



2012

OUR AIRPORT, YOUR AIRPORT.
GANDER INTERNATIONAL AIRPORT AUTHORITY

ANNUAL REPORT





MISSION STATEMENT

The Gander International Airport Authority will operate a viable, safe and secure international airport.

VISION

With our partners, we provide superior services to the aviation world.

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In 2013, Gander
International Airport
celebrates its **75th year**
of **operations**.



Message From The President and Chief Executive Officer

2012 held many challenges for Gander International Airport, tempered with measures of success. In this way, 2012 was really no different than any other in our proud 75-year history.

Drawing upon our history, traditions, commitment to service and a measured approach to financial management, the airport was able to produce a modest year-end surplus over a trying year. This represents the GIAA's eighth consecutive year of profitability. We would consider these acceptable results under exceptional circumstances, but this also reaffirms the need for the airport to adjust its course to meet the challenges ahead.

We are very encouraged by the continued growth in our domestic market. Passenger traffic grew 5.7% in 2012, marking the highest passenger totals at Gander since 1989. Frequency to Labrador doubled and scheduled air service to Halifax, St. John's and Toronto performed strongly. The airport posted a historic high for traffic to the Caribbean, buoyed by Sunwing Airline's direct service to Punta Cana in the Dominican Republic and Varadero, Cuba.

On the other side of the business, international traffic was down significantly over historic levels. A number of factors are at play in this decline, but none more potent than the world's current economic condition. The aviation industry has undergone both significant rationalization and re-fleeting; the latter has brought to an end many of the older, fuel-inefficient aircraft types which were the cornerstone of international traffic at Gander. Military flights showed a significant slowing as well, due largely to a shifting geopolitical situation where Iraq has been totally drawn down and presence in Afghanistan significantly reduced by Allied nations, with that mission expected to conclude fully in 2015.

While these factors are far beyond the arm of influence wielded by the airport, reduced flight numbers made for a very difficult year for our many tenants established primarily to service international operations. There are niches of international traffic – notably corporate aircraft – that will continue to patronize Gander and post aggregate growth in the coming decades but it is fully expected that overall the international portion of business will not perform as it has in the past. This market has generally been in a sustained decline over the last four decades.

The challenge, then, is to reinvent the airport in a manner which reduces its dependency on traditional international fuel stop business. The airport has focused a great deal of its energy in recent years on growing the domestic passenger market and working to marshal opportunities to secure non-aviation revenue, the most notable being a proposed 150-acre business park on the perimeter of our land. Accelerating revenue diversification is an important part of our risk management strategy.

While no business can save its way to prosperity, the GIAA has maintained a mandate of austerity. We are assessing the future of our terminal building, which is vastly overbuilt for current and projected demand. The GIAA has established a board committee and will engage community leaders to look specifically at options for our terminal going forward, as it has become very evident the current facility is untenable in the long term.



President and CEO Gary Vey



On Sept. 5 of 2012, the GIAA completed its most important capital works project in a decade - the rehabilitation and resurfacing of our primary runway, 03/21. The \$10 million project was cost-shared three ways with the provincial and federal governments, with each committing \$3.3 million toward the project. Support for the project was from the Gateways and Border Crossings Fund, which is designed to support transportation and trade-related infrastructure at Canada's strategic gateways and border crossings.

The project would not have been possible without both the federal and provincial governments' support and we are very pleased with the confidence and commitment all levels of government have shown toward the airport.

We would suggest that Runway 03/21 is the most important main street in town and crucial to the greater region and province. As we are fond of saying in the aviation business, a mile of road gets you a mile, but a mile of runway gets you the world. We now have a significant piece of enabling infrastructure that will serve the airport, region

and aviation community for the next quarter century. It's a strategic investment that will be repaid many times over.

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 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.

Gary R. Vey
President and CEO



Message From The Chairperson

2012 was a modestly profitable year for Gander Airport, and that success over a difficult period is entirely the product of teamwork.

The GIAA is fortunate to count a dedicated team of men and women who steer its course. Our board of directors and management group provide leadership that is crucial to our success. Even more important is the commitment of a talented and experienced staff which forms the spine of our organization and continues to rise admirably to the challenge.

