



2011

OUR AIRPORT, YOUR AIRPORT.

GANDER INTERNATIONAL AIRPORT AUTHORITY
ANNUAL REPORT

CYQX


GANDER
INTERNATIONAL AIRPORT ✦ CYQX

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MESSAGE FROM THE CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

2011 again held turbulence within the aviation industry as the world's economy continues to emerge from recession. Gander International Airport is not an economic iceberg adrift on its own and, ultimately, the currents and shifting winds of the economy and geopolitics do affect our course.

Over the last number of years, the Gander International Airport Authority (GIAA) has had to remain agile to make adjustments to its strategic direction while maintaining its trajectory toward growth and sustainability.

We have always focused on a measured approach to growth and financial stewardship with the recognition that the airport authority is the curator, caretaker, manager and ambassador of a powerful economic engine for the region and province.

To that end, we were generally pleased with the airport's performance in 2011. Every annum in Gander's proud 74-year history has been characterized by both success and challenge, and 2011 was no different.



Chairperson Fred Moffitt, President and CEO Gary Vey

In 2011, the airport authority posted its best financial performance to date, with historic highs for both revenue and net operating income. The airport reported a \$2 million operating income, which is indicative that it is producing the year-over-year financial results to reinvest in its capital works program. This represents the authority's seventh straight year of profit. Revenues in 2011 totaled \$9.2 million, a 20% improvement over 2010 and 60% improvement over a decade ago. Since accepting transfer of the airport from Transport Canada, the airport's annual revenues have improved by almost \$3.5 million.

The authority's operating results are due largely to our continued efforts to reduce costs, combined with new revenues from growing market segments.

On March 1 of 2011, the airport authority marked 10 years since accepting operating control of Gander International Airport from the federal government. Over the last decade, expenses have held the line through inflation and significant escalations in the cost of fuel and insurance. In all, good headway has been made.

2011 did hold challenges on many fronts. Our traditional business of international fuel stops remains stagnant, but we are optimistic some segments of this market will show modest recovery in the years to come, once the industry exits a prolonged bust cycle, and eventually resume aggregate year-over-year growth.

The domestic passenger market enjoyed a strong 19% growth in 2011. As an important strategic priority, the airport authority maintains an aggressive air service development program to establish the timely air travel connections our market requires.

This effort has paid dividends. In the spring of 2011, Sunwing Vacations doubled capacity and frequency to Varadero, Cuba, and the Dominican Republic, providing a service that allowed the airport to post a record for Caribbean travel from Gander International Airport.

Air Canada introduced a new seasonal non-stop service to Toronto which was quite successful. It remains the airport's primary goal to convert this seasonal service to year-round to improve connectivity for our customers, particularly those headed to western Canadian and international destinations.

Performance on Air Canada's daily service to Labrador continued to be strong, which triggered the establishment of a second daily flight in the first quarter of 2012. Other mainland services perform well above carrier load factors.

In summary, the authority and its partners were successful in attracting new routes and increasing available seat capacity. 2011 represented a nine-year high for passenger traffic at Gander and we are forecasting continued growth in the years to come behind a strong Central Newfoundland economy and gains in our regional tourism industry. We recognize there is significant room to grow and improve and will continue to pay keen attention to this.

In the summer of 2012, the airport begins its most important capital works project in a decade, the rehabilitation and resurfacing of our primary runway, 03/21. The airport is part of a tripartite funding agreement to bring this about, with our partners in the federal and provincial governments also sharing the cost. This public sector investment will provide a major boost to the airport and its operations.

The success of 2011 is the product of teamwork. Thanks are due to our board of directors, management team, staff, tenant companies and community stakeholders. Most importantly, we offer thanks to our customers – we thank you for flying Gander. Your patronage and support are much appreciated.

The interest of the greater regional community is at the heart of everything we do as an airport. Our aim is to keep the airport revving as an economic engine. The economic impact of the airport is felt far past the airport's runways with a total contribution of \$312 million in economic output and \$70 million in wages paid out to the 1,200 jobs sustained by aviation in Central Newfoundland. While many people view an airport simply as a facility from which they fly, ours is an important economic enabler for the province.

As usual, our go forward strategy focuses on managing costs, exploiting our competitive advantages and taking calculated risks to grow our operation. We approach the coming year with a mix of realism and cautious optimism, but we believe a strong, sustainable future is being won for what is truly a Central Newfoundland asset.

We are grateful to all of those who have entrusted their support as we operate Gander International Airport on their behalf. Rest assured, we remain committed to the task at hand – managing a viable international airport for the benefit of our greater community.



Fred Moffitt
Chairperson



Gary Vey
President and CEO

The **domestic market** at Gander enjoyed **19%** growth over **2010**.

KEY STRATEGIC DIRECTIONS

Operational Integrity

The airport authority continues to work to provide a safe environment for its workers, travelers and airlines. The airport authority has always made it a priority to foster a culture of safety and security first. In 2011, Transport Canada auditors provided a strong endorsement of the airport's safety and security program.

The airport successfully implemented Phase III of its Safety Management System (SMS) program. SMS is a comprehensive system that focuses on auditable and measured safety processes that identify hazards to ensure personnel are prepared to prevent incidents proactively.

