis above have been determined based on a method that extrapolates the impact on the net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The average duration of the defined benefit plan obligation at the end of the reporting period is 10.9 years.

## 11. SHARE-BASED COMPENSATION PLANS

The Company has the following share-based compensation plans:

**Share purchase plan**
Compensation expense for the Company's share purchase plan was $624,000 (2014 - $618,000) and is included in operating expenses.

**Stock appreciation rights plan**
A total of 1,745,000 stock appreciation rights ("SARS" or "rights") have been granted since 2006 at a weighted average reference price of $5.75. As at December 31, 2015, no rights remained outstanding (2014 - 50,000). 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. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as compensation expense in the consolidated income statements. Fair value is measured using the Black-Scholes option pricing model.

During the year, 50,000 SARS (2014 - 52,500) were exercised for cash consideration of $85,000 (2014 - $159,000). Compensation expense related to SARS for the year was $nil (2014 - $5,000). The total obligation for SARS compensation was $nil (2014 - compensation payable was $85,000, all of which was current and classified as accounts payable and accrued liabilities).

**Executive stock option plan**
At December 31, 2015, the number of Class A shares reserved for issuance pursuant to the executives stock option plan was 3,104,991. The number of Class A shares underlying outstanding options under the executive stock option plan was 2,272,500 and 832,491 options remained available for granting. 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. The expiry dates range from March 2016 to August 2022. 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. Option holders may elect to exercise their options on a cashless basis in which case shares are issued from treasury based on a formula that takes into account the market value of the Company's Class A shares and the option's strike price.

# 11. SHARE-BASED COMPENSATION PLANS *(continued)*

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

The following summarizes the Company's outstanding stock options which have a weighted average remaining contractual life of 2.51 years (2014 - 3.36 years).

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Number** | **Price*** | Number | Price* |
| Balance, beginning of year | **2,347,500** | **$ 4.23** | 2,470,000 | $ 4.36 |
| Granted | **100,000** | **9.69** | - | - |
| Forfeited | **-** | **-** | (15,000) | 7.22 |
| Exercised | **(175,000)** | **6.89** | (107,500) | 6.71 |
| Balance, end of year | **2,272,500** | **4.27** | 2,347,500 | 4.23 |
| Total options vested | **2,197,500** | **$ 4.08** | 2,347,500 | $ 4.23 |

** weighted average exercise price*

| **Range of exercise price** | **Number of options outstanding at December 31, 2015** | **Weighted average remaining life** | **Weighted average exercise price** | **Number of options exercisable at December 31, 2015** | **Weighted average exercise price** |
|---|---|---|---|---|---|
| **$ 2.43 - 3.89** | **1,560,000** | **2.56** | **$ 2.95** | **1,560,000** | **$ 2.95** |
| **5.83 - 7.46** | **612,500** | **1.71** | **6.75** | **612,500** | **6.75** |
| **9.69** | **100,000** | **6.62** | **9.69** | **25,000** | **9.69** |
| **2.43 - 9.69** | **2,272,500** | **2.51** | **$ 4.27** | **2,197,500** | **$ 4.08** |

The compensation expense related to stock options was $79,000 (2014 - $23,000) and was recorded in operating expenses.

During the year, the Company granted 100,000 executive stock options (2014 - nil). The fair value measurement of the expense related to the granting of options in 2015 was estimated using the Black-Scholes option pricing model with the following assumptions:

| | **2015** |
|---|---|
| Weighted average risk-free interest rate | **1.02%** |
| Dividend yield | **1.35%** |
| Weighted average volatility factors of the expected market price of the Company's Class A shares | **27.3%** |
| Weighted average expected life of the options | **7 years** |
| Weighted average fair value per option | **$ 2.22** |

## 12. SHARE CAPITAL

| | Issued shares | |
|---|---|---|
| | *(thousands of shares)* | *(thousands of Canadian dollars)* |
| Balance, January 1, 2014 | 28,128 | $ 36,495 |
| Exercise of executive stock options | 27 | 101 |
| Balance, December 31, 2014 | 28,155 | 36,596 |
| | | |
| Share repurchases | (1,570) | (2,306) |
| Exercise of executive stock options | 44 | 198 |
| | | |
| **Balance, December 31, 2015** | **26,629** | **$ 34,488** |

Capital stock, unlimited number authorized with no par value, is made up as follows:

| | Issued shares | **2015** | 2014 |
|---|---|---|---|
| | *(thousands of shares)* | *(thousands of Canadian dollars)* | |
| Class A Subordinate voting shares | | | |
| (2014 - 24,386) | 22,860 | **$ 33,602** | 35,710 |
| Class B Common shares | | | |
| (2014 - 3,769) | 3,769 | **886** | 886 |
| | 26,629 | **$ 34,488** | 36,596 |

The Company has also authorized an unlimited number of Class A and Class B preferred shares of which none are outstanding as at December 31, 2015 and 2014.

The Class A Subordinate Voting shares ("Class A shares") carry one vote per share and the Class B Common shares ("Class B 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 shares, the Class B shares are entitled to one vote per share. In addition, the ten votes attaching to each Class B share shall be decreased to one vote 180 days following the acquisition of Class B shares pursuant to a take-over bid where the ownership of Class B shares, after the acquisition, exceeds 50%. In all other respects, these shares rank equally. The outstanding Class B 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.