Gander International Airport is ultimately defined by our people. The airport authority has been fortunate to employ a dependable team of experienced and 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. We aim to maintain a strong, open, transparent and productive relationship with our staff in a work culture that invites and rewards innovation and leadership.

We have worked to foster a culture in which our employees and partners strive to provide superior service that enhances Gander's reputation. We champion an environment – with both our own staff and our key partners – where great, experienced staff provide a great customer experience.

The GIAA has a corporate mandate where progress is carefully considered and monitored against our strategy. Where possible, the GIAA uses a long-term planning window to ensure it not only meets the goals set out in its annual business plan, but contributes to a strong footing where the airport can thrive and sustain itself over the long-term.

While many people view an airport simply as a facility from which they fly, ours is an important economic enabler for the province. The economic impact of Gander International Airport is felt far past the airport's runways. The airport creates \$312 million in economic output with \$70 million in wages paid out to the 1,200 jobs sustained by aviation in the community. That impact grows when it includes downstream industries that result from the presence of the airport such as suppliers and contractors as well as jobs generated by spending from individuals employed directly or indirectly by the airport. Including this, total economic impacts are 2,382 jobs, \$136 million in wages, \$201 million in GDP and \$536 million in economic output.

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 year fully aware of our long-term challenges and with a measure of cautious optimism, but we maintain that a strong, sustainable future can be carved out for what is truly a Central Newfoundland asset.

Aviation is recognized as a chronically volatile industry susceptible to the shifting winds of the global economy. Warren Buffet once quipped that the best way to become a millionaire was to acquire a billion dollars and start an airline. While his remarks are tongue-in-cheek, his remark does underscore the complete and seismic shifts that can occur in our industry from one financial quarter to the next.

While the future will inevitably wheel out unforeseen challenges, we feel confident in our collective ability, as an airport and a region, to grow our operation and create new economic opportunities. While we can't control the wind, we can adjust the sails.



Chairperson Fred Moffitt



On a somber note, the airport authority was saddened with the sudden passing of director and lifelong airport supporter Carl Tessier, who died on May 29 in 2012. Carl was an unerring municipal leader who was infinitely devoted to bettering the community he served. He was the true embodiment of service above self and sets a high standard for the rest of us in our endeavors to develop Gander Airport.

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

Fred Moffitt
Chairperson

Passenger traffic grew
5.7% in 2012, the highest
total since 1989.





Marketing and Business Development Overview

Passenger traffic at Gander International Airport increased 5.7% over the previous year, marking the highest passenger totals since 1989. These results are indicative of increased seat capacity to Gander and strong performance on existing routes. The market continues to enjoy an upward trend in passenger movements, with almost a 100% growth since 2006.

The airport also posted a historic high for passenger travel to the Caribbean behind strong performance on Sunwing Airline's direct winter charters to Varadero, Cuba, and Punta Cana, Dominican Republic.

Air Canada added a second daily flight to Labrador in February to accommodate growing demand to the Big Land, driven in part by a commuting workforce employed by major industrial developments.

The airport maintains an active, aggressive air service development program which aims to increase travel options from Gander and establish the timely connections our traveling public requires. The GIAA met with 16 carriers in 2012 to advance these goals, including scheduled, cargo and charter operators. While headway has been made, we recognize there is still substantial room to grow and a long way to go to meet the potential of our market.

Air travel demand across Canada and globally is expected to continue to increase. Passenger traffic at Gander will continue to increase organically and at a greater pace as the airport attracts new seat capacity. We are forecasting continued growth in the years to come and are encouraged by gains made in the region's tourism offering and performance. On a cautionary note, the world's economic environment remains fragile at best and austerity measures taken by all levels of government are indicative that consumer confidence may slip and have an impact.

The GIAA remains an active partner in the development of the tourism industry. The airport was the seed proponent of Adventure Central, the destination management organization mandated to provide marketing muscle for the region and a professional body to advance our shared goals of new visitors, new revenue, new opportunities and longer visitor stays. In its short time, Adventure Central has made strong gains by

increasing the region's share of non-resident visitors to 15%. The GIAA is encouraged by the public sector investment in tourism product as seen in Twillingate, Fogo Island and other key areas.