Gander International Airport is ultimately defined by our people. The airport authority has been fortunate to employ a strong team of experienced, committed workers. Since assuming the operating responsibility for the airport, the GIAA has been able to retain 97% of its workers, which is significant given the demand for skilled tradespersons and operators in western Canada. The ratification of a new collective agreement with PSAC Local 90901 in March of 2011 provides a platform of labour stability going forward.

The airport authority continues to offer a cross-training program for operational staff. This allows the airport to maintain the same level of customer service and operational readiness with fewer employees. A multi-skilled workforce is a crucial part of the airport's strategic operational plan and makes a positive contribution to safety. Some 60% of airport authority employees have completed the cross-training program to date.

Environmental Accountability

The authority continues to conduct site reviews and inspections of all facilities as part of an ongoing program to address environmental issues.

Since 2008, the airport authority and its partners have implemented a comprehensive carbon emissions reduction program. The remaining emissions have been reduced by the purchase of carbon offsets. As a result of this investment, and ongoing reduction practices, the airport became the first

Carbon Neutral Airport in the Americas and only the third in the world. The airport has set a goal of reducing its carbon emissions by 33% by 2020. The airport has already achieved a 16% reduction since implementing its Green Plan. Gander International Airport is a signatory to the Aviation and Environment Summit Declaration, which commits to carbon-neutral growth and a carbon-free future.

The GIAA believes it is important to be proactive on this matter because there is a high probability that carbon reductions will become government regulatory policy. Furthermore, airlines and the traveling public want the confidence of knowing they are doing business with a vendor who shares their green values.

Safety and security remain priority one for the airport authority.



KEY STRATEGIC DIRECTIONS

Financial Stewardship

2011 represented the airport's best results since transfer across the financial performance dashboard.

The airport authority and its staff have worked diligently to contain operating costs. Since 2003, operating expenses have been held to a 6% increase in the face of inflation and significant increases in fuel and other operational costs.

With limited debt and a modest reserve set aside for contingencies, the GIAA has charted a course for a sustainable financial future.

Growing Gander Airport

The airport posted a nine-year high for passenger traffic in 2010. Total passenger movements were up 19% over 2010. With an estimated 50,000–70,000 Central Newfoundland passengers flying from other gateways each year, there is still substantial room for growth. Recapturing these diverted passengers remains an important focus for the airport.

The airport maintains an active air service development program which has paid dividends with a doubling of service to the Caribbean and Labrador and Air Canada's new seasonal daily service to Toronto with a 93-seat Embraer, which will be a well-received investment in the Central Newfoundland market.

The airport authority continues to support Adventure Central, the Destination Marketing Organization (DMO) for Central Newfoundland, as seed proponent and corporate sponsor. The Central DMO is a member-driven non-profit marketing organization focused on promoting the region as a multi-season tourism destination.

Over 2011, Central Newfoundland welcomed almost 60 travel writers and photographers to the region, versus 12 in 2010. As an example, a BBC feature on icebergs in Twillingate was seen by 1.5 million in the United Kingdom.

For its continued work in supporting the tourism industry, the Gander International Airport was nominated for the Hospitality Newfoundland and Labrador Corporate Partner of the Year Award.



Firefighter Kevin Freake, 19 years of service.



Manager of Safety Brian Hicks, 25 years in aviation.



Supervisor of Finance and Human Resources, Tina Slade, 19 years of service.

KEY STRATEGIC DIRECTIONS

A Community Resource

The Gander International Airport Authority is operated by and for the Central Newfoundland community and remains an important economic enabler for the region.

The airport sustains 1,200 jobs in the province, with \$107 million in gross domestic product, \$312 million in economic output and \$70 million in wages. That impact grows when it includes downstream industries that result from the presence of the airport such as suppliers and contractors, as well as employment generated by spending from individuals employed directly or indirectly by the airport. To that end, total economic impacts are 2,382 jobs, \$136 million in wages, \$201 million in GDP and \$536 in economic output.

Approximately 96% of jobs attributable to airport operations are full-time positions and 98% are permanent jobs. Ongoing economic activity at the airport contributes \$32 million annually in tax revenue, including \$20.6 million to the federal government, \$10.7 million to the provincial government and \$0.8 million to the municipal government.

The Gander International Airport Authority remains an active philanthropist, contributing to local non-profit causes from families in need to community festivals, the arts, youth sports and military personnel serving our nation in theatres of war.

The airport supports the delivery of breakfast programs at schools throughout Central Newfoundland through Kids Eat Smart, a volunteer-based organization that provides nutritional breakfasts for students.

The Gander International Airport Authority is pleased to support a new facility for children at the James Paton Regional Health Centre. The airport authority contributed \$14,000 toward the establishment of a new dedicated playroom for children aged 3-10. Children from throughout Central Newfoundland who stay at the Health Centre overnight used to be placed within the General Surgery Unit as there has not been a dedicated playroom available for decades. The new playroom will be located directly within the relocated General Surgery Unit with a beautiful view of Gander Lake. Inpatient children will soon be able to enjoy child-friendly seating, computer games and television, a whimsical wall mural and a few surprises that will be revealed upon opening. The project is a partnership between the Gander International Airport Authority, the Central Northeast Health Foundation and the Central Regional Health Authority.



The Boeing Dreamliner arrives at Gander to undertake test flights.



The Canadian Corps of Commissionaires team at YQX.



The airport authority's Alonzo Burry loads Christmas gifts for delivery as part of the annual Adopt-A-Family program.

