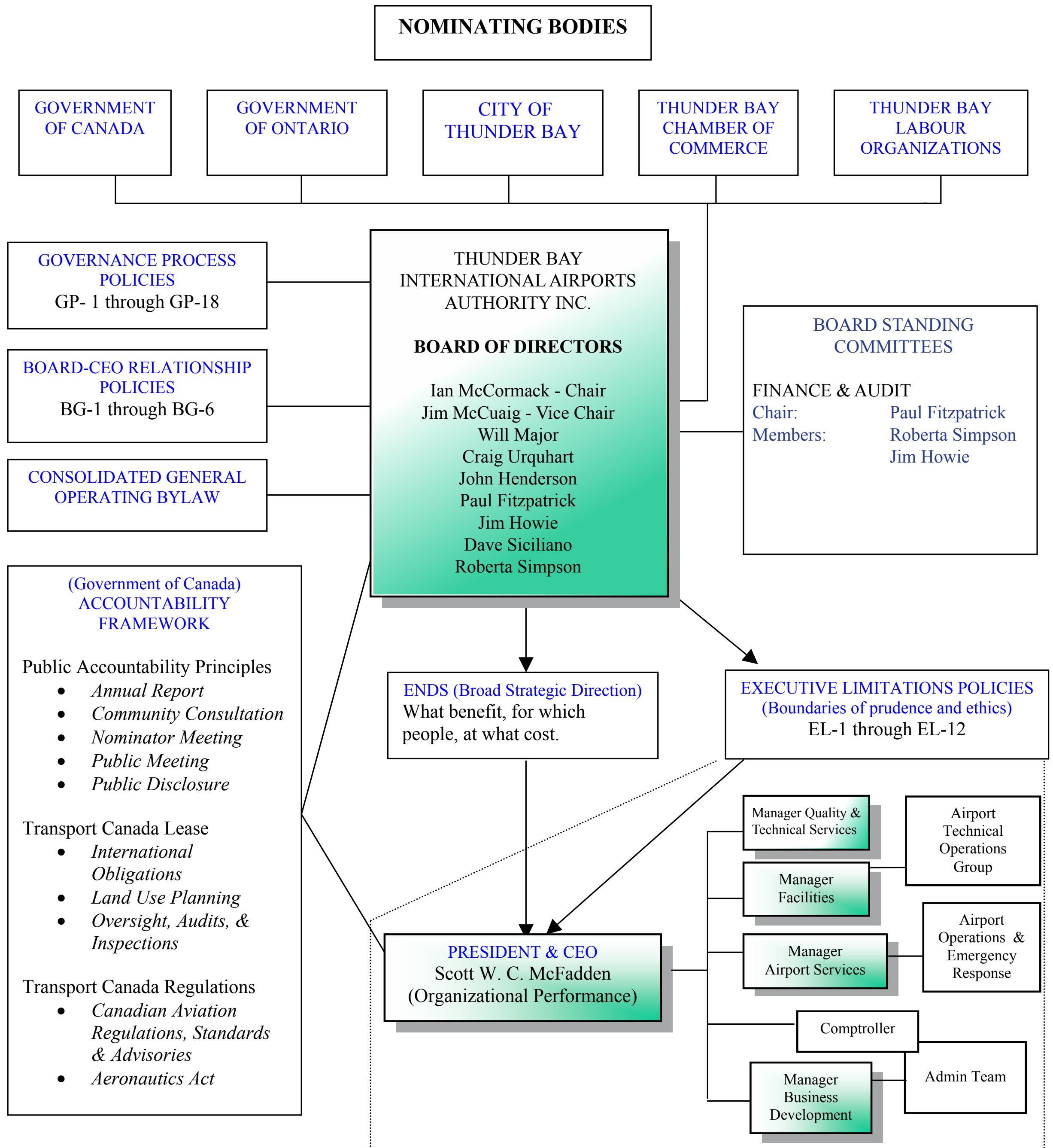
2012 ANNUAL REPORT

THUNDER BAY
International Airports Authority Inc.

CORPORATE GOVERNANCE AND ACCOUNTABILITY FRAMEWORK



MESSAGE FROM THE CHAIR

On behalf of the Board of Directors of the Thunder Bay International Airports Authority, I am very pleased to present the Authority's Annual Report for the year 2012.

The Thunder Bay International Airports Authority exists so there will be air related transportation for Thunder Bay and the region of Northwestern Ontario and to be a major contributor to the economic health and growth of the region. The focus of our Board and the staff of TBIAA is the safe, secure and efficient operation of the airport, at the same time leveraging the Airport and Authority's expertise and energy to create economic development opportunities in the region. Our airport is a key economic catalyst for Thunder Bay and Northwestern Ontario and we take a long-term view in the management and development of this critical asset to our region.