The airport has worked to stay front-of-mind with the Central Newfoundland traveling public by promoting the ease and convenience of flying from Gander. Currently, two of every three residents who travel by air fly from Gander Airport. This means there remains a large portion of the traveling public – estimated between 50,000–70,000 passengers annually – that drive to neighboring airports to fly. Clawing back a portion of this passenger bleed and ensuring local consumers look before they book a flight remains the GIAA's primary challenge.

The airport maintains a multi-media Fly Gander marketing campaign which includes promotions, print, radio, earned media/public relations, public space advertising and an ever-growing focus on social media. Twice annually, the GIAA produces its Fly Gander newsletter, which is delivered to 44,000 homes and businesses across Central Newfoundland and remains an important part of maintaining a productive two-way dialogue with the people on whose behalf the airport is run.

While international traffic continued a downward trend, the GIAA and its partners continue efforts to promote Gander's capacity to accommodate international operations. Through a cost-shared marketing program with the province's Department of Business, the GIAA established the YQX Business Aviation Network, which engaged key tenants at Gander to undertake a collaborative approach to growing corporate aviation activity at Gander. Through the program, the airport and its partners reached a significant audience by exhibiting at key industry trade shows in the Americas and Europe.

The airport has also worked to forge strong working relationships with its military partners. In support of this, airport delegations have spoken to military chapters throughout the United States and held meetings with chief decision makers in the United States Air Force. The projection – while subject to a changing geopolitical milieu – is that military traffic will remain flat for the next couple of years.

Safety and security remain
priority one for the Gander
International Airport
Authority.





Operational Overview

2012 was a busy year for the airport authority as it reinvested in its facility.

The \$10 million rehabilitation of Runway 03-12 started May 29 and wrapped up ahead of schedule and under budget.

A detailed structural, accessibility and life safety analysis of the Air Terminal Building was completed by LPS Aviation. The intent of this study was to assess the suitability of the existing ATB to meet our long-term needs. The accessibility and life safety assessments were completed and delivered to the Airport Authority. However, the structural assessment was abandoned due to lack of as-built drawings and escalating costs. This does not mean the current building cannot be renovated to meet long-term needs; rather, more time and money will be required to assess the building before any firm decision can be made.

The GIAA has been engaging the greater community in charting a plan for its air terminal building. In 2012, it cost \$1.7 million to operate this facility and, given the forecasted escalation in energy costs, this structure will prove difficult to sustain. Some \$11 million in heating and electrical costs alone have been spent on this building since transfer.

The GIAA worked throughout 2012 to complete a design for a new 150-acre commercial development adjacent to Cooper Blvd. and Roe Ave. This development will position the airport authority to secure significant, long-term lease income.

Safety

The airport authority continues to work to provide a safe environment for its workers, travelers and airlines. The airport authority has always made it Priority One to foster an integrated,

ingrained culture of safety and security. In 2012, Transport Canada auditors provided a strong endorsement of the airport's safety and security program.

The airport successfully implemented Phase IV 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.

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.

The rehabilitation of Runway 03/21 provided the airport an opportunity to enhance aerodrome safety by adding a Runway End Safety Area on R21, adding side striping and paved shoulders. In addition, runway guard lights were established on both runways to enhance safety and improve reduced-visibility operations. In addition, airfield signage was upgraded.

The airport authority also began an enhanced Occupation Health and Safety Program in conjunction with Service Canada's labour division.

The **\$10 million rehabilitation** of Runway 03/21 was completed **on budget** and ahead a schedule.





Financial Overview

2012 represented the GIAA's eighth consecutive year of operating profit. Against the backdrop of a challenging operation environment which significantly impacted international traffic at Gander, core revenue fell \$1.5 million in 2012. Expenses increased 4.6% over the prior year, driven primarily from liabilities associated with pension benefits.

Since transfer in 2001 the airport has generated revenue of \$80 million, invested \$25 million in infrastructure and provided \$26 million to our employees as wages and benefits.

A Community Resource

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 authority's flagship project for 2012 was a \$14,000 contribution toward the establishment of a new dedicated playroom for children aged 3-10. The project is a partnership between the Gander International Airport Authority, the Central Northeast Health Foundation and the Central Regional Health Authority.

