NEWFOUNDLAND CAPITAL CORPORATION LIMITED

2001
ANNUAL REPORT

CORPORATE PROFILE

Newfoundland Capital Corporation Limited is a communications company engaged in Radio and Publishing and Printing. The Company operates 37 radio licenses across Canada and publishes 17 newspapers and specialty publications as well as operates the largest commercial printing business in Atlantic Canada.

RADIO

ALBERTA

CFCW	Camrose
MIX96-FM	Edmonton
K-ROCK-FM	Edmonton

ONTARIO

CHNO-FM	Sudbury
KIXX-FM	Thunder Bay

NEW BRUNSWICK

C103-FM	Moncton
XL96-FM	Moncton

NOVA SCOTIA

CIEZ-FM	Halifax
KIXX	Halifax
Q104-FM	Halifax

PRINCE EDWARD ISLAND

CHTN	Charlottetown

NEWFOUNDLAND AND LABRADOR

Radio Newfoundland	St. John's
VOCM	St. John's
K-ROCK-FM	St. John's
CKIX-FM	St. John's
CHVO	Carbonear
K-ROCK-FM	Clarenville
CKVO	Clarenville

NEWFOUNDLAND AND LABRADOR

CKXB	Musgravetown
K-ROCK-FM	Gander
CKGA	Gander
K-ROCK-FM	Grand Falls-Windsor
CKCM	Grand Falls-Windsor
K-ROCK	Baie Verte
CFNN-FM	St. Anthony
CFNW	Port au Choix
CFDL-FM	Deer Lake
CKXX-FM	Corner Brook
CFCB	Corner Brook
CKXX-FM1	Stephenville
CFSX	Stephenville
CFCV-FM	St. Andrew's
CFGN	Port-aux-Basques
CHCM	Marystown
CFLN	Goose Bay
CFLW	Wabush
CFLC-FM	Churchill Falls

PUBLISHING AND PRINTING

NOVA SCOTIA AND NEW BRUNSWICK

Print Atlantic

NEWFOUNDLAND AND LABRADOR

Robinson-Blackmore

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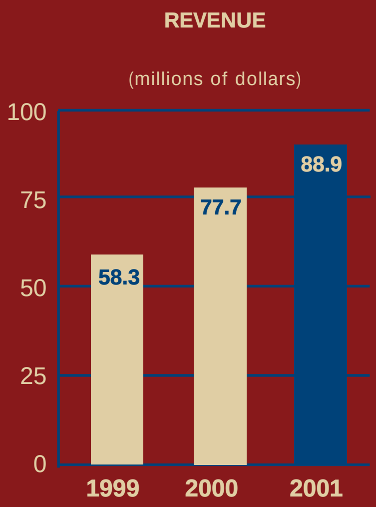
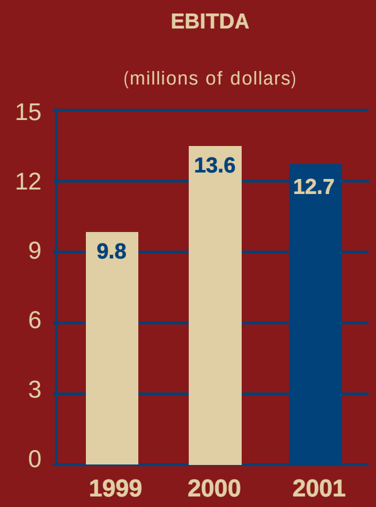
FINANCIAL HIGHLIGHTS

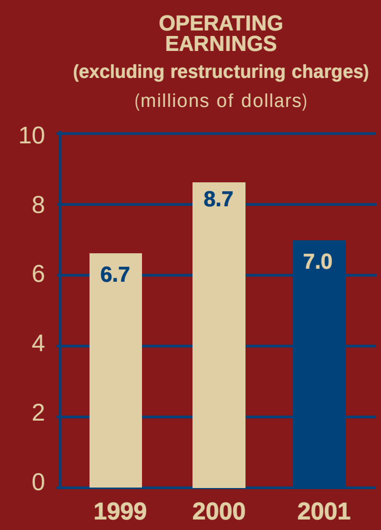
(millions of dollars, except per share information)		**2001**	2000	1999	1998	1997
Operations						
Revenue from continuing operations	$	**88.9**	77.7	58.3	51.3	45.8
Income from continuing operations (excluding restructuring charges)		**1.5**	2.3	3.3	2.4	1.8
Net (loss) income		**(3.8)**	2.3	3.3	36.3	43.6
Cash flow from continuing operations		**10.0**	10.1	7.1	5.2	5.7
Financial position						
Total assets	$	**136.5**	140.4	100.5	111.7	158.7
Long-term debt		**31.8**	31.4	0.9	0.5	0.7
Shareholders' equity		**65.3**	70.1	70.1	70.0	91.0
Per share information						
Income from continuing operations (excluding restructuring charges)	$	**0.13**	0.20	0.27	0.20	0.16
Net (loss) income		**(0.32)**	0.20	0.27	2.95	3.88
Cash flow from continuing operations		**0.85**	0.85	0.58	0.42	0.50
Dividends		**—**	—	0.10	5.00	0.10
Book value		**5.54**	5.89	5.77	5.64	7.93
Share price, NCC.A (closing)		**8.50**	9.65	10.00	8.00	8.65



Acquisitions fueled revenue growth.



EBITDA remains strong.



Higher depreciation and amortization impacted results.

REPORT TO SHAREHOLDERS

Much has been done in 2001 in preparation for an exciting and challenging 2002. To better focus on core businesses, the Company went through a process of restructuring to move away from ancillary operations. This process impacted our financial results but has put Newfoundland Capital on course for a better future as it moves ahead with the largest expansion of our Radio Division in Company history.

The net loss for 2001 is $3.8 million. Restructuring charges totaling $7.1 million ($5.3 million net of tax recovery) were primarily non-cash in nature, being write-downs of investments to fair market value. Divisional operating earnings and cash flow, however, were strong with revenue of $88.9 million, 15% higher than last year.

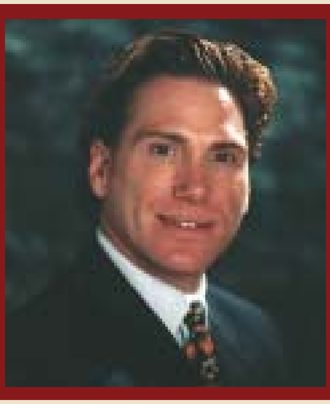
RADIO

The Company has been moving forward and has made key strategic acquisitions during the year. We entered into an agreement to purchase an additional 19 radio licenses in Alberta, including the new smooth jazz FM license in Calgary. These stations are currently owned by Télémédia Radio Inc., and are being acquired through an agreement with Standard Radio Inc. at a total cost of approximately $40 million. Our funding commitment is $30 million, with Standard retaining a 24% interest in the operation. We expect to have Canadian Radio-television and Telecommunications Commission ("CRTC") approval by the end of the first quarter, and to have the Calgary station on-air by mid-year.