In 2012 we continued to experience growth at the airport on all fronts, the number of passengers, daily flights, and the expansion of aviation related businesses. We updated our economic contribution report in 2012 and we are pleased to share with you that the Airport and related activities are responsible for approximately 5000 full time jobs, half a billion dollars in GDP for the City of Thunder Bay, and $356 million in annual tax revenues. As important as these positive results are, we continue to work diligently to provide safe, efficient, and cost effective aviation operations and facilities to the travelling public, aviation businesses, and all those connected to and using this infrastructure. We will continue to be leaders in the airport industry in Canada by focusing on our core business and at the same time challenge the pressures from many corners to create non-value added revenue streams, which ultimately add to the cost of air travel, which is a key economic enabler in our region.

I would also like to highlight the introduction of direct flights to Chicago introduced by your Airport and United Airlines in February of 2013. Participating and competing in the global economy is very dependent on being able to move people, products, and information in and out of our region in a timely and cost effective manner…..the work of our team to secure this additional service to the US Midwest is another example of how the TBIAA is enabling the socio- economic health of our region.

The Board would like to acknowledge the service of three Board members who "retired" from the Board in 2012, our past Chair Don Wing, Jack Mallon, and Lorne Firman. All brought a high level of energy, dedication, focused and unique skills to our team.

And in closing, the Board of TBIAA would like to say thank you to our airport team, our CEO and staff, our customers, contractors, suppliers, and businesses that keep the Airport operating safely and efficiently day in and day out.

Ian McCormack, Chair
April 23, 2013

Table of Contents

TBIAA Board of Directors 2012

The Thunder Bay International Airports Authority Inc. (TBIAA) is a non-share capital corporation incorporated under the Canada Corporation Act. Members of the Board of Directors are community leaders nominated by government and non-government organizations.

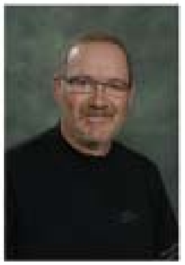
The Board has overall responsibility for the management of the affairs of the TBIAA, and the Corporation is fortunate to have attracted Board members who offer a wealth of knowledge and experience. The Board has established an administrative procedure outlined in the TBIAA General Operating by-Law and Letters Patent.

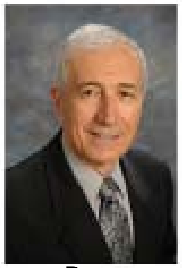
The Board takes great pride in the TBIAA's achievements in 2012, which included another record year in which just over 761,000 passengers were guests of the Thunder Bay International Airport. This represents an increase of over 40,000 passengers compared to 2011.

The Board recognizes the importance of the Thunder Bay International Airport as the Region's critical transportation infrastructure hub and will continue to develop and leverage the Airport for the benefit of the local and regional economies.

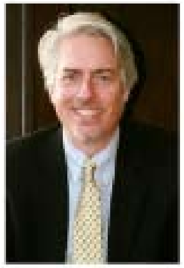
Board Membership

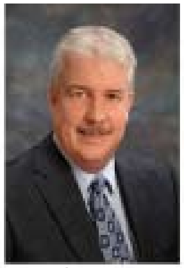
The Board would like to thank Mr Lorne Firman who completed his term on the Board in October 2012, and welcomes Mr Will Major as the new member nominated by the Government of Canada.

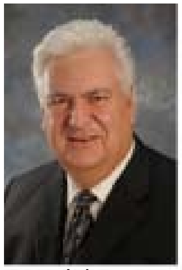

Paul Fitzpatrick


Dave Siciliano


Jim Howie


Will Major


Craig Urquhart


John Henderson


Ian McCormack (Chair)


Roberta Simpson


Jim McCuaig (Vice Chair)

Board membership as of December 31st, 2012

Director	Nominated by	Term Expiry
Will Major	*Federal Government (Transport Canada)*	*October 1, 2015*
Paul Fitzpatrick	*Province of Ontario (Ministry of Transportation)*	*October 1, 2013*
John Henderson	*Federal Government (Transport Canada)*	*October 1, 2015*
Jim Howie	*Thunder Bay Labour*	*October 1, 2013*
Craig Urquhart	*Thunder Bay Chamber of Commerce*	*October 1, 2015*
Jim McCuaig (Vice Chair)	*City of Thunder Bay*	*November 30, 2015*
Ian McCormack (Chair)	*Thunder Bay International Airports Authority Inc.*	*October 1, 2015*
Roberta Simpson	*Thunder Bay Chamber of Commerce*	*October 1, 2013*

Annual Report
Thunder Bay International Airports Authority Inc.
(Incorporated under the laws of Canada)

Pursuant to Article 17 of the By-law of the Thunder Bay International Airports Authority Inc. (TBIAA), the following is the Annual Report with respect to the activities of the TBIAA for the year ended December 31, 2012.

