Newfoundland Capital Corporation Limited
Third Quarter 2014
Period Ended September 30 ***(unaudited)***

Dartmouth, N.S. – October 30, 2014, Newfoundland Capital Corporation Limited ("Company") today announces its financial results for the third quarter ending September 30, 2014.

Highlights

- **Revenue** for the third quarter of $39.3 million was $6.6 million or 20% higher than last year. Year-to-date revenue of $110.1 million was $13.1 million or 14% higher than 2013. The growth was due to the expansion into Toronto and Vancouver which offset declines in the Company's other markets.
- **Earnings before interest, taxes, depreciation and amortization ("EBITDA"[(1)])** of $10.0 million in the quarter were $2.5 million or 33% higher than last year. Year-to-date EBITDA of $26.7 million was $3.8 million or 17% higher than 2013. EBITDA is higher this year due to the expansion into the Toronto and Vancouver markets.
- **Profit for the period** of $4.3 million was $4.4 million lower than last year's profit of $8.7 million primarily due to the fact that last year's profit included a one-time positive adjustment to the provision for income tax of $4.7 million. Year-to-date profit of $8.6 million was $8.1 million lower than the same period in 2013 primarily due to the one-time $8.9 million transaction costs associated with the Toronto and Vancouver business acquisition in 2014 and the lower provision for income taxes in 2013.

Significant events

- In July, the Company completed the acquisition of CHNI-FM in Saint John, New Brunswick.
- On August 13, 2014, the Board of Directors declared dividends of $0.06 per share to all shareholders of record on September 19, 2014. Dividends of $1.7 million were paid subsequent to quarter end on October 3, 2014.

"Revenue growth has continued to be a challenge this year in our organic markets which have been impacted by lower national revenue. The combined results from Toronto and Vancouver have met our expectations and have been accretive since acquisition," commented Rob Steele, President and Chief Executive Officer. "Our concerted efforts in marketing, promotion and research this year will set the stage for 2015."

Financial Highlights – Third quarter

(thousands of Canadian dollars except share information)	**2014**	2013
Revenue	**$ 39,301**	32,749
EBITDA[(1)]	**9,980**	7,482
Profit for the period	**4,265**	8,656
Earnings per share – basic	**0.15**	0.30
Earnings per share – diluted	**0.15**	0.29
Share price, NCC.A (closing)	**8.30**	9.40
Weighted average number of shares outstanding *(in thousands)*	**28,155**	28,528
Total assets	**361,849**	234,777
Long-term debt, including current portion	**145,056**	49,825
Shareholders' equity	**140,673**	128,374

(1) Refer to page 12 "Non-IFRS Accounting Measure"

MANAGEMENT'S DISCUSSION AND 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 unaudited interim condensed consolidated financial statements ("interim financial statements") and related notes for the periods ended September 30, 2014 and 2013 prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the annual audited consolidated financial statements and related notes prepared in accordance with IFRS and the MD&A contained in the Company's 2013 Annual Report. The Company's third quarter 2014 interim financial statements and the accompanying notes have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described therein. These interim financial statements include the accounts of the Company and other entities in which the Company controls in accordance with IAS 27 "Consolidated and Separate Financial Statements" and are reported in Canadian dollars. These documents along with the Company's Annual Information Form, its Management Proxy Circular dated March 3, 2014 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 Board of Directors, upon recommendation of the Audit and Governance Committee, approved the content of this MD&A on October 30, 2014. 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 and forward-looking information within the meaning of Canadian provincial securities laws. These forward-looking statements are based on current expectations. The use of terminology such as "expect", "intend", "anticipate", "believe", "may", "will", "should", "would", "plan" and other similar terminology relate to, but are not limited to, 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. As a result, there is no guarantee that any forward-looking statements will materialize and readers are cautioned not to place undue reliance on these statements. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause our actual results to differ materially from our current expectations are discussed in detail in the Risks and Opportunities section of this MD&A. 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.

CORPORATE 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 drive 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.

CORPORATE DEVELOPMENTS

The following is a review of the key corporate developments which should be considered when reviewing the "Consolidated Financial Review" section. The results of the acquired or launched stations have been included in the interim financial statements since the respective acquisition and launch dates.

2014 Developments:

- January – received CRTC approval for a new FM licence in Fox Creek, Alberta (a repeater of CFXW-FM Whitecourt, Alberta).
- February – received CRTC approval for a new FM licence in Hinton, AB.
- March – acquired five radio stations located in Toronto, Ontario and Vancouver, British Columbia for cash consideration of $111.9 million.
- July – completed the acquisition of CHNI-FM in Saint John, New Brunswick for cash consideration of $0.8 million.

2013 Developments:

- January – completed the acquisition of CKCH-FM, The Eagle, in Sydney, Nova Scotia.
- January – received CRTC approval to convert the Port Au Choix, Newfoundland and Labrador AM station to FM. It was launched in April 2013.
- March – re-branded CFRK-FM in Fredericton as The New Hot 92.3.
- April – received CRTC approval to convert the Wainwright, Alberta AM station to FM. This was launched in September 2013.
- April – launched 95.9 Sun FM in Miramichi, New Brunswick with a Top 40 format.
- May – received CRTC approval for a new FM licence in Wabasca, Alberta (a repeater of CHSL-FM in Slave Lake, Alberta) and a new FM licence to serve Clarenville, Newfoundland and Labrador. The new FM in Wabasca was launched in October 2013 while the new FM in Clarenville will be launched in 2014.
- June – launched the Company's second FM in Fredericton, New Brunswick. Up! 93.1 features a Classic Hits format.
- December – finalized the sale of CHFT-FM in Fort McMurray, Alberta for cash proceeds of $5.0 million.

CONSOLIDATED FINANCIAL REVIEW

In 2013, the Company disposed of its net assets in Fort McMurray, Alberta. The results from this discontinued operation have been excluded from the 2013 figures.