The CRTC awarded the Company an FM radio license for Ottawa, the third largest English radio market in Canada. We look forward to commencing broadcasting in the nation's capital in the latter half of 2002. The CRTC also approved our applications to acquire Humber Valley Broadcasting in Newfoundland and Labrador and CHNO-FM in Sudbury, Ontario. In addition, we received approval to acquire Sun Radio Limited of Halifax, in partnership with CHUM Limited.

Assuming all applications currently before the CRTC are successful, the Company will hold a total of 57 broadcasting licenses across six provinces, covering much of Canada.

Radio's cash flow and operating earnings both exceeded last year's mark by 8% and 4% respectively. Solid results in Edmonton and Halifax, together with a full year of operations at VOCM Radio in Newfoundland (purchased May 2000), were the primary reasons for the improvements.



Robert G. Steele
President and
Chief Operating Officer

PUBLISHING AND PRINTING

The Publishing and Printing Division's operating cash flow was 13% ahead of 2000, while operating earnings were 9% behind. Robinson-Blackmore surpassed last year's cash flow and operating earnings. Print Atlantic, while maintaining last year's cash flow level, experienced weaker earnings as a result of increased depreciation charges associated with the new heat set web press. In addition, revenue expected from the new press early in 2001 did not materialize until later in the year. This Division expanded early in 2001 with the purchase of Centennial Print & Litho Limited with plants in Fredericton, Moncton and Saint John, New Brunswick. Plans are currently underway to open an office in the Northeastern United States. We are excited about the potential of this market, given the favorable foreign exchange rate combined with the high level of customer service we are able to offer.

OUTLOOK

The Radio Division will undergo a major transformation in 2002. Plans for the startup of the new stations in Ottawa and Calgary, together with the integration of the newly acquired Alberta stations (subject to CRTC approval) will present a new set of challenges and opportunities for our management team and employees.

Radio properties in Edmonton, Halifax and Newfoundland are well established and have solid management in place. We anticipate continued growth in 2002.

We fully expect the Publishing and Printing Division's contribution to show considerable improvement in the upcoming year, given Robinson-Blackmore's consistent results, improvement in Print Atlantic's margins, increased workload for the heat set web press and our initiatives south of the border.

In order to accomplish the challenges associated with a dynamic work environment, we have assembled a strong group of people. The dedication, commitment and ability to deal with change is evident in all our employees. We would like to thank them for their past efforts and look forward to working together to meet the challenges of the future.

Harry R. Steele
Chairman and
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and related notes contained in this 2001 Annual Report as well as the Company's Management's Discussion and Analysis for the previous quarters of 2001.

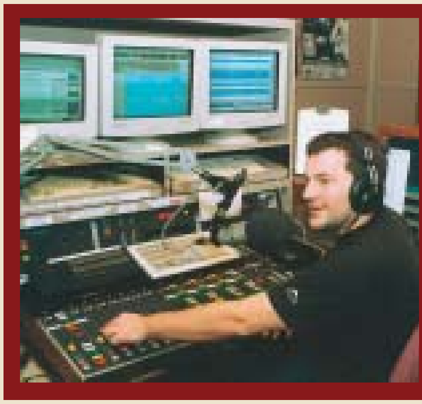
CONSOLIDATED OPERATING RESULTS

Revenue for the year reached $88.9 million, a 15% improvement over the 2000 level of $77.7 million. Operating earnings before restructuring charges decreased to $7.0 million from $8.7 million a year ago. Operating cash flow increased to $13.3 million from $13.1 million.

Depreciation expense of $4.1 million in 2001 was 20% higher than the $3.4 million last year. The increase was due to additional property and equipment acquired through business acquisitions and capital expenditures in late 2000. Amortization expense increased to $1.7 million as compared to $1.5 million in 2000. This increase is primarily due to licenses and goodwill that arose from business acquisitions.

The provision for income taxes is impacted by the effect of the restructuring charges described below. For normal operating earnings, the effective rates have changed slightly from the prior year due to the reduction in Canadian statutory tax rates and a change in the mix of pre-tax earnings within provincial jurisdictions.

There was a net loss this year of $3.8 million ($0.32 per share). The loss is a result of the restructuring charges recognized in the third quarter. These charges include a provision for decline in fair value of investments, a write down of goodwill and other assets as well as retirement and severance costs. The majority of this charge relates to the write down of the Company's investment in Iceberg Media.com to fair market value. Of the $7.1 million charge ($5.3 million net of tax recovery), $6.2 million was non-cash. The remaining $0.9 million related to employee severance costs will save approximately $0.6 million in operating expenses annually. Excluding this charge, the Company had net income for the year of $1.5 million ($0.13 per share). This compares with income of $2.3 million ($0.20 per share) in 2000. Increased interest costs as well as higher depreciation and amortization expense contributed to the decline in net income.



RADIO

Operating results in Radio improved for the eighth consecutive year, with operating earnings growing by 4% to $8.5 million from $8.2 million a year earlier.

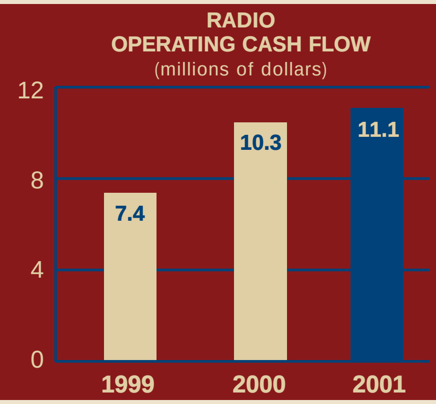
Revenue increased from $31.9 million in 2000 to $37.3 million this year. The increase was generated from 4% growth in existing markets, the acquisition of Humber Valley Broadcasting Company Limited in April 2001 (5%) and the remaining 8% is attributed to having a full year with VOCM Radio in Newfoundland (acquired May 2000).

Operating cash flow rose from $10.3 million to $11.1 million in 2001. Cash operating margins declined from 32% to 30% on a year-over-year basis, reflecting the additional costs to operate the second FM station in Moncton, launched in November 2000, as well as lower margins in the newly acquired Humber Valley properties.

In the fall of 2000 the Company made a presentation to the Canadian Radio-television and Telecommunications Commission ("CRTC") for a license in Vancouver. The Company was not successful in its attempt to obtain a license in this market. In the second quarter of 2001, the Company made another presentation to the CRTC, this time for a new license in Ottawa which led to a more positive outcome when it was announced in October that the Company was granted a license in the nation's capital. The new station is expected to be on-air in the second half of 2002. The Company will use its operating cash flow to fund this expansion.