**Share repurchases**

The Company has approval under a Normal Course Issuer Bid to repurchase up to 1,200,495 Class A shares and 75,386 Class B shares. This bid expires on May 24, 2016. During the year the Company repurchased 1,569,800 of its Class A shares outstanding for cash consideration of $13,860,000 (no shares were repurchased in 2014). As a result of the repurchases, capital stock was reduced by $2,306,000 and retained earnings was reduced by $11,554,000. Share repurchases of 405,000 were made under the Normal Course Issuer Bid that was in effect until May 21, 2015 and share repurchases of 1,164,800 were made under the Normal Course Issuer Bid currently in effect.

## 12. SHARE CAPITAL *(continued)*

**Exercise of stock options**

Pursuant to the Company's executive stock option plan disclosed in note 11, 100,000 options were granted in 2015 (2014 - nil). During 2015, 175,000 options were exercised using the cashless exercise option resulting in 44,488 shares being issued from treasury. In 2014, 15,000 options were forfeited and 107,500 options were exercised using the cashless exercise option resulting in 26,767 shares being issued from treasury.

**Dividends**

During 2015, the Company declared total dividends of $0.15 (2014 - $0.15) per Class A and Class B shares. Dividends paid in 2015 totaled $6,527,000 (2014 - $4,221,000). There were no dividends payable at December 31, 2015 (2014 - $2,534,000).

## 13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

**Estimated fair value of financial instruments**

The fair value of long-term debt approximates the carrying value because the interest charges under the terms of the long-term debt are based on the 3-month Canadian bankers' acceptance rates. The premium to bankers' acceptance rates is based on certain financial ratios and is consistent with market value as the rates were renegotiated during the year. The fair values of financial instruments in other liabilities approximate their carrying values as they are recorded at the net present value of their future cash flows, using an appropriate discount rate.

The following table outlines the hierarchy of inputs used in the calculation of fair value for each financial instrument:

| *(thousands of Canadian dollars)* | | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Description** | **Total** | Quoted prices in active markets for identical assets | Significant other unobservable inputs | Significant unobservable inputs |
| **Financial assets at fair value through profit or loss** | | | | |
| Marketable securities | **$ 829** | 829 | - | - |
| **Items accounted for as hedges** | | | | |
| Interest rate swap payable | **(891)** | - | (891) | - |
| **Other liabilities at amorized cost, with fair values disclosed** | | | | |
| Long-term debt, excluding unamortized credit facility fees | **(146,625)** | - | (146,625) | - |
| Other liabilities | **(7,790)** | - | (7,790) | - |

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
Level 2: other techniques for which all inputs that have a significant effect on the recorded value are observable, either directly or indirectly; and
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

## 13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

**Offsetting financial assets and liabilities**

The Company sets off its positive cash balances with bank indebtedness in accordance with its mirror-netting agreement with a Canadian chartered bank. Positive cash balances at December 31, 2015 were equal to $2,006,000 (2014 - $741,000) while negative cash balances were $3,754,000 (2014 - $1,866,000) which resulted in a negative balance of $1,748,000 (2014 - $1,125,000). The Company does not set off any other financial instruments.

The following sections discuss the Company's risk management objectives and procedures as they relate to credit risk, market risk, liquidity risk and capital risk.

**Credit risk**

The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize the concentration of credit risk. Credit exposure is managed through credit approval and monitoring procedures. The Company does not require collateral or other security from clients for trade receivables; however, the Company 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 maximum credit exposure approximated $39,839,000 as at December 31, 2015 (2014 - $36,400,000), which represented the accounts receivable balance. 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 $879,000 as at December 31, 2015 (2014 - $800,000). The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Approximately 87% of trade receivables are outstanding for less than 90 days. Amounts would be written off directly against accounts receivable and against the allowance only if and when it was clear the amount would not be collected due to customer insolvency. Historically, the significance and incidence of amounts written off directly against receivables have been low. The total amount written off during the year approximated $483,000 (2014 - $355,000). The Company believes its provision for potential credit losses is adequate at this time given the current economic circumstances.

Credit exposure on financial instruments arises from the possibility that a counterparty to an instrument in which the Company is entitled to receive payment fails to perform. With regard to the Company's derivative instruments, the counterparty risk is managed by only dealing with Canadian chartered banks having high credit ratings.

**Market risk**

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

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

The fair value of the Company's marketable securities is affected by changes in the quoted share prices in active markets. Such prices can fluctuate and are affected by numerous factors beyond the Company's control. In order to minimize the risk associated with changes in the share price of any one particular investment, the Company diversifies its portfolio by investing in 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. As at December 31, 2015, a 10% change in the share prices of each marketable security would result in a $70,000 change in profit.

## 13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

**Market risk *(continued)***

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

For the year ended December 31, 2015, the mark-to-market change in fair value of marketable securities, recorded in *other expense*, were unrealized losses of $462,000 (2014 - unrealized gains of $48,000). Realized losses were $136,000 during the year (2014 - realized gains of $836,000).

*b) Interest rate risk management*

The Company is exposed to interest rate risk on the long-term debt issued at floating rates under its credit facilities. A 0.5% change in the floating interest rates would have a $358,000 impact on profit for the year.

The Company has in place an interest rate swap agreement with a Canadian chartered bank to hedge its exposure to fluctuating interest rates on its long-term debt. The swap has a notional amount of $45,000,000 and expires in May 2017. The swap agreement involves the exchange of the three-month bankers' acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and recorded as an increase or decrease to interest expense. The Company elected to apply hedge accounting and as such formally assesses effectiveness of the swap at inception and on a regular basis.