Consolidated Financial Results of Operation

(thousands of Canadian dollars, except percentages and per share data)	Three months ended September 30			Nine months ended September 30		
	2014	2013	**Growth**	**2014**	2013	**Growth**
Revenue	**$ 39,301**	32,749	20%	**110,062**	96,948	14%
Operating expenses	**(29,321)**	(25,267)	16%	**(83,383)**	(74,081)	13%
EBITDA[(1)]	**9,980**	7,482	33%	**26,679**	22,867	17%
Depreciation, amortization and accretion	**(1,593)**	(1,116)	43%	**(4,088)**	(3,279)	25%
Interest expense	**(1,775)**	(660)	—	**(4,496)**	(1,720)	—
Other expense	**(765)**	(508)	51%	**(6,670)**	(1,009)	—
Profit from continuing operations before provision for income taxes	**5,847**	5,198	12%	**11,425**	16,859	(32%)
Provision for income tax (expense) recovery	**(1,582)**	3,426	—	**(2,823)**	(188)	—
Profit from continuing operations	**4,265**	8,624	—	**8,602**	16,671	—
Profit from discontinued operations	**—**	32	—	**—**	52	—
Profit for the period	**$ 4,265**	8,656	—	**8,602**	16,723	—
Earnings per share – continuing operations						
– Basic	**$ 0.15**	0.30	—	**0.30**	0.58	—
– Diluted	**0.15**	0.29	—	**0.29**	0.55	—
Earnings per share						
– Basic	**0.15**	0.30	—	**0.30**	0.58	—
– Diluted	**0.15**	0.29	—	**0.29**	0.55	—

(1) EBITDA – Earnings before interest, taxes, depreciation and amortization – refer to page 12 "Non-IFRS Accounting Measure"

A detailed discussion on revenue, operating expenses and EBITDA is provided in the section entitled "Financial Review by Segment".

Revenue

In the third quarter, consolidated revenue of $39.3 million was $6.6 million or 20% higher than last year. Year-to-date revenue of $110.1 million was $13.1 million or 14% higher than the same period last year. This improvement came exclusively from incremental revenue growth in the broadcasting segment due to the acquisition of stations in Toronto and Vancouver.

Operating expenses

Consolidated operating expenses in the third quarter of $29.3 million were $4.1 million or 16% higher than last year and year-to-date operating expenses of $83.4 million were $9.3 million or 13% higher than 2013. The increase in operating expenses was attributable to incremental operating costs related to the stations acquired in the broadcasting segment.

EBITDA

Consolidated EBITDA in the third quarter of $10.0 million was $2.5 million or 33% higher than last year and year-to-date EBITDA of $26.7 million was $3.8 million or 17% higher than 2013. EBITDA is higher this year due to the expansion into the Toronto and Vancouver markets.

Depreciation, amortization and accretion of other liabilities

In the third quarter and year-to-date, depreciation, amortization and accretion expense was higher than 2013 due to a higher depreciable asset base and because of the accretion arising on the Toronto and Vancouver Canadian Content Development ("CCD") commitments. Accretion of other liabilities arises from discounting CCD commitments to reflect the fair value of the obligations. The expense decreases as CCD obligations are drawn down.

Interest expense

Interest expense in the third quarter and year-to-date was higher than the same periods last year because of the additional debt required to finance the Toronto and Vancouver acquisition and the fact that the Company's effective interest rate has increased by approximately 1.5% due to the higher debt level.

Other income (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 and impairment charges. In the third quarter, the Company recognized mark-to-market unrealized losses of $0.6 million compared to unrealized losses of $0.5 million last year. For the nine months ended September 30, 2014, the mark-to-market unrealized gains were $0.8 million compared to unrealized losses of $0.7 million in 2013. Year-to-date realized gains resulting from the sale of certain marketable securities were $0.8 million; there were no realized gains or losses in 2013. Refer to note 11(a) in the interim financial statements for details on portfolio gains and losses.

Because of the Toronto and Vancouver business combination, the Company incurred acquisition-related costs of $8.9 million; the bulk of which related to $6.2 million of CCD commitments required to complete the acquisition (payable over seven years). In 2013, $0.2 million of acquisition-related costs were recorded due to the acquisition in Sydney. Refer to note 4 in the interim financial statements for additional details on the acquisition-related costs.

Provision for income taxes

In the third quarter, the effective tax rate was 27% and the year-to-date rate was 25% which were lower than the statutory tax rate of 31% because the tax on realized and unrealized gains is calculated using a lower rate. In the third quarter of last year, the Company settled on certain tax matters and re-measured certain estimates, including accrued interest, related to uncertain tax positions. The Company reduced the provision for income taxes by $4.7 million in the third quarter of 2013. For additional details, refer to note 2(b) of the interim financial statements.

Profit for the period

Profit for the third quarter of $4.3 million was $4.4 million lower than last year's profit of $8.7 million primarily due to the fact that last year's profit included a positive adjustment to the provision for income taxes of $4.7 million. Year-to-date profit of $8.6 million was $8.1 million lower than the same period in 2013 primarily due to the one-time $8.9 million transaction costs associated with the Toronto and Vancouver business acquisition in 2014 and the lower provision for income taxes in 2013.

Other comprehensive income ("OCI")

OCI includes the net change in the fair value of the Company's cash flow hedge and actuarial gains and losses arising on the Company's defined benefit pension plans. The after-tax gain included in OCI in the third quarter of 2014 was $nil (2013 – less than $0.1 million) while the year-to-date after-tax loss was less than $0.1 million (2013 – gain of $0.4 million).

FINANCIAL REVIEW BY SEGMENT

Consolidated financial figures include the results of operations of the Company's two separately reported segments – Broadcasting and Corporate and Other. The Company provides information about segment revenue, segment EBITDA and operating profit 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 13 of the Company's interim 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.

Cash-generating units ("CGU's") 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. The results from discontinued operations have been excluded from the 2013 figures.

Broadcasting Financial Results of Operations

(thousands of Canadian dollars, except percentages)		Three months ended September 30		Growth		Nine months ended September 30		Growth	
		2014	2013	Total	Organic	**2014**	2013	Total	Organic
Revenue	$	**38,090**	31,593	21%	(4%)	**107,123**	94,119	14%	(3%)
Operating expenses		**(26,312)**	(22,111)	19%	(6%)	**(74,504)**	(65,082)	14%	(2%)
EBITDA	$	**11,778**	9,482	24%	—	**32,619**	29,037	12%	(7%)
EBITDA margin		**31%**	30%	1%	1%	**30%**	31%	(1%)	(1%)

Revenue

Broadcasting revenue in the third quarter of $38.1 million was $6.5 million or 21% higher than last year. Year-to-date broadcasting revenue of $107.1 million was $13.0 million or 14% higher than 2013. The growth was attributable to incremental revenue related to the Toronto and Vancouver stations which generated approximately $7.7 million of revenue in the quarter and $16.2 million since the March 31, 2014 acquisition date. In the Company's other markets, growth (organic growth) was negative 4% in the quarter and negative 3% year-to-date. The industry organic growth rate for the nine months ended September 30, 2014 was negative 3%.

The most significant reason for the decrease in organic revenue was the Company's under-performing national sales results. Excluding the revenue derived in Toronto and Vancouver, national advertising was 10% lower in the third quarter and 11% lower year-to-date when compared to the same periods last year. Local sales were 2% lower in the third quarter and flat year over year.

Operating expenses

For the quarter, broadcasting operating expenses were $26.3 million, up $4.2 million or 19% over last year. Year-to-date broadcasting operating expenses of $74.5 million were $9.4 million or 14% higher than 2013. The increases were due to the incremental operating expenses related to the Toronto and Vancouver stations. Organic expenses are down compared to the prior periods due to the combination of lower variable costs associated with lower revenue and lower fixed costs due to reducing discretionary spending.