In August 2001, the Company announced that it had entered into an agreement to acquire 19 radio licenses in the Province of Alberta from Télémédia Radio Inc., in accordance with an agreement with Standard Radio Inc., who will retain a 24% interest in these licenses. This purchase is subject to CRTC approval and a decision on this matter is expected early in 2002.

The Company received CRTC approval for its acquisition of CHNO-FM in Sudbury, Ontario in the fourth quarter, with the transaction taking effect at the end of November 2001. Also in November the Company entered into an agreement with CHUM Limited under which the Company has agreed to acquire 50% of the outstanding shares of Sun Radio Limited operating CIEZ-FM in Halifax, Nova Scotia. The CRTC approval was obtained in December and the transaction became effective December 31, 2001.



MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

PUBLISHING AND PRINTING

Operating earnings declined from $3.7 million to $3.3 million in 2001 on revenue growth of 13%. This decline was in large part due to increased depreciation charges. Operating cash flow reached $6.3 million in 2001, a 13% increase over the $5.5 million level of the previous year.

In Newfoundland and Labrador, Robinson-Blackmore experienced revenue growth of 4% and a 7% increase in operating cash flow.

At Print Atlantic, it was the first full year of operation with the new heat set web press, purchased for the Dartmouth, Nova Scotia plant in late 2000. Revenue growth in this new line of business helped to offset some weakness in the sheet-fed operations. In January 2001 the Company acquired Centennial Print & Litho Limited in Fredericton, New Brunswick, which strengthened its position in Atlantic Canada and allows opportunities for expansion into the Northeastern United States market. This acquisition accounted for 8% of the revenue growth in this Division.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flow from operations was $10.0 million ($0.85 per share), consistent with the prior year.

Significant uses of cash included business and license acquisitions of $9.3 million, property and equipment additions of $2.6 million and stock repurchases of $1.1 million.

Of its total credit facilities of $55.4 million at December 31, 2001, the Company had $32.2 million of long-term debt (of which $0.4 million is current) and $10.8 million of current bank indebtedness outstanding.

The working capital deficiency at December 31, 2001 was $0.4 million, slightly better than last year's $0.5 million.

CAPITAL EXPENDITURES

Capital expenditures amounted to $2.6 million in 2001 (net of investment tax credits), down from the $9.8 million spent the prior year. The Radio Division accounted for $1.0 million, Publishing and Printing $1.7 million and at the

Corporate level, there were net proceeds from disposal of $0.1 million. The capital budget for 2002 amounts to $2.3 million. The Company has not committed to any major capital purchases at this time other than the business and license acquisitions noted above.

CAPITAL EMPLOYED

Assets at December 31, 2001 totaled $136.5 million, down from $140.4 million the previous year. The Radio Division accounted for 56% of total assets in the current year, Publishing and Printing 33%, and Corporate and other 11%.

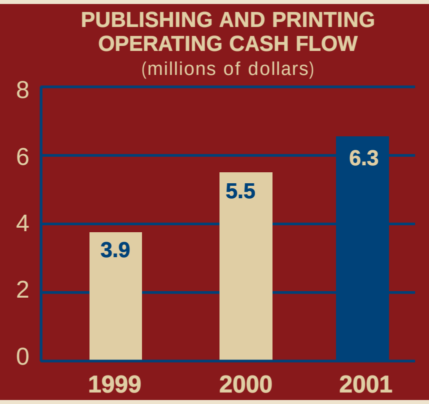
The year-end capital structure consisted of 48% equity ($65.2 million) and 52% debt ($71.3 million). This compares to 50% equity ($70.1 million) and 50% debt ($70.3 million) at the end of 2000. The total debt-to-equity ratio increased in 2001 to 1.1:1 from 1.0:1 the previous year.

The Company repurchased and cancelled 119,500 shares at a total cost of $1.1 million pursuant to a Normal Course Issuer Bid. As a result, capital stock decreased $0.5 million during the year, with the remaining $0.6 million reducing retained earnings. In addition 7,000 options were exercised for gross proceeds of $56,000. At year-end, the Company was authorized to acquire another 588,625 shares before January 2, 2003. The average number of shares outstanding during the year decreased to 11.8 million from 11.9 million in 2000.

CHANGE IN ACCOUNTING POLICY

The Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard with respect to earnings per share, which has been adopted by the Company effective January 1, 2001. The Company has changed from the imputed earnings to the treasury stock method of accounting for diluted earnings per share. The policy has been applied retroactively and adoption of this standard had no impact on the prior year's diluted earnings per share calculation.

In 2002 the Company will adopt the new standards issued by the CICA on business combinations and goodwill and other intangible assets. The standards require that all business combinations be accounted for using the purchase



method and establish specific criteria for the recognition of intangible assets separately from goodwill. Under the standards, goodwill and intangibles will no longer be amortized but will be subject to impairment tests on at least an annual basis. The Company will perform the required impairment tests on goodwill and intangibles recorded as of January 1, 2002. Amortization of goodwill and licenses for the year ended December 31, 2001 was $1.6 million.

The CICA has also issued a new accounting standard for stock-based compensation and other stock-based payments that is effective for 2002. The new standard requires either the use of a fair-value-based method to account for certain stock-based compensation arrangements or the pro-forma disclosure of the impact of the fair-value-based method on net income and earnings per share.

RISKS AND OPPORTUNITIES

The Company's revenue is derived primarily from the sale of advertising directed at retail consumers and printing services provided to both individuals and corporations. There is a risk of reduced profitability should the retail sector experience a prolonged and significant downturn. However, the Company retains a degree of geographic and sectoral diversification in the Radio and Publishing and Printing segments.

Regulation by the CRTC creates risks and opportunities. The licensing process creates a significant barrier to entry. Although this provides a degree of protection for the Company in its existing markets, it makes it difficult or costly to enter new markets.

At the end of last year, the Company was in Local Management Agreements (LMAs) in Halifax, Charlottetown and Thunder Bay. The CRTC indicated that it would review all existing LMAs during the year. In advance of any review the LMA in Halifax was voluntarily terminated by the partners involved. In the other markets, the Thunder Bay LMA has been renewed to 2004 and the LMA in Charlottetown will be reviewed by the CRTC in early 2002.

In connection with the disposition of the Company's interest in a container terminal ("Halterm") to the Halterm Income Fund (the "Fund") in May 1997, the Company indemnified Halterm for any material increases in the base rental fee payable by Halterm to the Halifax Port Corporation for the first ten years of the first lease renewal term

which commenced January 1, 2001. The indemnity is only applicable to the extent, if any, that such increases in the base rental fee result in a reduction in distributions to Fund unitholders to a level below that anticipated in the forecast included in the prospectus for the initial public offering of trust units of the Fund.