HIGHLIGHTS AND REQUIRED DECLARATIONS

Capital Initiatives

During the past year the Authority invested \$815,784 in capital improvements:

Heavy duty vehicle/equipment replacement	\$ 611,100
Heating, ventilation and air conditioning upgrades	47,545
Airfield pavement rehabilitation	77,562
Groundside rehabilitation	49,926
Miscellaneous capital expenditures	29,651
	\$ 815,784

Business Plan

	Actual	Budgeted	Difference	Explanation
Revenue	\$ 9,205,762	7,531,500	1,674,262	Increased military and domestic traffic
Expenses, excluding depreciation	\$ 7,098,568	6,249,300	849,268	Increased fuel prices, equipment repairs, summer maintenance
Capital expenditures	\$ 815,784	880,00	64,216	Delayed arrivals/washroom renovation

Forecast for next five years

	2012	2013	2014	2015	2016
Revenue	\$ 8,843,300	9,108,290	9,381,539	9,662,986	9,952,876
Expenses, excluding depreciation	\$ 6,701,600	6,869,140	7,040,869	7,216,891	7,397,314
Capital expenditures	\$13,701,000	389,000	2,542,000	2,872,000	2,343,000

INDEPENDENT AUDITOR'S REPORT

Blair J. Jewer, Chartered Accountant
2A Bank Road
PO Box 471
Grand Falls-Windsor, NL A2A 2J9
Tel: (709) 489 - 7755 Fax: (709) 489 - 8646

To the Members
Gander International Airport Authority Inc.

I have audited the accompanying financial statements of Gander International Airport Authority Inc., which comprise the statement of financial position as at December 31, 2011, and the statements of operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting standards for not for profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion the financial statements present fairly, in all material respects, the financial position of Gander International Airport Authority Inc. as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting standards for not for profit organizations.

Blair J. Jewer

April 2, 2012

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,936,085	\$ 285,897
Guaranteed Investment Certificates	741,469	736,409
Short term investments	5,495,917	5,332,821
Accounts receivable (Note 3)	1,725,739	1,536,468
Inventory of consumable supplies (Note 4)	574,255	517,041
Prepaid expenses	117,651	92,367
	<u>10,591,116</u>	<u>8,501,003</u>
EMPLOYEE FUTURE BENEFITS (Note 9)	795,000	665,000
PROPERTY, PLANT AND EQUIPMENT (Note 5)	8,527,067	8,588,982
	<u>\$ 19,913,183</u>	<u>\$ 17,754,985</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 7)	\$ 1,595,302	\$ 1,451,338
Deferred revenue	99,703	-
Current maturity on long-term debt	122,220	-
	<u>1,817,225</u>	<u>1,451,338</u>
LONG TERM DEBT (Note 8)	488,880	-
ACCRUED SEVERANCE PAY	313,872	267,216
UNAMORTIZED CAPITAL GRANTS (Note 11)	7,104,938	7,849,206
UNAMORTIZED DEBT FORGIVENESS (Note 12)	-	50,976
	<u>9,724,915</u>	<u>9,618,736</u>
NET ASSETS		
INVESTED IN CAPITAL ASSETS (Note 13)	811,029	688,800
EXTERNALLY RESTRICTED – EMPLOYEE FUTURE BENEFITS (Note 13)	795,000	665,000
UNRESTRICTED (Note 13)	8,582,239	6,782,449
	<u>10,188,268</u>	<u>8,136,249</u>
	<u>\$ 19,913,183</u>	<u>\$ 17,754,985</u>

Signed on behalf of the Board,

, Director



The accompanying notes form an integral part of this financial statement.

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
REVENUE		
<i>Operating and airport improvement fees (Note 14)</i>	\$ 9,281,025	\$ 7,633,876
	<hr/>	<hr/>
EXPENSES		
<i>Advertising and promotion</i>	341,788	337,514
<i>Bad debt expense</i>	66,783	(27,135)
<i>Board remuneration and travel</i>	76,917	56,612
<i>Communications</i>	49,823	54,413
<i>Equipment and vehicle operating</i>	412,756	252,946
<i>Insurance</i>	198,225	185,635
<i>Interest and bank charges</i>	20,812	15,132
<i>Licences and fees</i>	37,318	31,223
<i>Maintenance contracts</i>	249,780	256,709
<i>Materials and supplies</i>	514,426	477,580
<i>Office and administration</i>	60,325	70,294
<i>Payment in lieu of taxes (Note 15)</i>	126,690	121,372
<i>Professional fees</i>	257,693	116,938
<i>Repairs and maintenance</i>	362,166	372,817
<i>Security contracts</i>	256,015	234,590
<i>Travel and entertainment</i>	71,793	83,079
<i>Utilities</i>	823,620	683,864
<i>Wages and employee benefits</i>	3,193,818	2,814,900
<i>Carbon neutrality</i>	25,802	39,614
<i>Depreciation, net of grant amortization \$795,244 (2010 - \$960,730)</i>	82,456	113,687
	<hr/>	<hr/>
	7,229,006	6,291,784
	<hr/>	<hr/>
EXCESS OF REVENUE OVER EXPENDITURES	\$ 2,052,019	\$ 1,342,092
	<hr/>	<hr/>

The accompanying notes form an integral part of this financial statement.