In 2012, the Company amended the terms of the $45,000,000 swap agreement to extend the expiry date and to take advantage of lower interest rates. The interest rate on this swap was reduced by approximately 200 basis points. The aggregate fair value payable of the swap agreement at the time of the extension was $1,375,000 and this was blended into the new fixed rate of interest of the swap. This amount was being transferred from Other Comprehensive Income ("OCI") to interest expense over the term of the original agreement which ended in May 2013.

The swap is ineffective for accounting purposes. This means that the change in fair value of the swap (from the time the swap was deemed ineffective in May 2012) is transferred from OCI to profit.

At December 31, 2015, the aggregate fair value of the swap agreement was an $891,000 liability, of which $52,000 was classified as a current liability (2014 - $704,000; $32,000 classified as a current liability).

A 0.5% change in the projected floating interest rates during the remaining term of the hedge agreements would have impacted the fair value of the interest rate swap by approximately $245,000 which would have flowed through profit since the swap was ineffective for accounting purposes as at December 31, 2015.

## 13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

**Liquidity risk**

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

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

| **Obligation** *(thousands of Canadian dollars)* | | **12 months** | **2017 - 2020** | **Thereafter** |
|---|---|---|---|---|
| Long-term debt, excluding debt transaction costs *(note 8)* | **$** | **11,250** | 135,375 | - |
| Bank indebtedness | | **1,748** | - | - |
| Accounts payable and accrued liabilities, net of current portion of undiscounted CCD commitments | | **18,196** | - | - |
| Income taxes payable | | **1,840** | - | - |
| CCD commitments, undiscounted *(note 9)* | | **2,551** | 5,958 | - |
| | **$** | **35,585** | 141,333 | - |

Assuming long-term debt is renewed in 2018, which is consistent with past practice, the payments would be $45,000,000 for the years 2017 to 2020 and $90,375,000 thereafter.

**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.

## 13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

**Capital risk** ***(continued)***

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

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, 2015.

# 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 Canadian dollars, except percentages)* | **2015** | 2014 |
|---|---|---|
| Statutory income tax rate | **31%** | 31% |
| Provision for income taxes based on the statutory income tax rate applied to profit before provision for income taxes | **$ 10,446** | 5,100 |
| Increase (decrease) in income taxes due to: | | |
| Subsidiary rate differential | **(1,353)** | (627) |
| Increase in corporate income tax rates | **823** | - |
| Non-deductible impairment charge | **-** | 1,243 |
| Revision to estimate for uncertain tax positions (see below) | **417** | (526) |
| Other | **154** | 67 |
| | **$ 10,487** | 5,257 |
| The components of the provision for income taxes are as follows: | | |
| Current | **$ 8,083** | 2,767 |
| Deferred | **2,404** | 2,490 |
| | **$ 10,487** | 5,257 |

In 2015, the Company settled on certain tax matters, resulting in payments of $417,000 included in current income tax expense. In 2014, the Company settled on certain tax matters and re-measured its tax estimates related to uncertain tax positions. As a result, 2014 current income taxes payable and current income tax expense were reduced by $3,157,000 while deferred tax liabilities and deferred tax expense were increased by $2,631,000.

## 14. PROVISION FOR INCOME TAXES *(continued)*

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

| *(thousands of Canadian dollars)* | | **2015** | 2014 |
|---|---|---|---|
| **Deferred income tax assets** | | | |
| Canadian Content Development commitments | **$** | **1,894** | 2,114 |
| Tax loss carryforwards | | **1,287** | 1,085 |
| Employee benefit plans | | **1,764** | 1,721 |
| Broadcast licences | | **636** | 1,137 |
| Other | | **945** | 611 |
| **Deferred income tax liabilities** | | | |
| Property and equipment | | **(2,854)** | (2,499) |
| Broadcast licences and goodwill | | **(32,609)** | (30,697) |
| **Net deferred income tax liability** | **$** | **(28,937)** | (26,528) |
| **Reflected in the consolidated statements of financial position as follows:** | | | |
| Long-term deferred income tax assets | **$** | **4,242** | 4,376 |
| Long-term deferred income tax liabilities | | **(33,179)** | (30,904) |
| | **$** | **(28,937)** | (26,528) |

The reconciliation of the net deferred income tax liability is as follows:

| *(thousands of Canadian dollars)* | | **2015** | 2014 |
|---|---|---|---|
| Opening net deferred tax liability | **$** | **(26,528)** | (21,666) |
| Deferred income tax expense recognized in profit | | **(2,404)** | (2,490) |
| Deferred income tax expense due to business acquisitions *(note 6)* | | **-** | (2,482) |
| Deferred income tax (expense) recovery recognized in OCI | | **(5)** | 110 |
| **Net deferred income tax liability** | **$** | **(28,937)** | (26,528) |

The Company recognizes the benefits of capital and non-capital loss carryforwards as deferred tax assets to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilized. As at December 31, 2015, the Company had available non-capital loss carryforward balances equal to $4,843,000 (2014 - $4,108,000). A deferred income tax asset of $1,287,000 (2014 - $1,085,000) has been recognized in respect of non-capital loss carryforward balances. The available non-capital loss carryforwards will expire as follows: $151,000 in 2027; $300,000 in 2028; $355,000 in 2033; $2,527,000 in 2034; and $1,510,000 in 2035.