EBITDA

Third quarter broadcasting EBITDA of $11.8 million was $2.3 million or 24% higher than 2013 while year-to-date broadcasting EBITDA of $32.6 million was $3.6 million or 12% higher than last year due to the business acquisitions.

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.

Corporate and Other Financial Results of Operation

(thousands of Canadian dollars, except percentages)		Three months ended September 30			Nine months ended September 30		
		2014	2013	**% Change**	**2014**	2013	**% Change**
Revenue	$	**1,211**	1,156	5%	**2,939**	2,829	4%
Operating expenses		**(3,009)**	(3,156)	5%	**(8,879)**	(8,999)	(1%)
EBITDA	$	**(1,798)**	(2,000)	10%	**(5,940)**	(6,170)	4%

Revenue

Revenue was higher in the third quarter and year-to-date compared to 2013 due to higher revenue from the hotel operations.

Operating expenses

Third quarter operating expenses of $3.0 million were $0.1 million or 5% lower than the same period in 2013 and year-to-date operating expenses of $8.9 million were $0.1 million or 1% lower than last year.

EBITDA

EBITDA improved over the same periods last year because of higher hotel revenue combined with lower operating expenses.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Company's revenue and operating results vary, depending on the quarter. The first quarter is a period of lower retail spending and as a result, advertising revenue is lower. The fourth quarter tends to be a period of higher retail spending. In the third and second quarter of 2014, results from the Toronto and Vancouver stations increased revenue and profit. During the first quarter in 2014, the Company incurred acquisition-related costs arising from the Toronto and Vancouver business acquisition (refer to note 4 of the interim financial statements) which decreased profit. Profit in the fourth quarter of 2013 benefited from a $3.8 million gain on disposal of the Fort McMurray net assets. Third quarter profit for 2013 was positively impacted by a reduction in provision for income taxes. Positively impacting the 2012 fourth quarter profit was the reversal of a previous broadcast licence impairment charge. The results from discontinued operations have been excluded from the comparative revenue figures.

(thousands of Canadian dollars, except per share data)		**2014**			2013				2012
		3rd	**2nd**	1st	4th	3rd	2nd	1st	4th
Revenue	**$**	**39,301**	42,298	28,463	35,649	32,749	35,434	28,765	35,099
Profit (loss) for the period		**4,265**	7,541	(3,204)	10,295	8,656	5,972	2,095	7,405
Earnings (loss) per share									
– Basic		**0.15**	0.27	(0.11)	0.37	0.30	0.20	0.07	0.25
– Diluted		**0.15**	0.26	(0.11)	0.35	0.29	0.19	0.07	0.24

Selected cash flow information – nine months ended September 30, 2014

Cash flows from operating activities of $15.3 million combined with net borrowings of $103.3 million were used to finance the business acquisitions in Toronto, Vancouver and Saint John for $112.7 million, to purchase property and equipment for $4.2 million, pay dividends of $2.5 million and pay $1.9 million toward CCD commitments.

Selected cash flow information – nine months ended September 30, 2013

Cash flows from operating activities of $16.7 million combined with net borrowings of $2.2 million were used to purchase broadcasting assets in Sydney, Nova Scotia for $2.0 million, repurchase capital stock for $6.2 million, purchase property and equipment for $4.6 million, pay dividends of $4.3 million and pay $1.6 million toward CCD commitments.

Capital expenditures and capital budget

The capital expenditures for 2014 are expected to total approximately $9.5 million. The major planned expenditures include the capital costs associated with the acquired licences in Toronto, Vancouver and Saint John as well as general improvements and upgrades. The Company continuously upgrades its broadcast equipment to improve operating efficiencies.

FINANCIAL CONDITION

Total assets

Assets of $361.8 million were $126.2 million higher than December 31, 2013 due to the business acquisitions in 2014.

Liabilities, shareholders' equity and capital structure

As at September 30, 2014, the Company had $1.8 million of current bank indebtedness and $145.1 million of long-term debt, of which $11.3 million was current. The capital structure consisted of 39% equity ($140.6 million) and 61% liabilities ($221.2 million) at quarter 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 facility is being amortized over eight years and is repayable in quarterly instalments of $2.8 million. The first quarterly instalment was made on September 30, 2014. The maturity date for both credit facilities is March 2017.

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 quarter and at quarter end.

Cash flow from operations and funds available from the Company's $90.0 million 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 the vast majority of its positive cash balances to reduce debt and minimize interest expense. As a result, the Company nets its deposits in banks with bank indebtedness. 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, as part of its credit facility, it has a $5.0 million current operating credit line to fund any current obligations and it can also access any unused capacity in its credit facility to fund obligations.

Working capital requirements
As at September 30, 2014, the Company's working capital deficiency was $5.0 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 its debt 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 a $5.0 million operating credit line.

Future cash requirements
Other than for operations, the Company's cash requirements are mostly for interest payments, repayment of debt, capital expenditures, CCD payments, dividends and other contractual obligations. Management anticipates that its cash flows from operations will provide sufficient funds to meet its cash requirements.

Based on the above discussion and internal analysis, management deems its liquidity risk to be low.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Since the publication of the 2013 Annual MD&A (dated March 3, 2014), as at September 30, 2014, the Company's commitments and contractual obligations have increased as follows:

- $102.5 million net increase in long-term debt (this amount includes the current portion of long-term debt); and
- $9.3 million net increase in CCD commitments (undiscounted).

These increases were directly attributable to the business acquisitions.

SHARE CAPITAL

Outstanding share data

The weighted average number of shares outstanding at September 30, 2014 was 28,151,000 (2013 – 28,871,000). As of this date, there are 24,385,648 Class A Subordinate Voting Shares ("Class A shares") and 3,769,322 Class B Common Shares ("Class B shares") outstanding.

Share repurchases

The Company has approval under a Normal Course Issuer Bid to repurchase up to 1,219,282 Class A shares and 75,386 Class B shares. This bid expires May 21, 2015. During the third quarter, and year-to-date, no shares were repurchased. In the 2013 third quarter, 219,500 shares were repurchased for $1.9 million and year-to-date in 2013, 683,890 shares were repurchased for $6.2 million.

Dividends

In December 2013, the Company declared a dividend of $0.09 per share on each of its Class A shares and Class B shares. $2.5 million was paid to shareholders year-to-date (2013 – $2.6 million). On August 13, 2014, the Board of Directors declared dividends of $0.06 per share to all shareholders of record as at September 19, 2014. Subsequent to quarter end, on October 3, 2014, the Company paid dividends in the amount of $1.7 million (2013 – $1.7 million).