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
CASH WAS PROVIDED BY (USED FOR)		
<i>Operating</i>		
<i>Net excess of revenue over expenditures</i>	\$ 2,052,019	\$ 1,342,092
<i>Non-cash items, depreciation, net of grant amortization</i>	82,456	113,687
	<u>2,134,475</u>	<u>1,455,779</u>
<i>Changes in non-cash working capital</i>		
<i>Current assets (Note 16)</i>	(271,769)	(293,931)
<i>Current liabilities (Note 16)</i>	243,667	(398,921)
	<u>2,106,373</u>	<u>762,927</u>
<i>Investing</i>		
<i>Purchase of property, plant and equipment</i>	(815,785)	(446,243)
<i>Employee future benefit asset</i>	(130,000)	(145,000)
	<u>(945,785)</u>	<u>(591,243)</u>
<i>Financing</i>		
<i>Accrued severance pay</i>	46,656	30,625
<i>Repayment of long-term debt</i>	-	(3,324)
<i>Proceeds from long-term debt</i>	611,100	-
	<u>657,756</u>	<u>27,301</u>
 INCREASE IN CASH	 1,818,344	 198,985
CASH, BEGINNING	6,355,127	6,156,142
	<u><u>8,173,471</u></u>	<u><u>6,355,127</u></u>
 CASH, ENDING	 \$ 8,173,471	 \$ 6,355,127
 CASH CONSISTS OF:		
<i>Cash on hand</i>	\$ 2,000	\$ 2,000
<i>Current account (overdraft) - operating</i>	1,934,085	283,897
<i>Guaranteed Investment Certificates</i>	741,469	736,409
<i>Short term investments</i>	5,495,917	5,332,821
	<u><u>\$ 8,173,471</u></u>	<u><u>\$ 6,355,127</u></u>

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

1. NATURE OF OPERATIONS

The Gander International Airport Authority Inc. (GIAA) was incorporated as a not for profit Corporation without share capital by Letters Patent under the Canada Corporations Act and is Exempt from income tax.

The GIAA is governed by the Board of Directors whose members are nominated by various regional Stakeholders.

The objectives of the GIAA are:

-to manage operate and develop the Gander International Airport in a safe, secure, efficient, cost effective and financially viable manner with reasonable airport user charges and equitable access to all carriers;

-to undertake and promote the development of the Airport lands, for which it is responsible, for uses compatible with air transportation activities;

-to expand transportation facilities and generate economic activity in ways which are compatible with air transportation activities.

In executing its objectives, the Authority shall confer regularly with governments and community entities on matters affecting the operation and development of the Airport and shall engage only in those activities that are consistent with its objectives.

Gander International Airport (CYQX) is a member of the Canadian National Airport System. While a member of this system GIAA is required to operate as a not for profit corporation.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian generally accepted accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Cash and cash equivalents

The entity's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and term deposits cashable within three months or less.

(b) Financial instruments

The entity initially measures its financial assets and liabilities at fair value.

The entity subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost include cash, term deposits, and accounts receivable.

Financial liabilities measured at amortized cost include the accounts payable and long-term debt.

The entity's financial assets measured at fair value include a number of other investments, i.e. quoted shares.

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net income.

The entity recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Depreciation

Depreciation was provided on property, plant and equipment using the straight line method at the following rates per annum:

<i>Runway</i>	<i>5%</i>	<i>Vehicles</i>	<i>10%</i>	<i>Roads</i>	<i>6.67%</i>
<i>Approach lighting</i>	<i>5%</i>	<i>Software</i>	<i>10%</i>	<i>Equipment</i>	<i>10%, 20%</i>
<i>Leasehold improvements</i>	<i>10%, 20%</i>				

(d) Property, plant and equipment is recorded at cost.

(e) Inventory

The inventory of consumable supplies is recorded at the lower of cost and estimated net realizable value. Inventory cost is calculated on the first in first out basis. Net realizable value is the replacement cost of consumable supplies.

(f) Facilities Lease

The lease of the International Airport Facilities from the Government of Canada (the "Landlord") is accounted for as an operating lease.

(g) Unamortized debt forgiveness is being amortized at the same rates as the corresponding property, plant and equipment.

(h) Deferred government assistance

Fixed asset grants are accounted for as deferred government assistance and amortized on the same basis as the related fixed assets. Contributions internally restricted for the purchase of capital assets are reported as advances. Advances are transferred to deferred grants in the year capital assets are purchased.

(i) Pension Plan

The Authority has entered into a multi employer contributory defined benefit pension plan for its employees whereby retirement benefits are based on the average earnings of last five years prior to retirement.

The defined benefit pension cost is charged to salaries and benefits as employees render services.

The Authority's follows the deferral and amortization approach to account for pension costs.

The accrued benefit obligation as presented in Note 9 of the financial statements is measured using an actuarial valuation versus a funding valuation.

(j) Revenue Recognition

Revenue is recognized using the deferral basis of accounting.

Airport improvement fee revenue is recognized as income in the periods passengers depart from the airport.

Landing fees, terminal fees, aviation fuel fees and miscellaneous revenue is recognized as airport facilities are utilized.

Rental revenue and concession revenue is recognized over the lives of the respective tenant's leases for land, buildings and space.

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Foreign currency transactions

The entity uses the temporal method to translate its foreign currency transactions.

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated at the exchange rate in effect at the transaction date. Items appearing in the current year's income statement, except for the cost of inventories and depreciation translated at historic rate, are translated at average year rates. Exchange gains and losses are included in the income statement.