## 14. PROVISION FOR INCOME TAXES *(continued)*

The changes in the components of the Company's deferred income tax assets and liabilities recognized in profit and other comprehensive income (loss) are as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| *(thousands of Canadian dollars)* | **Profit** | **OCI** | Profit | OCI |
| **Deferred income tax assets** | | | | |
| Canadian Content Development commitments | **$ 220** | **-** | (1,471) | - |
| Tax loss carryforwards | **(191)** | **-** | 270 | - |
| Employee Benefit plans | **(80)** | **37** | 86 | (94) |
| Other | **(457)** | **(32)** | 93 | (16) |
| **Deferred income tax liabilities** | | | | |
| Property and equipment | **499** | **-** | (19) | - |
| Broadcast licences and goodwill | **2,413** | **-** | 3,531 | - |
| | **$ 2,404** | **5** | 2,490 | (110) |

## 15. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

Diluted earnings per share amounts are calculated by dividing profit by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

| *(thousands)* | **2015** | 2014 |
|---|---|---|
| Weighted average number of common shares used in calculation of basic earnings per share | **27,355** | 28,152 |
| Effect of dilution related to executive stock options | **1,273** | 1,187 |
| Weighted average number of common shares used in calculation of diluted earnings per share | **28,628** | 29,339 |

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

| *(thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| **Net change in non-cash working capital balances related to operations** | | |
| Marketable securities, excluding $461 related to unrealized losses (2014 - unrealized gains of $48) | **$ -** | (69) |
| Receivables | **(3,345)** | (7,583) |
| Prepaid expenses | **(308)** | 379 |
| Accounts payable and accrued liabilities | **(1,156)** | 1,149 |
| | **$ (4,809)** | (6,124) |

# 17. COMMITMENTS AND CONTINGENCIES

**Operating leases and other**

The Company has total commitments of $16,070,000 under operating leases for properties and equipment. Minimum annual amounts under these leases are as follows: 2016 - $4,552,000; 2017 - $3,763,000; 2018 - $3,028,000; 2019 - $1,809,000; 2020 - $854,000 and thereafter of $2,064,000.

Generally, lease terms for properties extend from five to fifteen years, with at least one renewal period while leases for vehicles and equipment generally have no renewal periods with terms extending from one year to several years.

**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.

# 18. OPERATING SEGMENT INFORMATION

The Company has two reportable segments - Broadcasting and Corporate and Other. The Broadcasting segment consists of the operations of the Company's radio and television licences. This segment derives its revenue from the sale of broadcast advertising and is a strategic business unit that offers different services and is managed separately. Corporate and Other consists of a hotel and the head office functions. Its revenue relates to hotel operations. The Company evaluates performance based on earnings before interest, taxes, depreciation and amortization.

Included within the Broadcasting segment are distinct operating segments that have been aggregated as they operate within the same regulatory environment and use similar processes to provide advertising services to customers. Operating segments are evaluated by the Company based on specific geographic locations within Canada. The Company considered the economic characteristics of the various operating segments, including earnings before interest, taxes, depreciation, and amortization, in determining that these segments are appropriate to aggregate.

# 18. OPERATING SEGMENT INFORMATION *(continued)*

Details of segment operations are set out below:

| *(thousands of Canadian dollars)* | Broadcasting | Corporate and other | Total |
|---|---|---|---|
| **2015** | | | |
| **Revenue** | **$ 160,598** | **4,004** | **164,602** |
| **Operating expenses** | **(105,930)** | **(12,704)** | **(118,634)** |
| **Segment profit (loss)** | **54,668** | **(8,700)** | **45,968** |
| **Depreciation, amortization and accretion of other liabilities** | **(4,880)** | **(413)** | **(5,293)** |
| **Interest expense** | **-** | **(6,382)** | **(6,382)** |
| **Other (expense) income** | **26** | **(597)** | **(571)** |
| **Profit (loss) before provision for income taxes** | **$ 49,814** | **(16,092)** | **33,722** |
| | | | |
| **Assets employed** | **$ 350,398** | **13,848** | **364,246** |
| **Liabilities** | **(29,505)** | **(188,750)** | **(218,255)** |
| **Other disclosures** | | | |
| **Broadcast licences carrying value** | **262,029** | **-** | **262,029** |
| **Goodwill carrying value** | **12,014** | **-** | **12,014** |
| **Capital expenditures** | **(8,472)** | **(1,240)** | **(9,712)** |
| | | | |
| 2014 | | | |
| Revenue | $ 150,614 | 3,886 | 154,500 |
| Operating expenses | (101,565) | (11,314) | (112,879) |
| Segment profit (loss) | 49,049 | (7,428) | 41,621 |
| Depreciation, amortization and accretion of other liabilities | (5,251) | (343) | (5,594) |
| Interest expense | - | (6,421) | (6,421) |
| Other (expense) income | (8,343) | 874 | (7,469) |
| Impairment charges | (5,685) | - | (5,685) |
| Profit (loss) before provision for income taxes | $ 29,770 | (13,318) | 16,452 |
| | | | |
| Assets employed | $ 344,046 | 12,631 | 356,677 |
| Liabilities | (27,975) | (188,173) | (216,148) |
| Other disclosures | | | |
| Broadcast licences carrying value | 262,029 | - | 262,029 |
| Goodwill carrying value | 12,014 | - | 12,014 |
| Capital expenditures | (5,776) | (146) | (5,922) |
| Broadcast licences impairment | (2,165) | - | (2,165) |
| Goodwill impairment | (3,520) | - | (3,520) |

# 19. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

**Related parties**

Related parties of the Company include directors and key management personnel, their family members and companies over which they have significant influence or control. Directors of the Company control 84% of the Class A shares and 98% of the Class B shares of the Company. The Company has transacted with related parties during the reporting period. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties having normal trade terms.