SHARE-BASED COMPENSATION PLANS

Executive stock option plan

No options were exercised during the third quarter (2013 – nil). Year-to-date, 107,500 options were exercised using the cashless exercise option resulting in 26,767 shares issued from treasury (2013 – 60,000 options exercised with 43,724 shares issued from treasury). Compensation expense related to the stock option plan in the third quarter and year-to-date was less than $0.1 million (2013 – less than $0.1 million).

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. The SARS' expiry dates range from April 2014 to February 2015. 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. As at September 30, 2014, 50,000 rights were outstanding.

No SARS were granted to-date in 2014 or 2013. No SARs were exercised in the third quarter (2013 – nil). Year-to-date, 52,500 SARS were exercised for cash proceeds of $0.2 million (2013 – 45,000 exercised for $0.2 million). Compensation expense in the third quarter was a recovery of less than $0.1 million (2013 – expense of $0.1 million) and year-to-date, the recovery was less than $0.1 million (2013 – expense of $0.1 million). The total obligation for SARS compensation of $0.1 million was classified as accounts payable and accrued liabilities (2013 – $0.4 million).

Financial Instruments and Financial Risk Management

For more detailed disclosures about derivative financial instruments and financial risk management, refer to note 11 of the interim financial statements.

Interest rate risk management

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 $0.5 million which would have flowed through profit since the swap was ineffective for accounting purposes as at June 30, 2014.

As at September 30, 2014, the aggregate fair value payable of the swap agreement was $0.7 million (2013 – $0.4 million). The net change in OCI for the third quarter was $nil (2013 – less than $0.1 million loss) and a loss of less than $0.1 million year-to-date (2013 – $0.4 million gain).

Share price volatility management

In July 2006, the Company entered into a cash-settled equity total return swap agreement to manage its exposure to fluctuations in its stock-based compensation costs related to the SAR Plan.

In July 2013, the swap expired and any remaining notional SARS were unwound. As a result there is no longer any balance receivable related to the equity total return swap. In 2013, realized before-tax losses recognized in the income statements in the third quarter were less than $0.1 million and $0.1 million year-to-date.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The fair value of the Company's marketable securities is affected by changes in the quoted share prices in active markets. Such prices can fluctuate and are affected by numerous factors beyond the Company's control. In order to minimize the risk associated with changes in the share price of any one particular investment, the Company diversifies its portfolio by investing in various industries and only invests a certain amount of funds in marketable securities. 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.

Credit risk management

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. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. 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 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. 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.

ADOPTION OF NEW ACCOUNTING STANDARDS

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not have an impact on the Company's financial position or performance.

FUTURE ACCOUNTING STANDARDS

IFRS 9 Financial Instruments

IFRS 9, as issued in 2010, reflects the first phase of the International Accounting Standard Board's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013. In November 2013, Chapter 6 of IFRS 9 on hedge accounting was published. At the same time, Chapter 7, containing the effective date and transition provisions was amended to remove the mandatory effective date of IFRS 9. This was intended to provide sufficient time for preparers to make the transition to the new requirements. The Company may still choose to apply IFRS 9 immediately, but is not required to do so.

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. The standard comes into effect on January 1, 2017 with earlier adoption permitted. The Company will monitor the impact, if any, this standard will have on its revenue recognition procedures.

CRITICAL ACCOUNTING ESTIMATES

There has been no substantial change in the Company's critical accounting estimates since the publication of the 2013 Annual MD&A dated March 3, 2014.

OFF-BALANCE SHEET ARRANGEMENTS

The Company's off-balance sheet arrangements consist of operating leases. Other than these, which are considered in the ordinary course of business, the Company does not have any other off-balance sheet arrangements and does not expect to enter into any other such arrangement other than in the ordinary course of business.

RISKS AND OPPORTUNITIES

There has been no substantial change in the Company's risks and opportunities since the publication of the 2013 Annual MD&A dated March 3, 2014.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no changes in the Company's internal controls over financial reporting that occurred in the nine months ending September 30, 2014 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

Organic revenue has continued to be a challenge with national revenue continuing to trend negatively when compared to the same periods last year. Offsetting these declines are the results from the stations acquired in Toronto and Vancouver.

Despite the organic revenue shortfalls, the Company has maintained EBITDA margins that are consistent with the prior year. The Company has invested in research, marketing, and promotion to improve ratings and has reduced expenditures where possible. Management is focused on improving results from all its stations.

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 interim 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, amortization and 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: acquisition-related costs, impairment charges and other expense. A calculation of this measure is as follows:

		Three months ended September 30		*Nine months ended September 30*	
(thousands of Canadian dollars)		***2014***	*2013*	***2014***	*2013*
Profit for the period from continuing operations	***$***	***4,265***	*8,624*	***8,602***	*16,671*
Provision for income taxes expense (recovery)		***1,582***	*(3,426)*	***2,823***	*188*
Other expense		***765***	*508*	***6,670***	*1,009*
Interest expense		***1,775***	*660*	***4,496***	*1,720*
Depreciation, amortization and accretion of other liabilities		***1,593***	*1,116*	***4,088***	*3,279*
EBITDA	***$***	***9,980***	*7,482*	***26,679***	*22,867*

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.

Newfoundland Capital Corporation Limited
Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the three months and nine months ended September 30, 2014 and 2013

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor if an auditor has not performed a review of the interim financial statements.

The accompanying unaudited interim condensed consolidated financial statements ("interim financial statements") of the Company for the three months and nine months ended September 30, 2014 and 2013 have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company's management.

The Company's independent auditors, Ernst & Young LLP, have not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Dated this 30th day of October, 2014

Interim Condensed Consolidated Statements of Financial Position
(unaudited)

(thousands of Canadian dollars)	Notes		**September 30 2014**	December 31 2013
Assets				
Current assets				
Marketable securities	11(a)	$	**2,299**	3,595
Receivables			**32,039**	27,995
Prepaid expenses			**1,831**	915
Total current assets			**36,169**	32,505
Non-current assets				
Property and equipment	4		**37,600**	36,460
Other assets			**1,626**	1,622
Broadcast licences	4		**265,753**	154,481
Goodwill	4		**15,466**	7,422
Deferred income tax assets			**5,235**	3,115
Total non-current assets			**325,680**	203,100
Total assets		$	**361,849**	235,605
Liabilities and Shareholders' Equity				
Current liabilities				
Bank indebtedness		$	**1,797**	998
Accounts payable and accrued liabilities			**21,583**	16,496
Dividends payable			**1,689**	2,532
Income taxes payable			**4,898**	3,745
Current portion of long-term debt	6		**11,250**	—
Total current liabilities			**41,217**	23,771
Non-current liabilities				
Long-term debt	6		**133,806**	42,642
Other liabilities	4, 11(b)		**16,425**	10,626
Deferred income tax liabilities	4		**29,728**	24,781
Total non-current liabilities			**179,959**	78,049
Total liabilities			**221,176**	101,820
Shareholders' equity			**140,673**	133,785
Total liabilities and shareholders' equity		$	**361,849**	235,605