	<u>2011</u>	<u>2010</u>
3. ACCOUNTS RECEIVABLE		
Trade	\$ 1,773,344	\$ 1,548,935
Government assistance	25,000	-
Employee advances	1,000	-
Accrued interest	-	27,435
	<hr/> 1,799,344	<hr/> 1,576,370
Allowance for doubtful accounts	73,605	39,902
	<hr/> <hr/> \$ 1,725,739	<hr/> <hr/> \$ 1,536,468

4. INVENTORY

Inventory consists of consumable supplies.

The carrying amount of inventories carried at other than cost is \$Nil

The amount of any write-down recognized as an expense in the period is \$Nil. The amount of reversal of any write-down recognized in the period is \$Nil. The carrying amount of inventory pledged as security for bank indebtedness is \$ Nil .

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

			<u>2011</u>	<u>2010</u>
5. PROPERTY, PLANT AND EQUIPMENT				
	<u>Cost</u>	<u>Accumulated Depreciation</u>		
Runway	\$ 6,315,800	\$ 2,477,917	\$ 3,837,883	\$ 4,072,234
Approach Lighting	1,608,757	612,827	995,930	1,076,368
Equipment	1,462,424	840,489	621,935	732,004
Vehicles	4,911,730	3,293,653	1,618,077	1,197,352
Software	78,310	32,451	45,859	52,143
Leasehold improvements	1,192,663	451,718	740,945	743,030
Roads	1,001,875	335,437	666,438	715,851
	<u>\$16,571,559</u>	<u>\$ 8,044,492</u>	<u>\$ 8,527,067</u>	<u>\$ 8,588,982</u>

6. BANK INDEBTEDNESS

GIAA has an operating line of credit of \$1,500,000 bearing interest at Scotiabank prime which is secured by a general security agreement and a collateral security agreement. Investments in an amount equal to outstanding principal have also been pledged as security for the operating line of credit and long term debt.

7. ACCOUNTS PAYABLE

Trade	\$ 1,336,899	\$ 1,266,095
Accrued wages	55,982	46,308
Harmonized sales tax	54,503	25,689
Accrued vacation pay	147,918	113,246
	<u>\$ 1,595,302</u>	<u>\$ 1,451,338</u>

8. LONG-TERM DEBT

Bank of Nova Scotia

Prime plus 0.5% term loan, repayable by monthly instalments of \$10,185, secured by the Authority's general security agreement (see Note 6), due 2016

\$ 611,100	\$ -
<u>122,220</u>	<u>-</u>
<u>\$ 488,880</u>	<u>\$ -</u>

Future payments on long term debt for the next five years are as follows:

2012 - \$122,220 2014 - \$122,220 2016 - \$122,220

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
9. EMPLOYEE FUTURE BENEFITS		
<i>The Authority has a defined benefit and defined contribution plan providing pension benefits to most of its employees. The defined benefit plan is based on years of service and final average salary. Pension benefits will increase annually by 50% of the rate of inflation. The authority measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at January 1 of each year. The most recent actuarial valuation of the pension plans for funding purposes was January 1, 2011 and the next required valuation will be as of January 1, 2012. The reported amounts are based on the January 1, 2011 valuation as extrapolated to December 31, 2011, after adjusting for changes in assumptions.</i>		
<i>(a) The net expense for the Authority's defined benefit Pension plan is as follows:</i>		
<i>Net plan expenses</i>	\$ 206,000	\$ 157,000
<i>(b) Information about the Authority's defined benefit Pension plan is at December 31 is as follows:</i>		
<i>Plan assets</i>		
<i>Fair market value beginning</i>	\$ 3,380,000	\$ 2,922,000
<i>Actual investment return earned</i>	(131,000)	226,000
<i>Employer contributions</i>	336,000	302,000
<i>Employee contributions</i>	41,000	37,000
<i>Transfers in</i>	-	-
<i>Benefits paid</i>	(112,000)	(107,000)
	<hr/>	<hr/>
<i>Market value ending</i>	3,514,000	3,380,000
	<hr/>	<hr/>
<i>Plan obligations</i>		
<i>Benefit obligation, beginning</i>	3,507,000	2,950,000
<i>Current service cost</i>	207,000	168,000
<i>Interest cost</i>	200,000	190,000
<i>Transfers in</i>	-	-
<i>Benefits paid</i>	(112,000)	(107,000)
<i>Actuarial (gains) losses</i>	279,000	306,000
	<hr/>	<hr/>
<i>Benefit obligation, ending</i>	4,081,000	3,507,000
	<hr/>	<hr/>
<i>Net plan asset (obligation)</i>	\$(567,000)	\$(127,000)
	<hr/>	<hr/>