The Company provided advertising services, information technology support and had cost recoveries from companies controlled by the President and Chief Executive Officer during the reporting period. Included in the consolidated statements of income is $869,000 (2014 - $308,000) for services provided. Included in receivables at December 31, 2015 is $82,000 (2014 - $51,000) for services provided.

The Company purchased goods and services from companies controlled by the President and Chief Executive Officer and other directors during the year. Included in operating expenses is $299,000 (2014 - $343,000) related to goods and services purchased during the year. Included in accounts payable and accrued liabilities at December 31, 2015 is less than $1,000 (2014 - $19,000) for goods and services purchased.

The key management personnel of the Company are the Chairman, President and Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. Key management personnel remuneration for the years ended December 31 includes the following:

| *(thousands of Canadian dollars)* | | **2015** | 2014 |
|---|---|---|---|
| **Short-term benefits** | | | |
| Salaries including bonuses | $ | **3,054** | 2,897 |
| Other | | **283** | 280 |
| | | | |
| **Post-employment benefits** | | | |
| Defined benefit pension plan expense | | **149** | 184 |
| Defined contribution pension plan expense | | **66** | 61 |
| | | | |
| **Share-based compensation expense** | | **79** | 8 |
| | $ | **3,631** | 3,430 |

The amounts disclosed in this table are the amounts recognized as operating expenses for accounting purposes during the year and do not represent cash payments. In addition, certain retirement arrangements for past executives are not included above.

The Company's executive compensation program is based on attracting, motivating and retaining high-quality executives by providing a competitive level of compensation that rewards individual performance. The major elements of the Company's executive compensation program are base salary, performance based compensation and long-term compensation in the form of granting executive stock options, stock appreciation rights, and retirement benefits. Personal benefits and other perquisite benefits provided to senior management relate to employer contributions toward the Company's Employee Share Purchase Plan and to life insurance policies.

# Assets at a Glance

| Region | Location | Name | Call Letters | Format | AM/FM/TV | Frequency |
|---|---|---|---|---|---|---|
| West | Athabasca | 94.1 The River | CKBA-FM | Hits | FM | 94.1 MHz |
| West | Blairmore | Mountain Radio | CJPR-FM | Country | FM | 94.9 MHz |
| West | Bonnyville | KOOL-FM | CJEG-FM | Hot AC | FM | 101.3 MHz |
| West | Brooks | Q105.7 | CIBQ-FM | Country | FM | 105.7 MHz |
| West | Brooks | 101.1 The One | CIXF-FM | Hot AC | FM | 101.1 MHz |
| West | Calgary | 90.3 AMP Radio | CKMP-FM | Top 40 | FM | 90.3 MHz |
| West | Calgary | XL-103 | CFXL-FM | Classic Hits | FM | 103.1 MHz |
| West | Camrose | CAM-FM | CFCW-FM | Classic Hits | FM | 98.1 MHz |
| West | Camrose | CFCW | CFCW | Country | AM | 840 kHz |
| West | Cold Lake | K-Rock/Lakeland | CJXK-FM | Rock | FM | 95.3 MHz |
| West | Drumheller | Q91 | CKDQ | Country | AM | 910 kHz |
| West | Edmonton | Capital FM | CKRA-FM | Classic Hits | FM | 96.3 MHz |
| West | Edmonton | K-97 | CIRK-FM | Classic Rock | FM | 97.3 MHz |
| West | Edson | The Eagle | CFXE-FM | Hits | FM | 94.3 MHz |
| West | Elkford | Mountain Radio | CJEV® | Country | AM | 1340 kHz |
| West | Fox Creek | The Rig 96.7 | CFXW-FM1® | Rock | FM | 98.1 MHz |
| West | Grande Cache | The Eagle | CFXG-FM® | Hits | FM | 93.3 MHz |
| West | High Prairie | Prairie FM | CKVH-FM | Country | FM | 93.5 MHz |
| West | Hinton | The Eagle | CFXH-FM | Hits | FM | 97.5 MHz |
| West | Hinton(1) | | | Rock | FM | 104.9 MHz |
| West | Jasper | The Eagle | CFXP-FM® | Hits | FM | 95.5 MHz |
| West | Kelowna | K96.3 | CKKO-FM | Classic Rock | FM | 96.3 MHz |
| West | Keremeos | Country 100.7 | CIGV-FM1® | Country | FM | 98.9 MHz |
| West | Lac La Biche | Big Dog | CILB-FM | Classic Hits/Today's Hits | FM | 103.5 MHz |
| West | Lloydminster | CILR | CILR-FM | Tourism Information | FM | 98.9 MHz |
| West | Lloydminster | Lloyd-FM | CKSA-FM | Country | FM | 95.9 MHz |
| West | Lloydminster | CBC-TV | CKSA-DT | CBC | TV | CH-2 |
| West | Lloydminster | CTV-TV | CITL-DT | CTV | TV | CH-4 |
| West | Penticton | Country 100.7 | CIGV-FM | Country | FM | 100.7 MHz |
| West | Pincher Creek | Mountain Radio | CJPV-FM® | Country | FM | 92.7 MHz |
| West | Princeton | Country 100.7 | CIGV-FM2® | Country | FM | 98.1 MHz |
| West | Red Deer | KG Country 95.5 | CKGY-FM | Country | FM | 95.5 MHz |
| West | Red Deer | Z98.9 | CIZZ-FM | Rock | FM | 98.9 MHz |
| West | Slave Lake | 92.7 Lake-FM | CHSL-FM | Hits | FM | 92.7 MHz |
| West | St. Paul | 97.7 The Spur | CHSP-FM | Country | FM | 97.7 MHz |
| West | Stettler | Q93.3 | CKSQ-FM | Country | FM | 93.3 MHz |
| West | Vancouver | Z95.3 | CKZZ-FM | Hot AC | FM | 95.3 MHz |
| West | Vancouver | LG104.3 | CHLG-FM | Classic Hits | FM | 104.3 MHz |
| West | Vancouver | AM 650 | CISL | All Time Favourites | AM | 650 kHz |
| West | Wabasca | 92.7 Lake-FM1 | CHSL-FM1® | Hits | FM | 94.3 MHz |
| West | Wainwright | K-Rock 101.9 | CKKY-FM | Rock | FM | 101.9 MHz |
| West | Wainwright | Wayne-FM | CKWY-FM | Classic Hits/Today's Hits | FM | 93.7 MHz |
| West | Westlock | The Range | CKWB-FM | Country | FM | 97.9 MHz |
| West | Wetaskiwin | W 1440 | CKJR | Oldies | AM | 1440 kHz |
| West | Whitecourt | The Rig 96.7 | CFXW-FM | Rock | FM | 96.7 MHz |