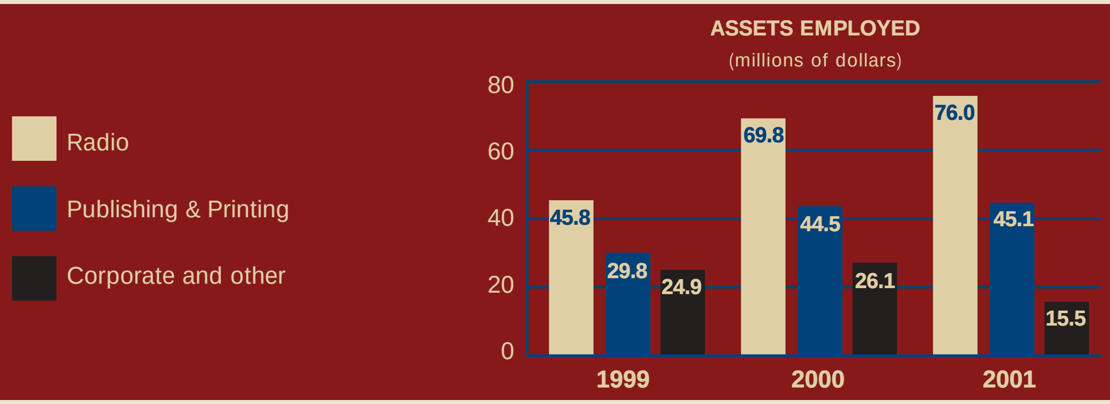
OUTLOOK

The current economic downturn has had some impact with the long-term bookings of radio advertising, however current bookings are pacing on par or ahead of the prior year in most markets. In the Publishing and Printing Division, revenue is maintaining pace with last year with any decline in the sheet-fed printing operations being more than offset with new business from the heat set web press.

In 2002 the Company will embark on its most aggressive expansion in recent history. Once approved by the CRTC, the Company will acquire 18 radio licenses in rural Alberta and the new smooth Jazz FM license in Calgary. In addition, the Company will be launching its new station in Ottawa. It is expected that cash flow generated from the new rural Alberta stations should more than offset the cash flow deficiencies of the new station startups and the increased debt service costs.

In addition to the expansion, net income will be boosted by the absence of any significant restructuring charges, the future positive benefits of the restructuring process, and the adoption of the new accounting policy for goodwill and other intangibles thereby eliminating almost all amortization expense. These factors along with the expansion will provide growth in revenue, operating cash flow and net income in 2002.

Management's discussion and analysis of financial condition and results of operations contains forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties that expectations will not be achieved. Readers are cautioned not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from those expressed in such forward-looking statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



AUDITORS' REPORT

TO THE SHAREHOLDERS OF NEWFOUNDLAND CAPITAL CORPORATION LIMITED

We have audited the consolidated balance sheets of Newfoundland Capital Corporation Limited as at December 31, 2001 and 2000 and the consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Halifax, Canada
February 8, 2002

Chartered Accountants

Consolidated Statement of Income — For the years ended December 31

(thousands of dollars)		2001	2000
Revenue	$	**88,931**	77,660
Other income		**173**	389
		89,104	78,049
Operating expenses		**76,368**	64,442
Earnings before undernoted items		**12,736**	13,607
Depreciation		**(4,055)**	(3,370)
Amortization		**(1,727)**	(1,497)
Operating earnings before restructuring charges		**6,954**	8,740
Restructuring charges (note 10)		**(7,099)**	—
Operating (loss) earnings before other items		**(145)**	8,740
Interest (note 6)		**(2,893)**	(2,194)
Equity in loss of associated company (note 10)		**(563)**	(1,174)
(Loss) income before undernoted items		**(3,601)**	5,372
Income tax expense (note 11)		**89**	2,887
(Loss) income before the following		**(3,690)**	2,485
Non-controlling interest in subsidiary's earnings		**(88)**	(155)
Net (loss) income	$	**(3,778)**	2,330
Earnings per share (note 12)			
Basic and diluted	$	**(0.32)**	0.20

See accompanying notes to consolidated financial statements

Consolidated Statement of Shareholders' Equity — For the years ended December 31

(thousands of dollars)		2001	2000
Retained earnings, beginning of year	$	**26,417**	25,490
Net (loss) income		**(3,778)**	2,330
Repurchase of capital stock (note 9)		**(607)**	(1,403)
Retained earnings, end of year		**22,032**	26,417
Capital stock (note 9)		**43,221**	43,645
Total shareholders' equity	$	**65,253**	70,062

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows — For the years ended December 31

(thousands of dollars)		2001	2000
Operating Activities			
Operating earnings before restructuring charges	$	**6,954**	8,740
Items not involving cash			
Depreciation and amortization		**5,782**	4,867
Other		**558**	(490)
Cash flow from operations before the following		**13,294**	13,117
Restructuring charges paid (note 10)		**(904)**	—
Interest paid		**(2,893)**	(2,194)
Current taxes recovered (paid)		**551**	(820)
Cash flow from operations		**10,048**	10,103
Change in non-cash working capital relating to operating activities		**777**	(530)
		10,825	9,573
Financing Activities			
Long-term debt borrowings		**5,000**	30,500
Long-term debt repayments		**(5,072)**	(1,186)
Issuance of capital stock (note 9)		**56**	132
Repurchase of capital stock (note 9)		**(1,088)**	(2,520)
		(1,104)	26,926
Investing Activities			
Note receivable		**528**	491
Property and equipment additions, net		**(2,623)**	(9,846)
Investment tax credits recoverable		**2,034**	(4,074)
Business and license acquisitions (note 2)		**(9,335)**	(25,804)
Other		**1,224**	(1,210)
		(8,172)	(40,443)
Increase (decrease) in cash position during the year		**1,549**	(3,944)
Bank indebtedness, beginning of year		**(12,375)**	(8,431)
Bank indebtedness, end of year	$	**(10,826)**	(12,375)

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet — As at December 31

(thousands of dollars)		2001	2000
ASSETS			
Current assets			
Short-term investments, at market value	$	**2,806**	6,708
Receivables		**19,934**	18,238
Note receivable (note 4)		**955**	957
Income taxes recoverable		**190**	—
Inventories		**2,740**	1,802
Prepaid expenses		**1,164**	876
Total current assets		**27,789**	28,581
Property and equipment (note 3)		**36,340**	35,500
Note receivable (note 4)		**3,474**	4,000
Investments, at equity (notes 2 and 10)		**—**	5,021
Other assets (note 5)		**7,387**	12,069
Licenses, net of amortization of $7,615 (2000 - $6,263)		**54,231**	46,990
Goodwill, net of amortization of $2,455 (2000 - $2,218)		**7,323**	8,226
	$	**136,544**	140,387
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness (note 6)	$	**10,826**	12,375
Accounts payable and accrued liabilities		**16,913**	15,854
Income taxes payable		**—**	534
Current portion of long-term debt (note 6)		**430**	324
Total current liabilities		**28,169**	29,087
Long-term debt (note 6)		**31,774**	31,372
Other liabilities (note 7)		**7,716**	6,665
Future income taxes (note 11)		**2,953**	2,610
Non-controlling interest in subsidiary		**679**	591
Shareholders' equity		**65,253**	70,062
	$	**136,544**	140,387

See accompanying notes to consolidated financial statements

On behalf of the Board:

Director H. R. Steele (signed) Director J. J. Fleming (signed)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company is incorporated under the Canada Business Corporations Act.