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
9. EMPLOYEE FUTURE BENEFITS (CONT'D)		
(c) <i>Required amortization of unamortized net actuarial gain</i>		
<i>Accrued benefit obligation (ABO), beginning</i>	\$ 3,507,000	\$ 2,950,000
<i>Fair value (FV) of plan assets, beginning</i>	3,380,000	2,922,000
 <i>10% of the greater ABO or FV</i>	351,000	295,000
<i>Unamortized net actuarial gain (loss), beginning</i>	(792,000)	(548,000)
<i>Amount subject to amortization</i>	(441,000)	(253,000)
<i>Minimum required amortization</i>	(68,000)	(33,000)
(d) <i>Schedule of unamortized net actuarial gains</i>		
<i>Unamortized net actuarial gain, beginning</i>	\$(792,000)	\$(548,000)
<i>Amortization for current period</i>	68,000	33,000
<i>Actuarial gain (loss) on accrued benefit obligation</i>	(279,000)	(306,000)
<i>Actuarial gain (loss) on plan assets</i>	(359,000)	29,000
<i>Unamortized net actuarial gain, ending</i>	\$(1,362,000)	\$(792,000)
(e) <i>Reconciliation of the funded status of the benefit plans to amounts recorded in the financial statements</i>		
<i>Fair value of plan assets</i>	\$ 3,514,000	\$ 3,380,000
<i>Accrued benefit obligation</i>	4,081,000	3,507,000
<i>Funded status of plans – surplus (deficit)</i>	(567,000)	(127,000)
<i>Unamortized net actuarial loss</i>	1,362,000	792,000
<i>Accrued benefit asset (liability)</i>	\$ 795,000	\$ 665,000
(f) <i>Elements of defined benefit costs recognized in period</i>		
<i>Current service cost, net of employee contributions</i>	\$ 166,000	\$ 131,000
<i>Interest cost</i>	200,000	190,000
<i>Actual return on plan assets</i>	131,000	(226,000)
<i>Actuarial (gains) losses</i>	279,000	306,000
 <i>Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits costs</i>	776,000	401,000
 <i>Adjustments to recognize the long-term nature of employee future benefit costs:</i>		
<i>Differences between expected and actual returns on plan assets for year</i>	(359,000)	29,000
<i>Differences between actuarial (gain) loss recognized for year and actual actuarial (gain) loss on accrued benefit obligation for year</i>	(211,000)	(273,000)
 <i>Defined benefit cost recognized</i>	\$ 206,000	\$ 157,000

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
9. EMPLOYEE FUTURE BENEFITS (CONT'D)		
<i>(g) The weighted average actuarial assumptions are as follows:</i>		
<i>Discount rate</i>	5.10%	5.50%
<i>Rate of compensation increase</i>	4%	4%
<i>Expected return on assets</i>	6.50%	6.50%
<i>YMPE Escalation rate</i>	3.50%	3.50%
<i>Indexation rate</i>	2.50%	2.50%
<i>Expected average remaining service benefit</i>	N/A	6.5years
<i>Life expectancy for retired members</i>	23.5 years	N/A
<i>Mortality table used for 2011 was the UP 1994 generational and 2010 was the UP 1994 projected to 2020</i>		
 <i>(h) The assets of the plan are invested by a third party administrator and have the following asset mix</i>		
<i>Equity Securities</i>	59.9%	59.7%
<i>Fixed Income Securities</i>	33.1%	40.3%
<i>Other</i>	7.0%	0.00%
	<hr/>	<hr/>
	100.0%	100.0%
	<hr/>	<hr/>
<i>Measured as of the measurement date of December 31 of each year</i>		
 10. TRANSPORT CANADA ADVANCES		
<i>Unrestricted advances</i>		
<i>Balance beginning of year</i>	\$ -	\$ 415,766
<i>Designated capital expenditures</i>	-	(415,766)
	<hr/>	<hr/>
<i>Balance end of year</i>	\$ -	\$ -
	<hr/>	<hr/>
 <i>The above advances were received upon creation of the Authority. The funds are to be used at the discretion of the Authority for capital expenditures or other special purposes. Interest earned on funds invested are used for operating purposes.</i>		
 11. UNAMORTIZED CAPITAL GRANTS, NET BOOK VALUE		
<i>Balance beginning of year</i>	\$ 7,849,206	\$ 8,133,409
<i>Add: Discretionary capital grant</i>	-	415,766
	<hr/>	<hr/>
	7,849,206	8,549,175
<i>Less: Amortization</i>	744,268	699,969
	<hr/>	<hr/>

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
12. UNAMORTIZED DEBT FORGIVENESS		
<i>Balance beginning of year</i>	\$ 50,976	\$ 311,737
<i>Recognized</i>	(50,976)	(260,761)
	<hr/>	<hr/>
	\$ -	\$ 50,976
	<hr/>	<hr/>

13. NET ASSETS

	<u>Externally Restricted</u>	<u>Invested in Capital assets</u>	<u>Unrestricted</u>		
<i>Balance, beginning of year</i>	\$ 665,000	\$ 688,800	\$ 6,782,449	\$ 8,136,249	\$ 6,794,157
<i>Excess of revenue over expenditure</i>	130,000	(82,456)	2,004,475	2,052,019	1,342,092
<i>Transfers</i>					
- <i>Proceeds from long term debt</i>		(611,100)	611,100	-	-
- <i>Repayment of long-term debt</i>	-	-	-	-	-
- <i>Purchase of property, plant and equipment</i>	-	815,785	(815,785)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 795,000	\$ 811,029	\$ 8,582,239	\$ 10,188,268	\$ 8,136,249
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

14. REVENUE

<i>Landing fees</i>	\$ 1,396,266	\$ 1,604,843
<i>Terminal fees</i>	212,793	199,894
<i>Aviation fuel fees</i>	3,776,403	2,417,908
<i>Concessions</i>	798,318	717,376
<i>Rentals</i>	1,343,323	1,338,976
<i>Miscellaneous</i>	432,783	332,265
<i>Investment income</i>	166,106	71,776
<i>Change in fair value of short term investments</i>	57,826	10,053
<i>Foreign exchange gain (loss)</i>	738	(5,652)
	<hr/>	<hr/>
<i>Airport improvement fees</i>	8,184,556	6,687,439
	<hr/>	<hr/>
	\$ 9,281,025	\$ 7,633,876
	<hr/>	<hr/>

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

2011

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15. PAYMENT IN LIEU OF TAXES

The authority is in dispute with the Town of Gander with respect to an amount for Payment in Lieu of Taxes (PILT).