| Region | Location | Name | Call Letters | Format | AM/FM/TV | Frequency |
|---|---|---|---|---|---|---|
| Central | Ottawa | Hot 89.9 | CIHT-FM | Top 40 | FM | 89.9 MHz |
| Central | Ottawa | LiVE 88.5 FM | CILV-FM | Alternative Rock | FM | 88.5 MHz |
| Central | Sudbury | Rewind 103.9 FM | CHNO-FM | Classic Hits | FM | 103.9 MHz |
| Central | Sudbury | Hot 93.5 | CIGM-FM | Top 40 | FM | 93.5 MHz |
| Central | Toronto | Boom 97.3 | CHBM-FM | 70's, 80's, 90's | FM | 97.3 MHz |
| Central | Toronto | The Move 93.5 | CFXJ-FM | Rhythmic Hot AC | FM | 93.5 MHz |
| East | Charlottetown | Hot 105.5 | CKQK-FM | Top 40 | FM | 105.5 MHz |
| East | Charlottetown | Ocean 100 | CHTN-FM | Classic Hits | FM | 100.3 MHz |
| East | Elmira | Hot 105.5 | CKQK-FM1® | Top 40 | FM | 103.7 MHz |
| East | Elmira | Ocean 100 | CHTN-FM1® | Classic Hits | FM | 99.9 MHz |
| East | St. Edwards | Hot 105.5 | CKQK-FM2® | Top 40 | FM | 91.1 MHz |
| East | St. Edwards | Ocean 100 | CHTN-FM2® | Classic Hits | FM | 89.9 MHz |
| East | Halifax | Mix 96-5 | CKUL-FM | Hot AC | FM | 96.5 MHz |
| East | Halifax | Q104 | CFRQ-FM | Rock | FM | 104.3 MHz |
| East | Kentville | K-Rock 89.3 | CIJK-FM | Rock | FM | 89.3 MHz |
| East | Sydney | The Giant 101.9 | CHRK-FM | Hot AC | FM | 101.9 MHz |
| East | Sydney | The Eagle | CKCH-FM | Country | FM | 103.5 MHz |
| East | Fredericton | Hot. 92.3 | CFRK-FM | Hot Country | FM | 92.3 MHz |
| East | Fredericton | Up 93.1 | CIHI-FM | Classic Hits | FM | 93.1 MHz |
| East | Miramichi | SUN FM | CHHI-FM | Hot AC | FM | 95.9 MHz |
| East | Moncton | C103 | CJMO-FM | Rock | FM | 103.1 MHz |
| East | Moncton | XL Country 96.9 | CJXL-FM | Country | FM | 96.9 MHz |
| East | Saint John | Rock 88.9 | CHNI-FM | Rock | FM | 88.9 MHz |