Support was provided in 2012 for:

- Youth sports
- Arts and festivals
- Military charities
- School breakfast programs
- Hope Air
- Programs with a mandate to help sick or underprivileged children

Continued **growth and investment** witnessed in Central Newfoundland's tourism industry bodes well **for the future.**





Gander International Airport Authority Board of Directors



From left: Arthur Elliott, William Jones, Robert Downey, Don Manuel, Bernice Walker, Chairperson Fred Moffitt, George Innes, Melvin Thorne, Nick Connolly, President and CEO Gary Vey and Desmond Dillon.



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.

The 2012 GIAA Board is composed of 13 directors, 10 nominated by the respective entities and three appointed by the Board itself. Directors are nominated/appointed by the following entities:

Federal Government	2
Provincial Government	1 (vacant)
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.



Governance

As of December 31, 2012 the GIAA Board of Directors, their nominating entity and the 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
Bernice Walker	Exploits Regional Chamber	March 7, 2015
Arthur Elliott	Lewisporte Chamber	July 7, 2013
Robert Downey	GIAA	January 20, 2015
Donald Farrell	Gander Chamber	February 18, 2015
Don Manuel	Government of Canada	December 15, 2014

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 \$95,183 (\$75,000 2001 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 Nick Connolly and the Governance Committee, chaired by George Innes.



Governance

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

Senior Officer Compensation

The remuneration paid to executive officers during 2012 was \$633,977. Officers were also eligible for a performance-based pay that is included above.

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 2012

George Innes	\$ 4,935
William Jones	4,875
Don Manuel	3,920
Fredrick Moffitt	20,460
Robert Downey	6,800
Arthur Elliott	5,359
Melvin Thorne	4,265
Carl Tessier	2,275
Donald Farrell	6,542
Nick Connolly	4,265
Desmond Dillon	4,412
TOTAL	\$ 68,108

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.



Highlights and Required Declarations

Capital Initiatives

During the past year the Authority invested \$11,038,921 in capital improvements:

Rehabilitation of Runway 03/21	\$ 10,145,602
Heavy Duty Vehicle/equipment replacement	414,139
Heating, ventilation and air conditioning upgrades	391,464
Land Development	69,125
Miscellaneous capital expenditures	18,591
	\$ 11,038,921

Business Plan

	Actual	Budgeted	Difference	Explanation
Revenue	\$ 7,821,506	8,843,300	1,021,794	Decreased international traffic
Expenses, excluding depreciation	\$ 7,414,740	6,701,600	713,140	Higher terminal building maintenance, training, professional fee and winter-related costs
Capital expenditures	\$ 11,038,921	13,701,900	2,662,979	Deferred road/apron repairs, boiler replacement, arrivals upgrades, hangar investment

Forecast for next five years

	2013	2014	2015	2016	2017
Revenue	\$ 8,071,000	7,000,000	7,200,000	7,400,000	7,600,000
Expenses, excluding depreciation	\$ 7,422,700	6,722,000	6,800,000	6,900,000	7,100,000
Capital expenditures	\$ 400,000	300,000	300,000	300,000	300,000

[FINANCE STATEMENTS]





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, 2012, 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, 2012, 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

Chartered Accountant

March 25, 2013

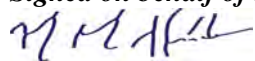
Grand Falls-Windsor

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2012

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,685,504	\$ 1,936,085
Guaranteed Investment Certificates	744,925	741,469
Short term investments	5,688,921	5,495,917
Accounts receivable (Note 3)	1,556,260	1,725,739
Inventory of consumable supplies (Note 4)	689,233	574,255
Prepaid expenses	112,114	117,651
	<hr/> 10,476,957	<hr/> 10,591,116
EMPLOYEE FUTURE BENEFITS (Note 9)	987,000	795,000
PROPERTY, PLANT AND EQUIPMENT (Note 5)	18,564,331	8,527,067
	<hr/>	<hr/>
	\$ 30,028,288	\$ 19,913,183
	<hr/>	<hr/>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 7)	\$ 2,353,540	\$ 1,595,302
Deferred revenue	101,087	99,703
Current maturity on long-term debt	506,220	122,220
	<hr/> 2,960,847	<hr/> 1,817,225
LONG TERM DEBT (Note 8)	3,392,660	488,880
ACCRUED SEVERANCE PAY	338,466	313,872
UNAMORTIZED CAPITAL GRANTS (Note 10)	12,885,231	7,104,938
	<hr/> 19,577,204	<hr/> 9,724,915
	<hr/>	<hr/>
NET ASSETS		
INVESTED IN CAPITAL ASSETS (Note 12)	1,780,220	811,029
EXTERNALLY RESTRICTED – EMPLOYEE FUTURE BENEFITS (Note 12)	987,000	795,000
UNRESTRICTED (Note 12)	7,683,864	8,582,239
	<hr/> 10,451,084	<hr/> 10,188,268
	<hr/>	<hr/>
	\$ 30,028,288	\$ 19,913,183
	<hr/>	<hr/>