See accompanying notes to the interim financial statements

Interim Condensed Consolidated Income Statements

(unaudited)

(thousands of Canadian dollars, except per share data)	Notes		Three months ended September 30 **2014**	2013	Nine months ended September 30 **2014**	2013
Revenue		$	**39,301**	32,749	**110,062**	96,948
Operating expenses			**(29,321)**	(25,267)	**(83,383)**	(74,081)
Depreciation, amortization and accretion of other liabilities			**(1,593)**	(1,116)	**(4,088)**	(3,279)
Interest expense			**(1,775)**	(660)	**(4,496)**	(1,720)
Other income (expense)	4, 11(a)		**(765)**	(508)	**(6,670)**	(1,009)
Profit from continuing operations before provision for income taxes			**5,847**	5,198	**11,425**	16,859
Provision for income tax (expense) recovery						
Current	2(b)		**(1,472)**	8,480	**(3,499)**	5,338
Deferred	2(b)		**(110)**	(5,054)	**676**	(5,526)
			(1,582)	3,426	**(2,823)**	(188)
Profit from continuing operations			**4,265**	8,624	**8,602**	16,671
Profit from discontinued operations			**—**	32	**—**	52
Profit for the period		$	**4,265**	8,656	**8,602**	16,723
Earnings per share from continuing operations	12					
– Basic		$	**0.15**	0.30	**0.30**	0.58
– Diluted			**0.15**	0.29	**0.29**	0.55
Earnings per share	12					
– Basic		$	**0.15**	0.30	**0.30**	0.58
– Diluted			**0.15**	0.29	**0.29**	0.55

See accompanying notes to the interim financial statements

Interim Condensed Consolidated Statements of Comprehensive Income
(unaudited)

(thousands of Canadian dollars)	Notes		Three months ended September 30 **2014**	Three months ended September 30 2013	Nine months ended September 30 **2014**	Nine months ended September 30 2013
Profit for the period		**$**	**4,265**	8,656	**8,602**	16,723
Other comprehensive income (loss):						
Cash flow hedges:	11(b)					
Net movement on interest rate swaps			**—**	(1)	**(60)**	554
Income tax expense			**—**	—	**15**	(151)
Other comprehensive income (loss)			**—**	(1)	**(45)**	403
Comprehensive income		**$**	**4,265**	8,655	**8,557**	17,126

See accompanying notes to the interim financial statements

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(thousands of Canadian dollars)		**Issued share capital (note 7)**	**Contributed surplus (note 8)**	**Accumulated other comprehensive income**	**Retained earnings**	**Total**
Balance at January 1, 2014	$	36,495	2,680	107	94,503	133,785
Profit for the period		—	—	—	8,602	8,602
Other comprehensive income		—	—	(45)	—	(45)
Total comprehensive income		—	—	(45)	8,602	8,557
Dividends		—	—	—	(1,689)	(1,689)
Exercise of stock options		101	(101)	—	—	—
Executive stock option compensation expense		—	20	—	—	20
Balance at September 30, 2014	**$**	**36,596**	**2,599**	**62**	**101,416**	**140,673**

See accompanying notes to the interim financial statements

(thousands of Canadian dollars)		**Issued share capital (note 7)**	**Contributed surplus (note 8)**	**Accumulated other comprehensive loss**	**Retained earnings**	**Total**
Balance at January 1, 2013	$	38,079	2,614	(1,630)	80,065	119,128
Profit for the period		—	—	—	16,723	16,723
Other comprehensive income		—	—	403	—	403
Total comprehensive income		—	—	403	16,723	17,126
Repurchase of share capital		(988)	—	—	(5,234)	(6,222)
Dividends		—	—	—	(1,712)	(1,712)
Executive stock option compensation expense		—	54	—	—	54
Balance at September 30, 2013	**$**	**37,091**	**2,668**	**(1,227)**	**89,842**	**128,374**

See accompanying notes to the interim financial statements

Interim Condensed Consolidated Statements of Cash Flows
(unaudited)

(thousands of Canadian dollars)	Notes	Nine months ended September 30 **2014**	2013
Operating Activities			
Profit from continuing operations before provision for income taxes		$ **11,425**	16,859
Items not involving cash			
Depreciation, amortization and accretion of other liabilities		**4,088**	3,279
Share-based compensation expense	9	**—**	151
Realized and unrealized (gains) losses on marketable securities	11(a)	**(1,652)**	660
Canadian Content Development commitments arising from business acquisitions not yet paid		**6,288**	—
Other		**180**	216
		20,329	21,165
Net change in non-cash working capital from continuing operations		**1,199**	3,873
		21,528	25,038
Interest paid		**(3,908)**	(1,785)
Income taxes paid		**(2,323)**	(6,673)
Net cash flows from continuing operations		**15,297**	16,580
Net cash flows from discontinued operations		**—**	143
Net cash flows from operating activities		**15,297**	16,723
Financing Activities			
Change in bank indebtedness		**799**	243
Long-term debt borrowings		**113,000**	5,500
Long-term debt repayments		**(10,500)**	(3,500)
Dividends paid	7	**(2,532)**	(4,337)
Repurchase of capital stock		**—**	(6,221)
Other		**(326)**	(180)
		100,441	(8,495)
Investing Activities			
Acquisition of broadcasting assets	4	**(112,712)**	(2,040)
Property and equipment additions		**(4,156)**	(4,552)
CCD commitment payments		**(1,903)**	(1,568)
Proceeds from disposal of marketable securities		**3,017**	—
Other		**16**	(68)
		(115,738)	(8,228)
Cash, beginning and end of period		$ **—**	—

See accompanying notes to the interim financial statements

1. Reporting Entity

Newfoundland Capital Corporation Limited (the "Company") is incorporated in Nova Scotia, Canada. The address of the Company's registered office of business is 745 Windmill Road, Dartmouth, Nova Scotia, B3B 1C2. The Company's primary activity is radio broadcasting. These unaudited condensed interim consolidated financial statements ("interim 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 which is subject to seasonal fluctuations.

These interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors on October 30, 2014.

2. Basis of Preparation

a) Statement of Compliance

These interim financial statements have been prepared in accordance with International Accounting Standards 34 ("IAS"), Interim Financial Reporting, and accordingly, they do not include all of the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. The same accounting policies and methods of computation were followed in the preparation of these interim financial statements as were followed in the preparation of the annual financial statements for the year ended December 31, 2013. Accordingly, these interim financial statements should be read together with the annual financial statements for the year ended December 31, 2013 prepared in accordance with IFRS.