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

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could be different from those estimates.

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

(b) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined under the first in, first out method.

(c) Investments

Investments in companies over which the Company exercises significant influence are accounted for by the equity method. Short-term investments are valued, on an aggregate basis, at the lower of cost and market value at the balance sheet date.

(d) Property and equipment

Property and equipment are depreciated over their estimated useful lives using primarily straight-line and declining balance methods at the following rates:

	Radio	Publishing and Printing	Corporate and other
Buildings	5%	5%	5%
Equipment	7.5% – 50%	5% – 50%	20% – 50%

Investment tax credits related to the acquisition of property and equipment are deducted from the cost of the related assets.

(e) Acquisitions, goodwill and licenses

On the acquisition of businesses, the excess of the purchase price over the fair value of the underlying identifiable net assets is recognized as goodwill. Costs related to the acquisition of broadcasting licenses pursuant to applications to the Canadian Radio-television and Telecommunications Commission (“CRTC”), are capitalized as license costs. Goodwill and licenses are amortized on a straight-line basis over forty years. The method used to assess if there has been a permanent impairment in the value of these assets is based on projected discounted cash flows.

(f) Employee benefit plans

Effective January 1, 2000, the Canadian Institute of Chartered Accountants (“CICA”) changed the accounting standards relating to the recognition, measurement and disclosure of employee future benefits, including pension and other retirement benefits. This requires the use of current discount rates as opposed to long-term discount rates in determining the accrued benefit obligation.

The Company has elected to recognize this change in accounting on a prospective basis. As a result of adopting this policy, a transitional asset of $2,427,000 is being amortized over the expected average remaining service life of the plan participants.

In valuing its defined benefit pension obligations, the Company uses the accrued benefit actuarial method prorated on services and best estimate assumptions. Pension plan assets are valued at market value. The excess of the aggregate net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees of 12 years (2000 – 13).

The Company offers a defined contribution plan to all its employees. The Company matches employee contributions. The Company's portion is recorded as compensation expense when contributions are made to the plan.

As part of the Company's stock-based compensation plans, the Company matches a portion of employees' payments toward the purchase of its Class A Subordinated Voting Shares. The Company's portion is recorded as compensation expense when contributions are made to the plan. The Company also has an executive stock option plan. The proceeds from the exercise of stock options are credited to capital stock when options are exercised.

(g) Revenue recognition

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

Publishing and Printing Segment – Revenue earned from advertisements in publications are recognized when the publications are distributed. Revenue from printing operations is recognized when the products and services are delivered to the customer.

(h) Financial instruments

The carrying amounts of the Company's primary financial instruments recognized in the balance sheet approximate fair values. The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize this risk.

(i) Income taxes

Effective January 1, 2000, the CICA changed the accounting standards relating to the accounting for income taxes. The Company has adopted the new recommendations of the CICA and has applied the provisions retroactively without restatement of prior period amounts.

Future income taxes is the cumulative amount of tax applicable to temporary differences between the carrying amount of assets and liabilities and their values for tax purposes. Future income taxes are measured at the substantively enacted tax rates applicable when these differences are expected to reverse. Changes in future income taxes related to a change in tax rates are recognized in income.

(j) Earnings per share

Effective January 1, 2001 the Company adopted the treasury method of calculating diluted earnings per share as recommended by the CICA. The Corporation has adopted this method on a retroactive basis. This change in accounting policy has had no impact on the prior period's diluted earnings per share calculation.

2. Business and license acquisitions

The Company purchased 100% of the shares of Centennial Print & Litho Limited of New Brunswick and the remaining two-thirds interest in the shares of Humber Valley Broadcasting Company Limited of Newfoundland and Labrador in January and April 2001, respectively. The Company acquired 100% of the assets related to the FM station CHNO in Sudbury, Ontario in November 2001 and 50% of the shares of Sun Radio Limited of Halifax, Nova Scotia in December 2001. In the prior year, the Company purchased 100% of the shares of T.K. Printing Limited of Moncton in January 2000, 100% of the shares of The Coupon Network Limited of Halifax, and 100% of the assets of VOCM Radio Newfoundland Limited in May 2000. These acquisitions were accounted for as purchases and accordingly, the consolidated statement of income includes the results of operations from their respective acquisition dates.

The following summarizes the transactions:

(thousands of dollars)		**2001**	2000
Licenses	**$**	**8,593**	19,228
Property and equipment		**2,483**	4,564
Goodwill		**46**	1,834
Investment tax credits recoverable		**98**	—
Working capital		**(18)**	2,213
Long-term debt		**(897)**	(1,000)
Other liabilities		**(519)**	(1,167)
Future income taxes		**149**	132
		9,935	25,804
Equity investment at date of acquisition		**(600)**	—
Cash consideration	**$**	**9,335**	25,804

In 2000 the Company invested $1,000,000 in the shares of Iceberg Media.com. Prior to the provision for decline in value included in the restructuring charges, this investment was accounted for using the equity method with the difference between the cost of the investment and the underlying net book value of the investee’s net assets at the date of acquisition being amortized over 40 years.

3. Property and equipment

(thousands of dollars)		Cost	Accumulated depreciation	Net book value
2001				
Land	$	2,273	—	**2,273**
Buildings		15,020	6,390	**8,630**
Equipment		42,900	17,463	**25,437**
	$	60,193	23,853	**36,340**
2000				
Land	$	1,946	—	1,946
Buildings		13,684	4,233	9,451
Equipment		39,873	15,770	24,103
	$	55,503	20,003	35,500

4. Note receivable

The note receivable is non-interest bearing and matures in 2007. It is repayable in annual instalments of $1,000,000, which have been discounted at interest rates ranging from 9.9% to 11.8%.

5. Other assets

(thousands of dollars)		2001	2000
Employee share purchase and other loans	$	**3,399**	3,737
Other long-term receivables		**250**	2,615
Investment tax credits recoverable		**3,400**	5,336
Deferred costs		**338**	381
	$	**7,387**	12,069

Employee share purchase and other loans are non-interest bearing and payable on demand. The share purchase loans have a pledge of the related shares purchased as collateral. Other long-term receivables bear interest at rates ranging from nil to prime.