Signed on behalf of the Board,



_____, Director



_____, 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, 2012

	<u>2012</u>	<u>2011</u>
REVENUE (Note 13)	\$ 7,821,506	\$ 9,281,025
EXPENSES		
<i>Advertising and promotion</i>	270,481	341,788
<i>Bad debt expense</i>	33,365	66,783
<i>Board remuneration and travel</i>	74,630	76,917
<i>Communications</i>	60,837	49,823
<i>Equipment and vehicle operating</i>	382,182	412,756
<i>Insurance</i>	201,485	198,225
<i>Interest and bank charges</i>	74,871	20,812
<i>Licences and fees</i>	33,275	37,318
<i>Maintenance contracts</i>	256,182	249,780
<i>Materials and supplies</i>	438,081	514,426
<i>Office and administration</i>	57,493	60,325
<i>Payment in lieu of taxes (Note 14)</i>	125,643	126,690
<i>Professional fees</i>	182,419	257,693
<i>Repairs and maintenance</i>	344,606	362,166
<i>Security contracts</i>	260,016	256,015
<i>Travel and entertainment</i>	127,738	71,793
<i>Utilities</i>	887,004	823,620
<i>Wages and employee benefits</i>	3,578,389	3,193,818
<i>Carbon neutrality</i>	26,043	25,802
<i>Depreciation, net of grant amortization \$819,707 (2011 - \$795,244)</i>	143,950	82,456
	<u>7,558,690</u>	<u>7,229,006</u>
EXCESS OF REVENUE OVER EXPENDITURES	\$ 262,816	\$ 2,052,019

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, 2012

	<u>2012</u>	<u>2011</u>
CASH WAS PROVIDED BY (USED FOR)		
<i>Operating</i>		
<i>Net excess of revenue over expenditures</i>	\$ 262,816	\$ 2,052,019
<i>Non-cash items, depreciation, net of grant amortization</i>	143,950	82,456
	<u>406,766</u>	<u>2,134,475</u>
<i>Changes in non-cash working capital</i>		
<i>Current assets (Note 15)</i>	60,038	(271,769)
<i>Current liabilities (Note 15)</i>	759,622	243,667
	<u>1,226,426</u>	<u>2,106,373</u>
<i>Investing</i>		
<i>Proceeds from sale of property, plant and equipment</i>	38,000	-
<i>Purchase of property, plant and equipment</i>	(11,038,921)	(815,785)
<i>Employee future benefit asset</i>	(192,000)	(130,000)
	<u>(11,192,921)</u>	<u>(945,785)</u>
<i>Financing</i>		
<i>Accrued severance pay</i>	24,594	46,656
<i>Repayment of long-term debt</i>	(282,220)	-
<i>Proceeds from long-term debt</i>	3,570,000	611,100
<i>Deferred restricted government assistance</i>	6,600,000	-
	<u>9,912,374</u>	<u>657,756</u>
 (DECREASE) INCREASE IN CASH	 (54,121)	 1,818,344
CASH, BEGINNING	<u>8,173,471</u>	<u>6,355,127</u>
 CASH, ENDING	 <u>\$ 8,119,350</u>	 <u>\$ 8,173,471</u>
CASH CONSISTS OF:		
<i>Cash on hand</i>	\$ 2,000	\$ 2,000
<i>Current account (overdraft) - operating</i>	1,683,504	1,934,085
<i>Guaranteed Investment Certificates</i>	744,925	741,469
<i>Short term investments</i>	5,688,921	5,495,917
	<u>\$ 8,119,350</u>	<u>\$ 8,173,471</u>