These interim financial statements have been prepared in accordance with those IFRS standards and IFRS Interpretations Committee ("IFRIC") interpretations issued and effective or issued and early adopted as at the date of these statements (October 30, 2014). 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.

b) Critical Accounting Estimates

There has been no substantial change in the Company's critical accounting estimates and assumptions since the publication of the annual financial statements for the year ended December 31, 2013; however, there was a change in accounting estimates in 2013. In the third quarter of 2013, the Company settled on certain tax matters and re-measured certain estimates, including accrued interest, related to uncertain tax positions. The Company reduced current income taxes payable by $9,700,000 and increased deferred tax liabilities by $5,000,000 with the difference of $4,700,000 reducing the provision for income taxes which increased profit for 2013.

3. Accounting Standards Adopted and Future Accounting Standards

Adopted Accounting Standard

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not have an impact on the Company's financial position or performance.

Future Accounting Standards

IFRS 9 Financial Instruments

IFRS 9, as issued in 2010, reflects the first phase of the International Accounting Standard Board's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013. In November 2013, Chapter 6 of IFRS 9 on hedge accounting was published. At the same time, Chapter 7, containing the effective date and transition provisions was amended to remove the mandatory effective date of IFRS 9. This was intended to provide sufficient time for preparers to make the transition to the new requirements. The Company may still choose to apply IFRS 9 immediately, but is not required to do so.

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. The standard comes into effect on January 1, 2017 with earlier adoption permitted. The Company will monitor the impact, if any, this standard will have on its revenue recognition procedures.

4. ACQUISITION OF BROADCASTING ASSETS

Business Acquisitions – 2014

Saint John, New Brunswick
On July 28, 2014, the Company acquired the CHNI-FM broadcasting assets in Saint John, New Brunswick for $750,000 cash consideration. The assets acquired included the FM broadcast licence, capital assets and certain working capital balances. Working capital will be settled after the closing date and therefore the purchase price allocation is not 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 6.

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. Please refer to the table presented below.

Toronto, Ontario and Vancouver, British Columbia
On March 31, 2014, the Company acquired the shares of 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 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 Canadian Content Development ("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 stations in Toronto and by combining the operations of the three 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 6.

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 not yet been finalized. The following table sets out the net assets acquired and their estimated acquisition date fair values, aggregated at the cash-generating unit ("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		65,690	44,996	550	111,236
Goodwill		5,446	2,598	—	8,044
Total assets acquired		71,533	47,976	790	120,299
Accrued liabilities		(497)	(376)	—	(873)
CCD commitments assumed		(708)	(2,491)	—	(3,199)
Deferred tax liabilities		(2,506)	(1,009)	—	(3,515)
Net assets acquired	$	67,822	44,100	790	112,712

Earnings have been included in profit since the respective dates of acquisition. Revenue and profit (excluding acquisition-related costs) recognized to date in the income statements related to these acquired stations were approximately $16,200,000 and $1,600,000, respectively.

Pro-forma consolidated revenue including the results of the acquired stations, as though the acquisition date for the transaction had been January 1, 2014, would have been approximately $117,000,000. Pro-forma consolidated profit would have approximated $9,000,000.

4. ACQUISITION OF BROADCASTING ASSETS *(continued)*

Business Acquisition – 2014 *(continued)*

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 statement of financial position as *other liabilities* at fair value which was determined based on discounting cash flows using the effective interest method ("EIM"). Under EIM, accretion expense is calculated and recorded using the effective interest rate (5.02%) that exactly discounts estimated future cash payments throughout the life of the CCD commitment to the fair value at initial recognition. The 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 the acquisition dates, while the remaining $6,288,000 was the commitment required in order for the Canadian Radio-television and Telecommunications Commission ("CRTC") to approve the transaction. The $6,288,000 liability was a separate transaction and not factored in to the purchase price allocation and as such has been expensed in *Other income (expense).* Of the $6,288,000 CCD expensed, $3,902,000 related to the Toronto CGU, $2,341,000 related to the Vancouver CGU and $45,000 related to the Saint John CGU. Additional incremental costs approximating $2,600,000 directly related to these acquisitions were also expensed in *Other income (expense)* in the income statements and these included audit fees, legal fees, consulting charges, severances, research, travel and certain other regulatory required amounts.

Business Acquisition – 2013

On January 2, 2013, the Company acquired 70.1% of the shares of 3221809 Nova Scotia Limited which operates the CKCH-FM radio station in Sydney, Nova Scotia. The Company previously held 29.9% of the shares and as a result, this was a business combination achieved in stages whereby the Company was required to measure the acquisition-date fair value of the 29.9% equity interest the day immediately preceding the transaction. The fair value was determined to be $600,000 which closely approximated the carrying value of the investment and therefore no gains or losses were recorded as a result.

Total consideration was $4,425,000 and this was made up of the fair value of the initial 29.9% investment of $600,000, the settlement of an existing note having a fair value of $1,425,000 payable by the acquiree to the Company and cash paid of $2,400,000. The major net assets acquired included the FM broadcast licence, property and equipment and a small amount of working capital. Trade accounts receivable having a gross contractual amount receivable of $246,000 were included in working capital. The contractual cash flows not expected to be collected were estimated to be $34,000 and this was factored into the determination of fair value. The purchase price allocation, as set out in the table below, has been finalized.

The Company already operated an FM radio station in Sydney, and complementing it with this FM station was the reason for the acquisition. This allowed the Company to increase its revenue base and benefit from cost synergies which is why goodwill in the amount of $1,313,000 arose on this transaction. 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 purchase was financed by the Company's credit facility.

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 following table sets out the net assets acquired and their estimated acquisition date fair values:

(thousands of Canadian dollars)		**CKCH-FM**
Working capital	$	198
Deferred tax asset		215
Property and equipment		766
Broadcast licence		2,387
Goodwill		1,313
Total assets acquired		4,879
Deferred tax liabilities on property and equipment and broadcast licences		(454)
Net assets acquired	$	4,425

In order for the acquisition to have been approved by the CRTC, the Company had to commit to additional CCD payments of $222,000, payable in equal instalments over seven years. This financial liability was recognized on the statement of financial position as *other liabilities* and its fair value was determined based on discounting cash flows using EIM. Under EIM, accretion expense is calculated and recorded using the effective interest rate (3.9%) that exactly discounts estimated future cash payments throughout the seven year life of the CCD commitment to the fair value at initial recognition. The amount of CCD expensed in *Other income (expense)* in the income statements was $191,000.