The dispute relates to the following main issues:

- the maximum amount payable as PILT under the Payment in Lieu of Taxes Act R.S. 1985 C.M-13 is the product of the municipal mil rate and the property value.*
- the property value determined by Newfoundland & Labrador Municipal Assessment Agency is viewed by the authority as being too high due to significant environmental contamination and restrictions on use of the property by the Authority under terms of the Ground Lease with Transport Canada.*

In July 2010 the Supreme Court of Newfoundland, Trial Division ruled that for 2004 and 2005 the Authority “has no real property wealth to be the basis for municipal taxation”. Accordingly the Assessments for those years were amended by the Court to reflect a nominal value of \$1 with a resulting municipal tax bill of \$Nil. This decision was upheld by the Supreme Court of Newfoundland, Court of Appeal in October 2011. The time for further appeals has expired.

Public Works and Government Services Canada has paid the Town of Gander \$1 million for PILT for 2002 to 2006. Transport Canada has the right to collect this amount plus accrued interest as additional rent under the Ground Lease.

The Authority and the Town of Gander are involved in ongoing discussions to arrive at an amount of PILT that is fair and equitable to both parties.

Consequently measurement uncertainty exists surrounding the amount recorded as a liability and expense by the Authority. The total accrued liability recorded in the financial statements by the Authority for the period 2002 to 2011 is \$965,879.

In addition to the \$1 million plus accrued interest paid by Transport Canada for 2002 to 2006, the Town of Gander has invoiced an additional \$2,891,554 (including interest for 2005 to 2011 because it has not adjusted its assessments as a result of the Court decisions.

The Town has subsequently issued another tax invoice for the 2012 fiscal year of \$317,808.

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

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16. CHANGES IN NON-CASH WORKING CAPITAL

*The effect on cash of changes in non-cash working capital
is as follows:*

Current assets

Accounts receivable, trade

\$(191,706) \$(206,874)

Accrued interest

27,435 (18,985)

Government grants receivable operating

(25,000) -

Inventory

(57,214) (70,692)

Prepaid expenses

(25,284) 2,620

(271,769) (293,931)

Current liabilities

Accounts payable

143,964 5,719

Deferred revenue

99,703 (404,640)

243,667 (398,921)

Net effect on cash

\$(28,102) \$(692,852)

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The entity's main credit risks relate to its accounts receivables and concentration of cash and short term investments.

The Authority provides credit to its clients in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses which, once they materialize, are consistent with management's forecasts. The Authority does not normally require a guarantor.

Concentration of credit risk arises when a group of clients having a similar characteristic such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. The Authority is exposed to credit risk on accounts receivable associated with the parties it is economically dependent upon (see Note 19).

The Authority maintains cash with Canadian chartered banks in excess of federally insured limits and is exposed to credit risk from this concentration of cash.

During 2010 the Authority placed material amounts of cash with the Investment Account Manager, Scotiabank. The investment account manager has funds invested primarily in Scotia mutual funds. At December 31, 2011 the investment mix was Scotia Money Market 34.22% (2010 - 58.29%), Scotia Fixed Income Mutual Funds, 51.20% (2010 - 29.35%), and other equities 14.58% (2010 -12.36%). During 2011 the investment mix changed. This represents an increased credit risk during 2011.

(b) Currency risk

The Authority realizes a minimal amount of its revenue in foreign currency. Consequently, some assets and revenues are exposed to foreign exchange fluctuations.

(c) Interest rate risk

The Authority maintains cash in GIC's with maturity dates not exceeding one year. Consequently the Authority is exposed to interest rate risk as re-investment rates vary upon maturity of the GIC's.

(d) Fair Value

The fair value of cash, temporary investments, accounts receivable, accounts payable, is approximately equal to their carrying value due to their short-term maturity date.

The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements, based on market interest rates for loans with similar conditions and maturities.

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2011

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18. CONTRACTUAL OBLIGATIONS

The Authority operates under the terms of a Ground Lease with Transport Canada. The Ground Lease provides for lease of the Airport real estate. The Ground Lease and Canadian Airports Act impose restrictions on the authority's activities and provide the framework under which the Authority must operate.

19. ECONOMIC DEPENDENCE

The Authority has established various agreements with third parties who provide aviation fuel services, ground handling services, and terminal services.

GOVERNANCE

The 2011 GIAA Board is composed of 13 directors, 10 nominated by their respective entities and three appointed by the Board itself. Directors are nominated/appointed by the following entities:

Federal Government	2
Provincial Government	1
Town of Gander	3
Gander and Area Chamber of Commerce	1
Lewisporte and Area Chamber of Commerce	1
Exploits Regional Chamber of Commerce	1
GIAA Board of Directors	3 (1 vacant)
Town of New-Wes-Valley	1

A director may serve no more than a total of nine years. Collectively, directors are to possess knowledge relating to the aviation industry, air transportation, business, finance, administration, law, government, engineering, labour organizations and the interest of consumers.