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

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

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, 2012

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, 2012

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>2012</u>	<u>2011</u>
3. ACCOUNTS RECEIVABLE		
Trade	\$ 981,301	\$ 1,773,344
Government assistance	14,685	25,000
Employee advances	1,000	1,000
Government assistance – restricted capital	659,999	-
	<u>1,656,985</u>	<u>1,799,344</u>
Allowance for doubtful accounts	<u>100,725</u>	<u>73,605</u>
	<u><u>\$ 1,556,260</u></u>	<u><u>\$ 1,725,739</u></u>

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 .

5. PROPERTY, PLANT AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Depreciation</u>		
Runway	\$ 16,461,403	\$ 2,917,615	\$ 13,543,788	\$ 3,837,883
Approach Lighting	1,608,757	693,265	915,492	995,930
Equipment	1,831,786	982,742	849,044	621,935
Vehicles	5,278,148	3,422,912	1,855,236	1,618,077
Software	78,310	38,158	40,152	45,859
Leasehold improvements	1,233,354	541,506	691,848	740,945
Roads	1,001,875	402,229	599,646	666,438
Land development	69,125	-	69,125	-
	<u>\$27,562,758</u>	<u>\$ 8,998,427</u>	<u>\$ 18,564,331</u>	<u>\$ 8,527,067</u>

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

	<u>2012</u>	<u>2011</u>
6. BANK INDEBTEDNESS		
<i>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.</i>		
7. ACCOUNTS PAYABLE		
Trade	\$ 2,106,285	\$ 1,336,899
Accrued wages	88,089	55,982
Harmonized sales tax	(19,328)	54,503
Accrued vacation pay	178,494	147,918
	<hr/>	<hr/>
	\$ 2,353,540	\$ 1,595,302
	<hr/>	<hr/>
8. LONG-TERM DEBT		
<i>Bank of Nova Scotia</i>		
<i>Prime plus 0.5% term loan, repayable by monthly instalments of \$10,185, secured by specific vehicles and an assignment of insurance coverage, due 2016</i>	\$ 488,880	\$ 611,100
<i>Prime plus 0.5% term loan, repayable by monthly instalments of \$4,500, secured by specific vehicles and an assignment of insurance coverage, due 2017</i>	247,500	-
<i>1.52% Interest Rate Swap term loan, repayable by monthly instalments of \$27,500, secured by Hypothecation Agreement (with Power of Attorney) over short term investments, amortized to 2022, due 2017</i>	3,162,500	-
	<hr/>	<hr/>
	3,898,880	611,100
<i>Current maturity</i>	506,220	122,220
	<hr/>	<hr/>
	\$ 3,392,660	\$ 488,880
	<hr/>	<hr/>

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

2013 - \$506,220	2015 - \$506,220	2017 - \$1,874,000
2014 - \$506,220	2016 - \$506,220	

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

	<u>2012</u>	<u>2011</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, 2012 and the next required valuation will be as of January 1, 2013. The reported amounts are based on the January 1, 2012 valuation as extrapolated to December 31, 2012, 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>	\$ 215,000	\$ 206,000
<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>	\$ 3,514,000	\$ 3,380,000
<i>Actual investment return earned</i>	400,000	(131,000)
<i>Employer contributions</i>	407,000	336,000
<i>Employee contributions</i>	39,000	41,000
<i>Transfers in</i>	-	-
<i>Benefits paid</i>	(116,000)	(112,000)
	<hr/>	<hr/>
<i>Market value ending</i>	4,244,000	3,514,000
	<hr/>	<hr/>
<i>Plan obligations</i>		
<i>Benefit obligation, beginning</i>	4,081,000	3,507,000
<i>Current service cost</i>	236,000	207,000
<i>Interest cost</i>	216,000	200,000
<i>Transfers in</i>	-	-
<i>Benefits paid</i>	(116,000)	(112,000)
<i>Actuarial (gains) losses</i>	356,000	279,000
	<hr/>	<hr/>
<i>Benefit obligation, ending</i>	4,773,000	4,081,000
	<hr/>	<hr/>
<i>Net plan asset (obligation)</i>	\$(529,000)	\$(567,000)
	<hr/>	<hr/>