5. Discontinued Operations

In December 2013, the Company disposed of its net assets associated with CHFT-FM in Fort McMurray, Alberta. The financial results from this CGU have been treated as discontinued operations in the income statements and cash flows for 2013. The results from this CGU were also excluded from the comparative figures from the Broadcasting segment results in segmented information presented in note 13. Selected comparative financial information for this CGU included in discontinued operations is presented below:

(thousands of Canadian dollars)	Three months ended September 30, 2013	Nine month ended September 30, 2013
Revenue	$ 362	1,034
Operating expenses	(294)	(891)
Depreciation and accretion of other liabilities	(23)	(71)
Income from discontinued operations before provision for taxes	45	72
Provision for current income tax expense	(13)	(20)
Income from discontinued operations	**$ 32**	**52**

6. Long-Term Debt

(thousands of Canadian dollars)	**2014**	2013
Revolving term credit facility of $90 million, renewable, expires in March 2017	**$ 58,812**	49,000
Non-revolving term credit facility of $90 million, repayable in quarterly instalments, expires in March 2017	**87,188**	—
	146,000	49,000
Less: current portion of non-revolving credit facility	**(11,250)**	—
Less: debt transaction costs	**(944)**	—
	$ 133,806	49,000

In conjunction with the business acquisition disclosed in note 4, the Company secured an additional $90 million non-revolving credit facility which was drawn on March 31, 2014 when the purchase agreement closed. The facility is being amortized over eight years and is repayable in quarterly instalments of $2,812,500. The facility expires March 31, 2017. The first quarterly instalment was made in September 2014.

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 11(b)) for a portion of its debt which fixes the floating bankers' acceptance rates.

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 credit facilities.

7. Share Capital

Outstanding share capital
Outstanding share capital was 28,154,970 at September 30, 2014 (2013 – 28,528,000).

Share repurchases
The Company has approval under a Normal Course Issuer Bid to repurchase up to 1,219,282 Class A Subordinate Voting Shares ("Class A shares") and 75,386 Class B Common Shares ("Class B shares"). This bid expires May 21, 2015. During the third quarter, and year-to-date, no shares were repurchased in 2014. In the 2013 third quarter, 219,500 shares were repurchased for $1,879,000 bringing the year-to-date number of share repurchases to 683,890 for total cash consideration of $6,221,000.

Exercise of stock options
No options were exercised during the third quarter (2013 – nil). Pursuant to the Company's executive stock option plan disclosed in note 9, 107,500 options were exercised year-to-date using the cashless exercise option resulting in 26,767 shares issued from treasury (2013 – 60,000 options exercised using the cashless exercise option with 43,724 shares issued from treasury). Share capital was increased and contributed surplus was decreased by $101,000 as a result of the options being exercised.

7. SHARE CAPITAL *(continued)*

Dividends

In December 2013, the Company declared a dividend of $0.09 per share on each of its Class A shares and Class B shares and $2,532,000 was paid to shareholders (2013 – $2,625,000). On August 13, 2014, the Board of Directors declared dividends of $0.06 per share to all shareholders of record as at September 19, 2014, payable on October 3, 2014. Subsequent to quarter end, dividends of $1,689,000 were paid (2013 – $1,712,000 were paid in the third quarter).

8. CONTRIBUTED SURPLUS

		Nine months ended September 30	
(thousands of Canadian dollars)		**2014**	2013
Balance January 1	$	**2,680**	2,614
Exercise of stock options *(note 7)*		**(101)**	—
Executive stock option plan compensation expense *(note 9)*		**20**	54
Balance September 30	$	**2,599**	2,668

9. SHARE-BASED COMPENSATION

The following is a summary of the Company's compensation expense related to share-based compensation plans.

Stock appreciation rights

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 September 30, 2014, 50,000 SARS were outstanding. These SARs expire in February 2015. 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.

No SARS were granted to-date in 2014 or 2013. No SARs were exercised in the quarter (2013 – nil). Year-to-date, 52,500 SARS were exercised for cash proceeds of $159,000 (2013 – 45,000 exercised for $171,000). Compensation expense in the third quarter was a recovery of $10,000 (2013 – expense of $80,000) and year-to-date, the recovery was $20,000 (2013 – expense of $97,000). The total obligation for SARS compensation of $59,000 was classified as accounts payable and accrued liabilities (2013 – compensation payable was $380,000 of which $355,000 was current).

Executive stock options

A total of 2,347,500 stock options are outstanding pursuant to the Company's executive stock option plan. The options generally vest as follows: twenty-five percent on the date of grant and twenty-five percent on each of the three succeeding anniversary dates. Option holders may elect to exercise their options on a cashless basis in which case capital 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.

No options were granted or exercised during the third quarter (2013 – nil). Year-to-date, 107,500 options were exercised (2013 – 60,000). Compensation expense related to the stock option plan in the quarter was $6,000 (2013 – $17,000) and year-to-date compensation expense was $20,000 (2013 – $54,000).

10. EMPLOYEE BENEFIT PLANS

		Three months ended September 30		Nine months ended September 30	
(thousands of Canadian dollars)		**2014**	2013	**2014**	2013
Defined contribution plan expense	$	**452**	406	**1,328**	1,227
Defined benefit plan expense		**98**	98	**295**	295

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Estimated fair value of financial instruments

Current assets and current liabilities' carrying values are representative of their fair values due to the relatively short period to maturity. The fair value of long-term debt approximates the carrying value because the interest charges under the terms of the long-term debt are based on the 3-month Canadian banker's acceptance rates.

11. Financial Instruments and Financial Risk Management *(continued)*

Estimated fair value of financial instruments *(continued)*

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 observable inputs	Significant unobservable inputs
Financial assets at fair value through profit or loss:				
Cash and bank indebtedness	**$ (1,797)**	(1,797)	—	—
Marketable securities	**2,299**	2,299	—	—
Loans and receivables:				
Accounts receivable	**32,039**	—	32,039	—
Items accounted for as hedges:				
Interest rate swap payable	**(654)**	—	(654)	—
Other liabilities at amortized cost:				
Accounts payable and accrued liabilities, net of current portion of interest swaps	**(21,551)**	—	(21,551)	—
Current and long-term debt	**(145,056)**	—	(145,056)	—

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
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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 September 30, 2014 were equal to $1,286,000 while negative cash balances were $3,083,000 which net to $1,797,000. 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 $32,600,000 as at September 30, 2014, which included accounts receivable. 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 $850,000 as at September 30, 2014. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Approximately 84% 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 in the third quarter was $90,000, bringing the year-to-date total to $290,000, which represents a very small portion of accounts receivable and revenue. 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.

11. Financial Instruments and Financial Risk Management *(continued)*

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

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

The fair value of the Company's marketable securities is affected by changes in the quoted share prices in active markets. Such prices can fluctuate and are affected by numerous factors beyond the Company's control. In order to minimize the risk associated with changes in the share price of any one particular investment, the Company diversifies its portfolio by investing in various 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 September 30, 2014, a 10% change in the share prices of each marketable security would result in an estimated $150,000 change in profit.