6. Long-term debt

(thousands of dollars)		2001	2000
Revolving term credit facility of $40 million, renewable annually, maturing August 2002, currently bearing interest at prime plus 3/4 %.	$	**31,000**	30,000
Capital lease obligations, bearing interest at rates ranging from 8.3% to 11.0%, maturing to 2004.		**713**	500
Other mortgages and loans bearing interest from nil to prime plus 1%, maturing to 2009.		**491**	1,196
		32,204	31,696
Less: Current portion		**430**	324
	$	**31,774**	31,372

Minimum principal repayments for each of the next five years are as follows:

2002	–	$ 430,000
2003	–	407,000
2004	–	177,000
2005	–	50,000
2006	–	50,000

Bank indebtedness bears interest at prime and is due on demand. Trade receivables, certain inventories and first, fixed and floating charge debentures over the Company's other principal assets are pledged as collateral for the bank indebtedness and the revolving term credit facility.

Interest expense for the year included $2,122,000 relating to interest on long-term debt (2000 – $1,240,000).

As disclosed in Note 14(b), subsequent to year end the Company obtained a commitment for a new bank credit facility, a major component of which is a $55 million revolving term credit facility, renewable annually, which will mature in March 2003.

7. Other liabilities

(thousands of dollars)		2001	2000
Employee benefit plans (note 8)	$	**5,614**	4,920
Other liabilities		**2,578**	2,080
		8,192	7,000
Less: current portion included in accounts payable and accrued liabilities		**476**	335
	$	**7,716**	6,665

Other liabilities include obligations to fund Canadian talent development as part of applications to the CRTC for new licenses and business acquisitions. The expected payments over the next five years are as follows: 2002 – $476,000; 2003 – $478,000; 2004 – $427,000; 2005 – $326,000 and 2006 – $326,000.

8. Employee benefit plans

The Company has two main types of employee benefit plans: pension plans and stock-based compensation plans.

Pension plans

(a) Defined contribution plans

The total expense for the Company's defined contribution plans for the year was $1,212,000 (2000 – $864,000). The increase in expense is attributed to business acquisitions and the related increase in workforce.

(b) Defined benefit pension plans

The following summarizes the Company's defined benefit plans:

(thousands of dollars)		**2001**	2000
Accrued benefit obligation			
Balance at the beginning of year	$	**8,429**	8,894
Current service cost		**251**	306
Interest cost		**592**	488
Benefits paid		**(662)**	(958)
Actuarial losses (gains)		**1,420**	(301)
Plan amendments		**599**	—
Balance at the end of year	$	**10,629**	8,429
Plan assets			
Fair value at the beginning of year	$	**5,813**	5,682
Actual return on plan assets		**110**	692
Employer contributions		**—**	70
Employee contributions		**12**	9
Benefits paid		**(307)**	(640)
Plan amendments		**(1,888)**	—
Fair value at the end of year	$	**3,740**	5,813
Funded status – plan deficit	$	**(6,889)**	(2,616)
Unamortized net actuarial loss (gain)		**3,352**	(52)
Unamortized transitional assets		**(2,077)**	(2,252)
Accrued benefit liability	$	**(5,614)**	(4,920)

Included in the above accrued benefit obligation at year-end is $8,048,000 (2000 – $6,010,000) in respect of plans that are not funded.

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

(percentages)	**2001**	2000
Discount rate	**7.0**	7.0
Expected long-term rate of return on plan assets	**7.0**	7.0
Rate of compensation increase	**4.0**	4.0

8. Employee benefit plans (continued)

The Company's net defined benefit plans expense is as follows:

(thousands of dollars)		2001	2000
Defined benefit plans expense (recovery)			
Current service cost, net of employee contributions	$	**239**	297
Interest cost		**592**	488
Expected return on plan assets		**(315)**	(338)
Amortization of net actuarial loss (gain)		**109**	(603)
Amortization of transitional assets		**(175)**	(175)
Net defined benefit plans expense (recovery)	$	**450**	(331)

Stock-based compensation plans

(a) Share purchase plan

The compensation expense related to the Company's share purchase plan was $149,000 for 2001 (2000 – $103,000).

(b) Executive stock option plan

The Company has reserved 1,209,163 Class A Subordinate Voting Shares pursuant to the executive stock option plan. The following summarizes the Company's outstanding stock options which range in price from $7.00 to $8.95 and which expire at varying dates from 2002 to 2009. The weighted average remaining contractual life is 2.5 years (2000 – 3.6).

	2001		2000	
	Number	**Price***	Number	Price*
Balance, beginning of year	**810,000**	**$7.89**	831,500	$7.88
Granted	**110,000**	**8.93**	—	—
Exercised	**(7,000)**	**8.00**	(17,750)	7.45
Expired	**—**	**—**	(3,750)	8.00
Balance, end of year	**913,000**	**8.02**	810,000	7.89

* *weighted average exercise price*

The option price per share is determined by the Board of Directors at the time the option is granted but cannot be less than the closing price of the shares on the last trading date preceding the date of the grant. The expiry date of the options is established by the Board of Directors, not to exceed ten years from the date of the grant. Options either vest on the date they are granted or vest over time in the following manner: twenty-five percent vest on the date of granting and twenty-five percent vest on each of the three succeeding anniversary dates.

Total options vested at December 31, 2001 were 797,375 (2000 – 679,375) at a weighted average exercise price of $7.95 (2000 – $7.93).

9. Capital stock

	(thousands)		(thousands of dollars)	
	Issued Shares		**2001**	2000
Capital stock (unlimited number authorized at no par value):				
Class A Subordinate Voting Shares (2000 - 10,627)	10,515	$	**42,310**	42,734
Class B Common Shares (2000 - 1,258)	1,258		**911**	911
		$	**43,221**	43,645

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

The outstanding Class B Common Shares are convertible to Class A Subordinate Voting Shares. The Class A Subordinate Voting Shares carry one vote per share and the Class B Common Shares carry ten votes per share. In the event of a vote to change any right, privilege, restriction or condition attached to either the Class A Subordinate Voting Shares or Class B Common Shares, the Class B Common Shares are entitled to one vote per share. In addition, the ten votes attaching to each Class B Common Share shall be decreased to one vote 180 days following the acquisition of Class B Common

9. Capital stock (continued)

Shares pursuant to a take-over bid where the ownership of Class B Common Shares, after the acquisition, exceeds 50%. In all other respects, these shares rank equally.

During the year, the Company repurchased 119,500 (2000 – 278,000) of its outstanding Class A Subordinate Voting Shares for a total cost of $1,088,000 (2000 – $2,520,000), pursuant to a Normal Course Issuer Bid. As a result of these share repurchases, capital stock was reduced by $481,000 (2000 – $1,117,000) and retained earnings reduced by $607,000 (2000 – $1,403,000).

During the year, the Company issued 7,000 (2000 – 17,750) Class A Subordinate Voting Shares for proceeds of $56,000 (2000 – $132,250) pursuant to the executive stock option plan, as described in note 8.