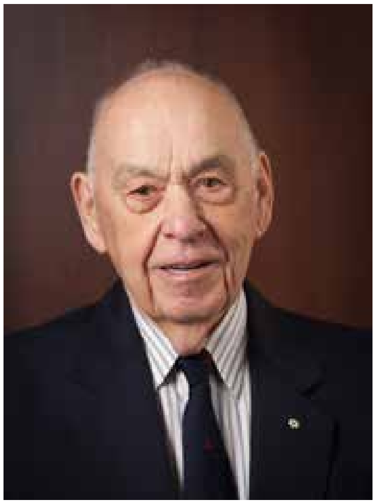
| Region | Location | Name | Call Letters | Format | AM/FM/TV | Frequency |
|---|---|---|---|---|---|---|
| East | Baie Verte | CKIM | CKIM® | News/Talk/Country | AM | 1240 kHz |
| East | Carbonear | KIXX Country | CHVO-FM | Country | FM | 103.9 MHz |
| East | Churchill Falls | Big Land-FM | CFLC-FM® | News/Talk/Country/Classic Rock Hybrid | FM | 97.9 MHz |
| East | Clarenville | K-Rock | VOCM-FM1® | Classic Rock | FM | 100.7 MHz |
| East | Clarenville | CKVO | CKVO | News/Talk/Country | AM | 710 kHz |
| East | Clarenville[1] | | | Hot AC | FM | 97.1 MHz |
| East | Corner Brook | CFCB | CFCB | News/Talk/Country | AM | 570 kHz |
| East | Corner Brook | K-Rock | CKXX-FM | Classic Rock | FM | 103.9 MHz |
| East | Deer Lake | CFDL | CFDL-FM® | News/Talk/Country | FM | 97.9 MHz |
| East | Gander | CKGA | CKGA | News/Talk/Country | AM | 650 kHz |
| East | Gander | K-Rock | CKXD-FM | Classic Rock | FM | 98.7 MHz |
| East | Grand Falls | CKCM | CKCM | News/Talk/Country | AM | 620 kHz |
| East | Grand Falls-Windsor | K-Rock | CKXG-FM | Classic Rock | FM | 102.3 MHz |
| East | Goose Bay | Big Land-FM | CFLN-FM | News/Talk/Country/Classic Rock Hybrid | FM | 97.9 MHz |
| East | Lewisporte | K-Rock | CKXG-FM1® | Classic Rock | FM | 101.3 MHz |
| East | Marystown | CHCM | CHCM | News/Talk/Country | AM | 740 kHz |
| East | Port aux Basques | CFGN | CFGN® | News/Talk/Country | AM | 1230 kHz |
| East | Port au Choix | CFNW | CFNW-FM® | News/Talk/Country | FM | 96.7 MHz |
| East | Northwest River | Big Land-FM | CFLN-FM1® | News/Talk/Country/Classic Rock Hybrid | FM | 95.9 MHz |
| East | Springdale | CKCM | CKCM-FM1® | News/Talk/Country | FM | 89.3 MHz |
| East | St. John`s | 590 VOCM | VOCM | News/Talk/Country | AM | 590 kHz |
| East | St. John`s | 930 Kixx Country | CJYQ | Newfoundland Music | AM | 930 kHz |
| East | St. Andrews | CFCV | CFCV-FM® | News/Talk/Country | FM | 97.7 MHz |
| East | St. Anthony | CFNN | CFNN-FM® | News/Talk/Country | FM | 97.9 MHz |
| East | St. John`s | 99.1 HITS-FM | CKIX-FM | Top 40 | FM | 99.1 MHz |
| East | St. John`s | K-Rock | VOCM-FM | Classic Rock | FM | 97.5 MHz |
| East | Stephenville | CFSX | CFSX | News/Talk/Country | AM | 870 kHz |
| East | Stephenville | K-Rock | CKXX-FM1® | Classic Rock | FM | 95.9 MHz |
| East | Wabush | Big Land-FM | CFLW-FM® | News/Talk/Country/Classic Rock Hybrid | FM | 94.7 MHz |

® Repeating Signal

1 New licence awarded by CRTC

# BOARD OF DIRECTORS

# BOARD OF DIRECTORS



Harry R. Steele, O.C.
Gander, Newfoundland and Labrador
Director since 1972
Chairman of the Board of Directors

Harry R. Steele, OC is the non-executive Chairman of the Board of Directors. Mr. Steele was appointed an Officer of the Order of Canada in 1992.

Michael (Mickey) C. MacDonald [1]
Halifax, Nova Scotia
Director since 2006
President - Micco Companies

Michael (Mickey) C. MacDonald, President of Micco Companies, is a well known entrepreneur whose business interests are diversified across many industries including automotive leasing, retail, food and beverage, fitness and residential land development. He continuously evaluates his current business holdings and potential business acquisitions for expansion while continually striving to improve operational success. In 2005 Saint Mary's University presented Mr. MacDonald with an Honorary Doctor of Commerce. Mr. MacDonald has won numerous business and personal awards including the 2008 Nova Scotia Humanitarian of the Year, 2005 Nova Scotia Philanthropist of the Year, 2004 Newfoundland Philanthropist of the Year, Ernst and Young Entrepreneur 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.

[1] Member of Audit & Governance Committee

Allen F. MacPhee [1]
Halifax, Nova Scotia
Director since 2011
President - A.F. MacPhee Holdings Ltd.

Allen F. MacPhee is a well-known businessman who has run many successful automobile dealerships, one of which became the largest General Motors dealership in Atlantic Canada. From 2011 to 2012 he was the Chairman of the Canadian Automobile Dealers Association. Currently he is the Chairman of Leader Auto Resources Inc. a national automotive buying group. In 2009, Al MacPhee was inducted into the Junior Achievement of Nova Scotia Business Hall of Fame and he has been honoured as one of Atlantic Canada's Top 50 CEO's. Mr. MacPhee has served two consecutive terms on the Board of Governors for Cape Breton University and is currently the President of MacPhee Ford in Dartmouth, Nova Scotia.

David I. Matheson, Q.C.[1]
Toronto, Ontario
Director since 2004 (and from 1986 to 1998)
Managing Director, Matheson Global Advisory Group

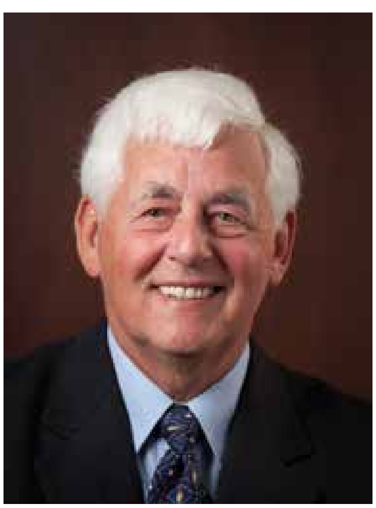
David I. Matheson, Q.C. conducts a corporate and international advisory business through the services of the Matheson Global Advisory Group as its managing director after having been a corporate and tax partner at McMillan LLP for many years. The Group is a national and international business connecting organization. He has a Bachelor of Commerce degree, with a major in accounting, and a Law degree from Dalhousie University. As a tax lawyer, he worked extensively with the accounting profession in tax reform and on financial reporting issues for tax purposes. He has served as a director and as a chairman and member of numerous audit and governance committees for public companies. He has written and spoken extensively, nationally and internationally, on tax-related financial reporting, corporate governance and securities law compliance.