For the quarter ended September 30, 2014, the change in fair value of marketable securities, recorded in *Other income (expense)*, was an unrealized loss of $648,000 (2013 – $459,000) while the year-to-date unrealized gain was $814,000 (2013 – unrealized loss of $660,000). Realized gains in the quarter were $nil (2013 – $nil) and $836,000 year-to-date (2013 – $nil).

b) Interest rate risk management

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 swaps at inception and on a regular basis.

As at September 30, 2014, the $45,000,000 swap was ineffective for accounting purposes. As a result the change in fair value of the swap, from the time the swap was deemed ineffective in May 2012, was transferred from OCI to profit. This amounted to interest recovery of $71,000 in the quarter (2013 – interest expense of $146,000) and the year-to-date expense was $90,000 (2013 – interest recovery of $664,000).

At quarter end, the aggregate fair value payable of the swap agreement was $654,000, of which $32,000 was classified as a current liability (2013 – $353,000; $32,000 classified as current). The before-tax change in fair value of the swaps recorded in OCI for the third quarter was a gain of $71,000 (2013 – loss of $146,000) and year-to-date was a loss of $155,000 (2013 – gain of $733,000). The before-tax interest recovery transferred from OCI to profit was $71,000 in the quarter (2013 – interest expense of $146,000) and interest expense of $166,000 year-to-date (2013 – interest recovery of $178,000).

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 swaps by approximately $445,000 which would have flowed through profit since the swap was ineffective for accounting purposes as at September 30, 2014.

c) Share price volatility risk management

In July 2006, the Company entered into a cash-settled equity total return swap agreement to manage its exposure to fluctuations in its stock-based compensation costs related to the SAR Plan. Compensation costs associated with the SAR Plan fluctuate as a result of changes in the market price of the Company's Class A shares. The Corporation entered into this swap for a total of 1,275,000 notional Class A shares with a hedged price of $5.85.

In July 2013, the swap expired and any remaining notional SARS were unwound. As a result there is no longer any balance receivable related to the equity total return swap. As it relates to the prior year's (2013) third quarter, realized before-tax losses were $14,000 and $72,000 year-to-date.

11. 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, CCD payments, 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**	**2015 - 2018**	**Thereafter**
Long-term debt	**$**	**11,250**	133,806	—
Bank indebtedness		**1,797**	—	—
Accounts payable and accrued liabilities, net of current portion of undiscounted CCD commitments		**18,698**	—	—
Income taxes payable		**4,898**	—	—
CCD commitments, undiscounted		**2,885**	8,059	525
	$	**39,528**	141,865	525

Assuming long-term debt is renewed in 2017, which is consistent with past practice, the payments would be $45,000,000 for the period 2015 to 2018 and $88,806,000 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.

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. The Company was in compliance with the covenants throughout the quarter and at quarter end.

Financial projections are updated and reviewed regularly to reasonably ensure that financial debt covenants will not be breached in future periods. The Company monitors the covenants and foreign ownership status of the issued and outstanding voting shares and presents this information to the Board of Directors quarterly. The Company was in compliance with all the above as at September 30, 2014.

12. Earnings Per Share

	Three months ended September 30		Nine months ended September 30	
(thousands)	**2014**	2013	**2014**	2013
Weighted average common shares used in calculation of basic earnings per share	**28,155**	28,528	**28,151**	28,871
Effect of dilution related to executive stock options	**1,146**	1,261	**1,185**	1,298
Weighted average common shares used in calculation of diluted earnings per share	**29,301**	29,789	**29,336**	30,169

13. 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. This reportable segment is a strategic business unit that offers different services and is managed separately. The Company evaluates performance based on earnings before interest, taxes, depreciation and amortization. Corporate and Other consists of a hotel and the head office functions. Its revenue relates to hotel operations. Details of segment operations are set out below. Results from Fort McMurray, Alberta operations have been excluded from the Broadcasting segment comparative figures as a result of accounting for discontinued operations as described in note 5.

(thousands of Canadian dollars)		**Broadcasting**	**Corporate & Other**	**Total**		**Broadcasting**	**Corporate & Other**	**Total**
		Three months ended September 30				Nine months ended September 30		
2014								
Revenue	**$**	**38,090**	**1,211**	**39,301**		**107,123**	**2,939**	**110,062**
Operating expenses		**(26,312)**	**(3,009)**	**(29,321)**		**(74,504)**	**(8,879)**	**(83,383)**
Segment profit (loss)		**11,778**	**(1,798)**	**9,980**		**32,619**	**(5,940)**	**26,679**
Depreciation, amortization and accretion of other liabilities		**(1,505)**	**(88)**	**(1,593)**		**(3,834)**	**(254)**	**(4,088)**
Interest expense		**—**	**(1,775)**	**(1,775)**		**—**	**(4,496)**	**(4,496)**
Other income (expense)		**(96)**	**(669)**	**(765)**		**(8,318)**	**1,648**	**(6,670)**
Profit (loss) from continuing operations before provision for income taxes	**$**	**10,177**	**(4,330)**	**5,847**		**20,467**	**(9,042)**	**11,425**
Total assets					**$**	**347,402**	**14,447**	**361,849**
Total liabilities						**(28,447)**	**(192,729)**	**(221,176)**
Other disclosures								
Broadcast licences						**265,753**	**—**	**265,753**
Goodwill						**15,466**		**15,466**
Capital expenditures	**$**	**(1,312)**	**(84)**	**(1,396)**		**(4,016)**	**(140)**	**(4,156)**
		Three months ended September 30				Nine months ended September 30		
2013								
Revenue	$	31,593	1,156	32,749		94,119	2,829	96,948
Operating expenses		(22,111)	(3,156)	(25,267)		(65,082)	(8,999)	(74,081)
Segment profit (loss)		9,482	(2,000)	7,482		29,037	(6,170)	22,867
Depreciation, amortization and accretion of other liabilities		(1,039)	(77)	(1,116)		(3,069)	(210)	(3,279)
Interest expense		—	(660)	(660)		—	(1,720)	(1,720)
Other income (expense)		41	(549)	(508)		(277)	(732)	(1,009)
Profit (loss) from continuing operations before provision for income taxes	$	8,484	(3,286)	5,198		25,691	(8,832)	16,859
Total assets					$	222,264	12,513	234,777
Total liabilities						(41,126)	(65,277)	(106,403)
Other disclosures								
Broadcast licences						154,481	—	154,481
Goodwill						7,422		7,422
Capital expenditures	$	(936)	(16)	(952)		(4,423)	(129)	(4,552)

Transfer agent and registrar
The transfer agent and registrar for the shares of the Company is Canadian Stock Transfer Company Inc. at its offices in Halifax and Toronto.

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

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