10. Restructuring charges

The Company has recorded a provision for impairment in value of certain investments. In addition, the Company undertook certain restructuring activities which included severance and retirement arrangements.

The restructuring charges consist of the following:

(thousands of dollars)		
Decline in fair value of investments and advances	$	**5,187**
Employee severance and retirement costs (including pension provision of $599,000)		**1,517**
Impairment of goodwill		**395**
		7,099
Income tax recovery		**(1,779)**
	$	**5,320**

Of the $7,099,000 in restructuring charges, $6,195,000 were non-cash items with the remaining $904,000 related to employee severance and retirement costs.

The Company ceased to record its proportionate share of losses of its equity accounted investment subsequent to recognizing the decline in fair value in the third quarter. The equity accounted losses up to that date were $563,000.

11. Income taxes

The Company's effective income tax rate is derived as follows:

(percentages)	2001	2000
Combined federal and provincial statutory income tax rate	**43.8**	44.1
Large corporations tax, non-deductible amortization and other	**10.7**	10.6
Equity in loss of associated company	**0.5**	9.0
Restructuring charges not tax effected	**(46.0)**	—
Manufacturing and processing profits deduction	**(11.5)**	(10.0)
Average effective tax rate	**(2.5)**	53.7

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

(thousands of dollars)		2001	2000
Future income tax assets			
Tax loss carryforwards	$	**293**	467
Accrued pension obligations		**1,961**	1,968
		2,254	2,435
Future income tax liabilities			
Property and equipment		**(2,622)**	(2,857)
Licenses and goodwill		**(2,585)**	(2,188)
		(5,207)	(5,045)
Net future income tax liability	$	**(2,953)**	(2,610)

12. Earnings per share

(thousands, except per share data)		2001	2000
Weighted average common shares used in calculation of basic earnings per share		**11,810**	11,947
Incremental common shares calculated in accordance with the treasury stock method		**85**	107
Weighted average common shares used in calculation of diluted earnings per share		**11,895**	12,054
Basic and diluted (loss) earnings per share	$	**(0.32)**	0.20

13. Segmented information

The Company has two reportable segments: radio and publishing and printing. The radio segment derives its revenue from the sale of broadcast advertising. The publishing and printing segment derives its revenue from the sale of print advertising, sale of newspapers, and commercial printing operations. The non-reportable segment derives its revenue from hotel operations, investment income and advertising. The reportable segments are strategic business units that offer different services and products. They are managed separately because each segment utilizes different technology and requires different strategies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (note 1). The Company evaluates performance based on operating cash flow and earnings before interest and income taxes. Details of segment operations are set out in the Consolidated Schedule of Business Segments.

14. Commitments and contingencies

(a) Operating leases

The Company has total commitments of $1,648,000 under operating leases for properties and equipment. Minimum annual payments for the next five years under these leases are as follows: 2002 – $1,036,000; 2003 – $419,000; 2004 – $117,000; 2005 – $57,000; and 2006 – $19,000.

(b) Business acquisitions

The Company has entered into an agreement to acquire certain radio properties, subject to the approval of the CRTC, for aggregate consideration of approximately $30 million. Subsequent to year-end the Company obtained a commitment to secure a new bank credit facility of $87 million comprised of a $55 million revolving term credit facility and $32 million in term debt to facilitate the acquisition. The Company has committed to fund $8 million for Canadian talent development over a period of seven years related to this acquisition and its newly awarded license.

(c) Indemnity

In connection with the disposition of the Company's interest in a container terminal ("Halterm") to the Halterm Income Fund (the "Fund") in May 1997, the Company indemnified Halterm for any material increases in the base rental fee payable by Halterm to the Halifax Port Corporation for the first ten years of the first lease renewal term which commenced January 1, 2001. The indemnity is only applicable to the extent, if any, that such increases in the base rental fee result in a reduction in distributions to Fund unitholders to a level below that anticipated in the forecast included in the prospectus for the initial public offering of trust units of the Fund.

Consolidated Schedule of Business Segments — For the years ended December 31

(thousands of dollars)		2001	2000	1999	1998	1997	1996
Revenue							
Radio	$	**37,334**	31,855	25,105	22,216	19,302	16,381
Publishing and Printing		**47,755**	42,131	29,168	24,961	23,886	21,760
Corporate and other		**3,842**	3,674	4,044	4,137	2,620	—
	$	**88,931**	77,660	58,317	51,314	45,808	38,141
Operating cash flow before restructuring charges							
Radio	$	**11,105**	10,306	7,398	6,325	4,252	3,322
Publishing and Printing		**6,264**	5,528	3,898	2,599	2,853	2,725
Corporate and other		**(4,075)**	(2,717)	(1,343)	(1,116)	(403)	(744)
	$	**13,294**	13,117	9,953	7,808	6,702	5,303
Operating earnings (loss) before restructuring charges							
Radio	$	**8,542**	8,229	5,871	5,217	2,501	1,669
Publishing and Printing		**3,331**	3,662	2,730	1,715	1,835	1,493
Corporate and other		**(4,919)**	(3,151)	(1,866)	(1,550)	(537)	(958)
	$	**6,954**	8,740	6,735	5,382	3,799	2,204
Depreciation and amortization							
Radio	$	**2,526**	2,042	1,525	1,147	1,750	1,415
Publishing and Printing		**2,933**	2,419	1,196	884	1,020	1,233
Corporate and other		**323**	406	356	298	80	7
	$	**5,782**	4,867	3,077	2,329	2,850	2,655
Assets employed							
Radio	$	**76,035**	69,818	45,761	36,348	29,891	30,054
Publishing and Printing		**45,057**	44,464	29,791	13,925	14,854	14,582
Corporate and other		**15,452**	26,105	24,940	61,468	44,716	4,159
	$	**136,544**	140,387	100,492	111,741	89,461	48,795
Capital expenditures, net							
Radio	$	**1,027**	1,784	467	648	335	(507)
Publishing and Printing		**1,697**	8,524	1,745	938	393	358
Corporate and other		**(101)**	(462)	362	727	1,321	30
	$	**2,623**	9,846	2,574	2,313	2,049	(119)

On March 17, 1998 the Company completed the divestiture of its transportation segment and certain publishing operations. The results of these businesses have been accounted for as discontinued operations in 1998 and prior years. The figures for 1997 and prior years have been restated to exclude the effect of operations discontinued.