John R. Steele
St. John's, Newfoundland and Labrador
Director since 2015
President, Newfoundland and Labrador Operations

John R. Steele has been with Newfoundland Capital Corporation Limited and its subsidiary, Newcap Inc., since March 16, 1988. He has held several positions within the Company and currently holds the title of President of its Newfoundland and Labrador operations. In 2015, he also became a member of the Board of Directors of Newfoundland Capital Corporation. Mr. Steele is also President of Steele Hotels which currently operates 7 locations throughout Newfoundland and Labrador. Mr. Steele is President of the Board of Directors of VOCM Cares and the K-Rock Children's Foundations. He is currently a Board Member of Business and The Arts NL, Capital Campaign Member of the "Where Once They Stood We Stand" campaign and a member of the Salvation Army Advisory Board.

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

Robert G. Steele has been President and Chief Executive Officer of Newfoundland Capital Corporation Limited since May 1, 2002 after having served as President and Chief Operating Officer from March 1, 2001 and as 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, currently consisting of sixteen dealerships. Robert is a member of the Young Presidents Organization, and is actively involved in several local charitable organizations.



Donald J. Warr, FCPA, FCA[1]
St. John's, Newfoundland and Labrador
Director since 1995
Partner - Blackwood & Warr

Donald J. Warr, FCPA, FCA is partner with the Chartered Professional Accounting Firm Blackwood & Warr in Newfoundland and Labrador. He obtained a Bachelor of Commerce degree in 1967 before obtaining his Chartered Accountancy designation in 1970. Prior to starting his own practice in 1992, Mr. Warr was a tax partner with a large national accounting firm. He was past President of the Newfoundland and Labrador Institute of Chartered Accountants and was awarded the designation of FCA in 1983 for outstanding service to the profession and the community. Mr. Warr, in addition to serving as a director for the Company, also serves as a director to Altius Minerals Corp., a public entity.

# CORPORATE GOVERANCE

Corporate governance is instrumental for the effective management of the Company. Newfoundland Capital Corporation Limited strives to not only meet current corporate governance standards; but also, to exceed current practices of transparency, integrity and duty of care. Good corporate governance is fundamental to the long-term success of the Company.

The Audit and Governance Committee, in conjunction with leadership provided by the Board of Directors, is continuously updating its corporate governance practices so that the Company is in compliance with all applicable requirements. On an annual basis a formal review of all corporate governance-related policies, mandates, position descriptions and the like is undertaken and improvements are made as considered necessary. Our corporate governance practices are disclosed in the Company's Management Information Circular.

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

### FINANCIAL LITERACY

All of our Audit and Governance Committee members are independent and financially literate.

### CODE OF ETHICS

The Company has a written Code of Business Conduct and Ethics ("Code") which is reviewed and updated at least annually. Every year, all employees, directors and certain consultants must read and acknowledge in writing their understanding of the Code. The overall goal of the Code is to deter wrongdoing and promote honest and ethical conduct throughout our organization.

### POLICY ON CORPORATE GOVERNANCE

Our Policy on Corporate Governance formalizes the principal corporate governance applications and practices of the Company.

### WHISTLEBLOWER POLICY

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.

### DISCLOSURE COMMITTEE

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.

### ESTABLISHED MANDATES

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 website at www.ncc.ca.

# OFFICERS AND MANAGEMENT

Robert Steele
**President and Chief Executive Officer**

Ian Lurie
**Chief Operating Officer**

Scott Weatherby
**Chief Financial Officer and Corporate Secretary**

Elaine Adams
**Assistant Corporate Secretary**

Scott Broderick
**Vice-President, Revenue**

Richard Davis
**Vice-President, Engineering & Technology**

Steve Jones
**Vice-President, Brands & Content**

Kyle Niekamp
**Director of Financial Reporting and Taxation**

Philip Reid
**Vice-President, Administration & Human Resources**

Glenda Spenrath
**Vice-President, Regulatory Affairs & Strategic Planning**

John Steele
**President, Newfoundland and Labrador Operations**

**Transfer agent and registrar**
The transfer agent and registrar for the shares of the Company is CST Trust Company at its offices in Halifax.

**For shareholder account inquiries:**
Telephone: 1-800-387-0825 (toll free in North America)
e-mail: inquiries@canstockta.com
or write to:
Newfoundland Capital Corporation Limited
c/o The Canadian Stock Transfer Company,
P.O. Box 700
Station B
Montreal, QC H3B 3K3

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

Scott Weatherby, Chief Financial Officer and Corporate Secretary.

Address:
Newfoundland Capital Corporation Limited
8 Basinview Drive
Dartmouth, Nova Scotia
Canada B3B 1G4
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
The Toronto-Dominion Bank
The Royal Bank of Canada

**Legal Counsel**
Stewart McKelvey

**Annual meeting**
The Annual General Meeting of Shareholders will be held at 11:00 a.m., Tuesday, May 3, 2016 in the Baronet Ballroom, Delta Halifax Hotel, 1990 Barrington Street, Halifax, NS.

**Newfoundland Capital Corporation Limited**
8 Basinview Drive
Dartmouth, Nova Scotia
Canada B3B 1G4