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

	<u>2012</u>	<u>2011</u>
9. EMPLOYEE FUTURE BENEFITS (CONT'D)		
(c) Required amortization of unamortized net actuarial gain		
Accrued benefit obligation (ABO), beginning	\$ 4,081,000	\$ 3,507,000
Fair value (FV) of plan assets, beginning	3,514,000	3,380,000
10% of the greater ABO or FV	408,000	351,000
Unamortized net actuarial gain (loss), beginning	(1,362,000)	(792,000)
Amount subject to amortization	\$(954,000)	\$(441,000)
Minimum required amortization	\$(41,000)	\$(68,000)
(d) Schedule of unamortized net actuarial gains		
Unamortized net actuarial gain, beginning	\$(1,362,000)	\$(792,000)
Amortization for current period	41,000	68,000
Actuarial gain (loss) on accrued benefit obligation	(356,000)	(279,000)
Actuarial gain (loss) on plan assets	161,000	(359,000)
Unamortized net actuarial gain, ending	\$(1,516,000)	\$(1,362,000)
(e) Reconciliation of the funded status of the benefit plans to amounts recorded in the financial statements		
Fair value of plan assets	\$ 4,244,000	\$ 3,514,000
Accrued benefit obligation	4,773,000	4,081,000
Funded status of plans – surplus (deficit)	(529,000)	(567,000)
Unamortized net actuarial loss	1,516,000	1,362,000
Accrued benefit asset (liability)	\$ 987,000	\$ 795,000
(f) Elements of defined benefit costs recognized in period		
Current service cost, net of employee contributions	\$ 197,000	\$ 166,000
Interest cost	216,000	200,000
Actual return on plan assets	(400,000)	131,000
Actuarial (gains) losses	356,000	279,000
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits costs	369,000	776,000
Adjustments to recognize the long-term nature of employee future benefit costs:		
Differences between expected and actual returns on plan assets for year	161,000	(359,000)
Differences between actuarial (gain) loss recognized for year and actual actuarial (gain) loss on accrued benefit obligation for year	(315,000)	(211,000)
Defined benefit cost recognized	\$ 215,000	\$ 206,000

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

	<u>2012</u>	<u>2011</u>
9. EMPLOYEE FUTURE BENEFITS (CONT'D)		
(g) <i>The weighted average actuarial assumptions are as follows:</i>		
Discount rate	4.50%	5.10%
Rate of compensation increase	4%	4%
Expected return on assets	6.50%	6.50%
YMPE Escalation rate	3.50%	3.50%
Indexation rate	2.50%	2.50%
Expected average remaining service benefit	N/A	N/A
Life expectancy for retired members	23.0 years	23.5 years
Mortality table used for 2012 was the UP 1994 generational and 2011 was the UP 1994 generational		
(h) <i>The assets of the plan are invested by a third party administrator and have the following asset mix</i>		
Equity Securities	58.0%	59.9%
Fixed Income Securities	31.0%	33.1%
Other	11.0%	7.0%
	<u>100.0%</u>	<u>100.0%</u>
<i>Measured as of the measurement date of December 31 of each year</i>		
10. UNAMORTIZED CAPITAL GRANTS, NET BOOK VALUE		
Balance beginning of year	\$ 7,104,938	\$ 7,849,206
Add: Infrastructure grant - Government of Canada	3,300,000	-
Infrastructure grant – Government of Newfoundland and Labrador	3,300,000	-
	<u>13,704,938</u>	<u>7,849,206</u>
Less: Amortization	819,707	744,268
	<u>\$ 12,885,231</u>	<u>\$ 7,104,938</u>