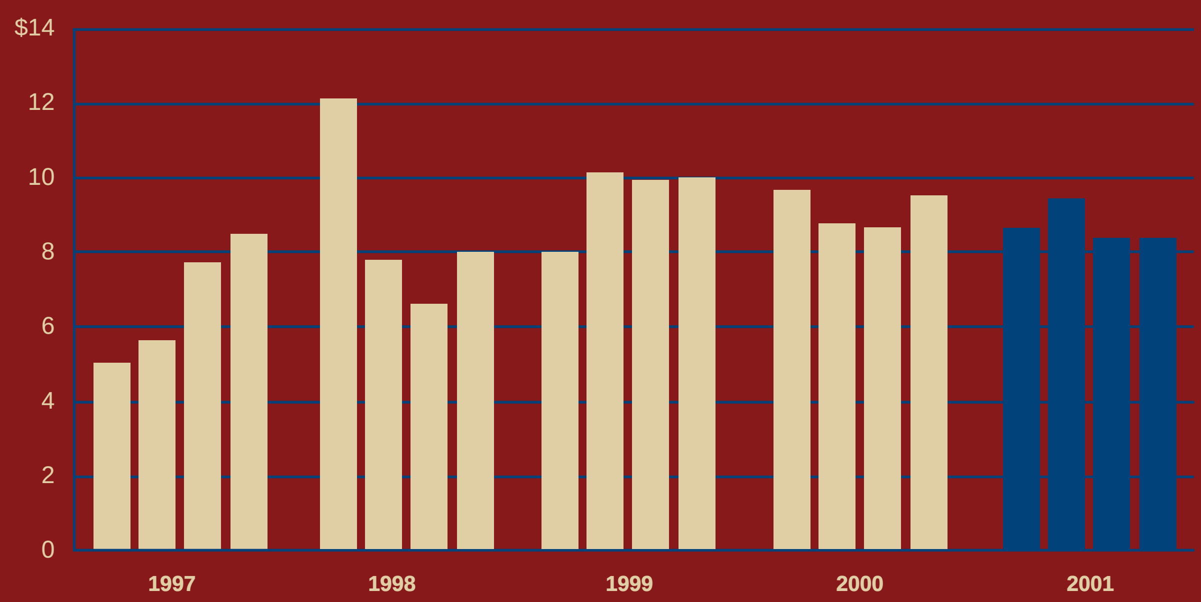
Six-Year Financial Review — For the years ended December 31

	2001	2000	1999	1998	1997	1996
Operations (thousands of dollars)						
Revenue from continuing operations	**$ 88,931**	77,660	58,317	51,314	45,808	38,141
Income from continuing operations (excluding restructuring charges)	**1,542**	2,330	3,318	2,420	1,799	1,176
Net (loss) income	**(3,778)**	2,330	3,318	36,337	43,642	4,273
Cash flow from continuing operations	**10,048**	10,103	7,075	5,163	5,669	4,862
Financial position (thousands of dollars)						
Total assets	**$ 136,544**	140,387	100,492	111,741	158,676	146,655
Working capital (deficiency)	**(380)**	(506)	112	24,302	23,749	(3,204)
Long-term debt	**31,774**	31,372	883	485	749	36,729
Shareholders' equity	**65,253**	70,062	70,120	69,968	91,015	49,473
Ratios						
Current	**1.0:1**	1.0:1	1.0:1	1.7:1	1.4:1	0.9:1
Long-term debt to equity	**0.5:1**	0.4:1	—	—	—	0.7:1
Per share information						
Income from continuing operations (excluding restructuring charges)	**$ 0.13**	0.20	0.27	0.20	0.16	0.10
Net (loss) income	**(0.32)**	0.20	0.27	2.95	3.88	0.37
Cash flow from continuing operations	**0.85**	0.85	0.58	0.42	0.50	0.42
Book value	**5.54**	5.89	5.77	5.64	7.93	4.36
Share price, NCC.A (closing)	**8.50**	9.65	10.00	8.00	8.65	3.10
Other information (thousands)						
Shares outstanding at year-end	**11,773**	11,885	12,145	12,400	11,474	11,338
Average shares outstanding	**11,810**	11,947	12,189	12,328	11,249	11,474

QUARTERLY HIGHLIGHTS

(thousands of dollars, except per share information)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2001						
Operations						
Net (loss) income						
(excluding restructuring charges)	$	**(718)**	**890**	**305**	**1,065**	**1,542**
Net (loss) income		**(718)**	**890**	**(5,015)**	**1,065**	**(3,778)**
Cash flow from operations		**1,131**	**3,014**	**2,774**	**3,129**	**10,048**
Per share information						
Net (loss) income		**(0.06)**	**0.08**	**(0.43)**	**0.09**	**(0.32)**
Cash flow from operations		**0.10**	**0.25**	**0.24**	**0.27**	**0.85**
2000						
Operations						
Net income	$	475	874	317	664	2,330
Cash flow from operations		1,669	2,516	1,910	4,008	10,103
Per share information						
Net income		0.04	0.07	0.03	0.06	0.20
Cash flow from operations		0.14	0.21	0.16	0.34	0.85

CLASS A SUBORDINATE VOTING SHARE PERFORMANCE



CORPORATE INFORMATION

Board of Directors

Craig L. Dobbin, O.C.*
Chairman & CEO
CHC Helicopter Corporation

John J. Fleming*
President
Bonanza Energy Ltd.

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

Robert G. Steele
President & COO
Newfoundland Capital Corporation

Donald J. Warr, F.C.A.*
Partner
Blackwood & Warr

** Member of the Audit Committee*

J. Claude Hébert, O.C., D.F.C.
Honorary Director

Officers

Harry R. Steele
Chairman & CEO

Robert G. Steele
President & COO

Scott G. M. Weatherby
Corporate Controller & Secretary

Linda A. Emerson
Assistant Secretary

Radio

NewCap Broadcasting
Dartmouth, Nova Scotia
Robert Templeton, President
(902) 468-7557

Publishing and Printing

Print Atlantic
Dartmouth, Nova Scotia
Dan Murphy, President
(902) 457-7468

Robinson-Blackmore
St. John's, Newfoundland
Derek Hiscock, President
(709) 722-8500

Transfer agent and registrar

The transfer agent and registrar for the shares of the Company is the Computershare Trust Company of Canada at its offices in Toronto, Montreal and Halifax. For shareholder account inquiries, please write to:
Newfoundland Capital Corporation
c/o Computershare
1465 Brenton Street
Halifax, Nova Scotia B3J 3S9

Investor relations contact

Institutional and individual investors seeking financial information about the Company are invited to contact
Scott G. M. Weatherby,
Corporate Controller & Secretary
(902) 468-7557.
e-mail: ncc@ncc.ca
web: www.ncc.ca

Stock exchange listing and symbols

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

Auditors

Ernst & Young LLP

Bankers

The Bank of Nova Scotia

Annual Meeting

The Annual General Meeting of Shareholders will be held at 11:00 am, Wednesday, May 1, 2002 in the Nova Scotia Rooms C&D, Halifax Sheraton Hotel, 1919 Upper Water Street, Halifax, Nova Scotia.

NEWFOUNDLAND CAPITAL CORPORATION LIMITED

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