As of December 31, 2011, the GIAA Board of Directors, their nominating entity and term expiry were as follows:

Melvin Thorne	Town of Gander	March 1, 2014
Nick Connolly	Town of Gander	March 1, 2014
Desmond Dillon	Town of Gander	September 8, 2014
William Jones	Town of New Wes Valley	July 7, 2014
George Innes	Federal Government	March 4, 2014
Frederick Moffitt	GIAA	September 26, 2014
Robert Daye	Exploits Regional Chamber	March 3, 2012
Arthur Elliott	Lewisporte Chamber	July 7, 2013
Robert Downey	GIAA	January 20, 2012
Donald Farrell	Gander Chamber	February 18, 2015
Carl Tessier	Provincial Government	March 1, 2014
Don Manuel	Federal Government	December 15, 2014

GOVERNANCE

Contracts Not Tendered

Pursuant to the public accountability principles for Canadian airport authorities, general by-laws and the Authority's procurement policy for goods and services, all contracts valued at more than \$93,776 (\$75,000 2011 dollars) shall be awarded following a competitive public tendering process unless the Authority, for reasons of efficiency and practicality, decides otherwise.

Reasons for exceptions:

a.) Whenever the Authority determines it more efficient to award a contract to an existing supplier, whenever services suppliers are deemed to have developed a specific skill set or knowledge base from a previous contract, or whenever exceptional circumstances of urgency require that work be undertaken immediately to avoid compromising the safety of people or premises.

b.) Whenever a supplier is the owner, patentee or licensee of technology being acquired, whenever supplier experience and expertise are deemed to be quasi-exclusive, or whenever the maintenance of a supply source is essential given the extent of investments already made to establish a standard.

Contracts under \$1 million:

- Commissionaires, security
- G&M Enterprises Ltd., janitorial

Committees

There are four committees of the Board of Directors. Committees are only empowered to make recommendations to the Board unless directed otherwise by the Board. Whenever possible, all Board decisions involve the entire Board.

Committees and their chairs include: Executive Committee, chaired by Frederick Moffitt; Finance and Audit Committee, chaired by Donald Farrell; Environmental Committee, chaired by Robert Daye; and the Governance Committee, chaired by George Innes.

Senior Officers

Gary Vey, President and CEO

Darren Dalton, Vice President and Chief Financial Officer

Brian Hicks, Manager of Safety and Airside Operations

Reg Wright, Director of Marketing and Communications

Stephen Burbridge, Manager of Infrastructure (staffed February, 2012)

Senior Officer Compensation

The remuneration paid to executive officers during 2011 was \$469,974. Officers were also eligible for a performance-based pay that is included above.

GOVERNANCE

It is the policy of the Gander International Airport Authority Inc. to follow the governance practices of the Toronto Stock Exchange (TSX model). Accordingly, the GIAA has implemented the following guidelines.

The Board:

1. Assumes responsibility for stewardship of the Corporation and specifically for:
 - a) Adoption of a Strategic Planning Process of principal risks and implementing a Risk Management System;
 - b) Succession planning and monitoring senior management;
 - c) Communications Policy; and,
 - d) The integrity of internal controls and Management Information Systems.
2. Ensures that the majority of directors are unrelated including committee members.
3. Ensures full disclosure is required to determine whether or not directors are related and how that conclusion was researched.
4. Appoints a committee responsible for the assessment of new directors. The committee makes recommendations to the Board of Directors as to suitability according to the by-laws, and ensures that new directors meet the skill sets required by the authority.
5. Implements a process for assessing the effectiveness of the Board, its committees and individual directors.
6. Provides an orientation and education program for new directors.
7. Reviews, on an annual basis, the compensation of directors in light of risks and responsibilities.
8. Ensures all committees are comprised of unrelated non-management directors.
9. Has developed limits to management's responsibilities by developing mandates for the Board and CEO. The Board approves the CEO's corporate objectives.
10. Has established an audit and procedures committee. All voting members are unrelated and non-management.

GOVERNANCE

Board Compensation

In establishing appropriate compensation for directors, GLAA's Governance Committee conducted a compensation survey, which is reviewed regularly to ensure it is comparable to similar markets.

Directors Total Compensation 2011

George Innes	\$ 5,605
William Jones	4,092
Sandra Kelly	375
Don Manuel	0
Fredrick Moffitt	16,910
Frank Tibbo	1,250
Barry Thomson	3,750
Robert Daye	4,025
Robert Downey	6,900
Arthur Elliott	5,109
Melvin Thorne	3,640
Carl Tessier	3,535
Donald Farrell	6,792
Nick Connolly	3,390
Desmond Dillon	875

TOTAL **\$ 66,248**

Code of Conduct for Directors

All directors of the Authority are required to comply with a Code of Conduct and Rules Concerning Conflict of Interest. These require that directors avoid and refrain from involvement in conflict of interest situations. All directors are in compliance with this code.



2011 GANDER INTERNATIONAL AIRPORT AUTHORITY BOARD OF DIRECTORS



Front, from left: Chairperson Fred Moffitt and Don Farrell. Back, from left: Arthur Elliott, Don Manuel, President and CEO Gary Vey, Nick Connolly and Desmond Dillon. Missing from photo: George Innes, Bill Jones, Samdra Kelly, Frank Tibbo, Barry Thomson, Robert Daye, Robert Downey and Melvin Thorne.