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

				<u>2012</u>	<u>2011</u>
11. UNAMORTIZED DEBT FORGIVENESS					
Balance beginning of year				\$ -	\$ 50,976
Recognized				-	(50,976)
				<hr/>	<hr/>
				\$ -	\$ -
				<hr/>	<hr/>
12. NET ASSETS					
	<u>Externally</u>	<u>Invested in</u>	<u>Unrestricted</u>		
	<u>Restricted</u>	<u>Capital assets</u>			
Balance, beginning of year	\$ 795,000	\$ 811,029	\$ 8,582,239	\$ 10,188,268	\$ 8,136,249
Excess of revenue over expenditure	192,000	(143,950)	214,766	262,816	2,052,019
Transfers					
- Proceeds from long term debt		(3,570,000)	3,570,000	-	-
- Repayment of long-term debt	-	282,220	(282,220)	-	-
- Government grants – restricted capital	-	(6,600,000)	6,600,000	-	-
-Purchase of property, plant and equipment	-	11,038,921	(11,038,921)	-	-
-Proceeds from sale of property, plant and equipment	-	(38,000)	38,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 987,000	\$ 1,780,220	\$ 7,683,864	\$ 10,451,084	\$ 10,188,268
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
13. REVENUE					
Landing fees				\$ 1,095,860	\$ 1,396,266
Terminal fees				250,550	212,793
Aviation fuel fees				2,152,766	3,776,403
Concessions				736,869	798,318
Rentals				1,401,185	1,343,323
Sale of quarry material				85,989	-
Royalties from forest harvesting				13,737	-
Miscellaneous				383,399	432,783
Investment income				219,526	166,106
Change in fair value of short term investments				46,116	57,826
Foreign exchange gain (loss)				75	738
				<hr/>	<hr/>
Airport improvement fees				6,386,072	8,184,556
				<hr/>	<hr/>
				1,435,434	1,096,469
				<hr/>	<hr/>
				\$ 7,821,506	\$ 9,281,025

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

2012

2011

14. 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 2005.

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 2012 is \$1,091,043.

The Town of Gander has adjusted its invoices to the Authority as of December 31, 2012 to \$1,091,043 to reflect a draft proposal on the calculation of PILT. The Government of Canada is seeking repayment of \$500,000 plus accrued interest it paid to the Town of Gander for 2004 and 2005 (the years subject to the Court ruling).

As of the audit report date, the Town of Gander has not issued a tax invoice for the 2013 fiscal year, in anticipation of finalizing an agreement on the calculation on PILT.

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

	<u>2012</u>	<u>2011</u>
15. CHANGES IN NON-CASH WORKING CAPITAL		
<i>The effect on cash of changes in non-cash working capital is as follows:</i>		
<i>Current assets</i>		
<i>Accounts receivable, trade</i>	\$ 819,163	\$(191,706)
<i>Accrued interest</i>	-	27,435
<i>Government grants receivable operating</i>	10,315	(25,000)
<i>Government grants receivable – restricted capital</i>	(659,999)	-
<i>Inventory</i>	(114,978)	(57,214)
<i>Prepaid expenses</i>	5,537	(25,284)
	<u>60,038</u>	<u>(271,769)</u>
<i>Current liabilities</i>		
<i>Accounts payable</i>	758,238	143,964
<i>Deferred revenue</i>	1,384	99,703
	<u>759,622</u>	<u>243,667</u>
 <i>Net effect on cash</i>	 \$ <u>819,660</u>	 \$(<u>28,102</u>)

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

2012

2011

16. 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 2011 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, 2012 the investment mix was Scotia Money Market 33.36% (2011 – 34.22%), Scotia Fixed Income Mutual Funds, 51.82% (2011 – 51.20%), and other equities 14.82% (2011 -14.58%). During 2012 the investment mix changed. This represents a change in credit risk during 2012.

(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.

Certain components of long term debt bear interest at rates tied to a prime rate as established by its creditor. Consequently, the Authority is exposed to interest rate risk as prime rate varies.

The Authority minimizes its exposure to credit risk by entering into Interest Rate Swap agreements with its creditor, the Bank of Nova Scotia.

GANDER INTERNATIONAL AIRPORT AUTHORITY INC.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2012

2012

2011

17. 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.

18. HEDGE ACCOUNTING

During the year the Authority borrowed funds under an Interest Rate Swap hedge transaction from the Bank of Nova Scotia (see Note 8). The contract expires on July 17, 2017.

The Authority has chosen not to apply the optional Hedge Accounting standards found in Section 3856 of the CICA Handbook.