On September 1, 1997 the TBIAA signed an agreement with Transport Canada, to transfer the Thunder Bay International Airport under a long-term lease. Since then, the TBIAA has been responsible for the management, operations, and funding of the Thunder Bay International Airport.

The remuneration provided to each director for the period Jan 1, 2012 to Dec 31, 2012 was as follows:

Lorne Firman	$12,783.37
Paul Fitzpatrick	$15,350.04
John Henderson	$14,950.04
Jack Mallon	$13,366.70
Ian McCormack	$20,200.04
Jim McCuaig	$14,800.04
Roberta Simpson	$16,200.04
Craig Urquhart	$2,333.34
Don Wing	$1,966.70

During 2012, the Directors complied with the Conflict of Interest Principles and Code of Conduct requirements as contained in Section 6.12 of the TBIAA's By-law.

The 2012 salary for the Chief Executive Officer of the corporation was $183,872.

The TBIAA did not enter into any contracts during the fiscal year ended December 31, 2012, which were for goods, services, or consideration, that were not awarded pursuant to the public tender process as described in Section 17.3 of the By-law, and did not enter into any non-arm's length contracts.

The Board has established the strategic direction for the TBIAA in the form of high-level Ends policies. Management's business plans, budgets, strategic objectives, measures and milestones are designed to achieve the Ends. The Board approves the plans and budgets and monitors the performance of management against the strategic objectives, measures and milestones.

The TBIAA's Financial Statements and the Auditor's Report for the period January 01, 2012 through to December 31, 2012 are included in the annual statements section of this report.

DATED this 26th Day of March 2013

Ian McCormack,
Chair

Paul Fitzpatrick,
Chair, Finance & Audit Committee

TBIAA High Level Strategic Direction

Ends Policy E-1

Thunder Bay International Airports Authority Inc. exists so there will be air related transportation for Thunder Bay and the surrounding region. Secondary to this, the Airport also exists as a major contributor to regional economic growth.

Specifically, this includes:

1. Sustainable air services for Thunder Bay ensuring essential transportation needs are met.

2. Superior standards of safety and customer service at airports operated by the Authority.

3. Retention, development, and expansion of air services.

4. Economic development of the region.

   4.1 Thunder Bay becomes a centre for aerospace related activities including aviation manufacturing, maintenance, and training facilities.

   4.2 The Airport Authority becomes a stimulus for the development of small to medium size businesses reasonably using TBIAA assets to support this economic development.

At What Cost

"As the governance body, the Board recognizes that through this Ends Policy it is committing the use of resources to achieve the desired Ends (outcomes).

In support of achieving the desired Ends in a cost effective manner, the Board will identify the relative priorities within the Ends Policies, at a Board meeting by the end of June each year. These priorities will become assumptions in building the annual budget for the next year. The Ends of TBIAA shall be achieved on an annual and long term basis as planned for in the CEO Ends Interpretation and related business plan, and annual operating and capital budgets.

All Ends should be achieved at a reasonable cost and a reasonable fee for customers. The Board will review on an annual basis the overall envelope of resources to ensure sufficient resources exist to reasonably achieve the desired prioritized Ends.

Fees to customers should, in a defined and reasonable time frame, be set to:

1. *Provide a sustainable balanced budget, which meets net profit goals.*

2. *Provide an allocated reserve equal to or slightly greater than the amount designated in Board Policy.*

3. *Not cause undue hardship to customers resulting from sudden and major fee increases."*

Note: The above represents a summary of the TBIAA's Business Plan.

TBIAA Annual Report

THANKS TO THE TBIAA TEAM, WINNER OF THE 2012 CHAMBER OF COMMERCE BUSINESS EXCELLENCE AND COMMITMENT TO QUALITY AWARDS.

2012 was another busy year highlighted by the achievement of several strategic objectives. One of the most important of which was the announcement by United Airlines of its intention to introduce non-stop service to Chicago commencing February of 2013. The return of transborder service is not only a significant success for the TBIAA, but represents a key improvement in Thunder Bay connectivity and therefore an important step forward for the region's economy.

The TBIAA Team also achieved an improvement in our already outstanding customer service record, increasing compliments to complaints ratio to 0.96. This is an even more impressive result considering the renovation & construction projects completed in 2012. Thunder Bay is one of the fastest growing airports in Canada. The TBIAA team is to be commended for keeping up with high demand.

Another significant milestone in 2012 was the approval by Transport Canada of the final implementation phase of the TBIAA's Safety Management System. While the TBIAA's original Safety Management System implementation was in 2003, it is important to know that the System now meets both the TBIAA's safety management objectives, and the regulatory requirements of Transport Canada.

The TBIAA Team again achieved a perfect record with regard to airfield up time as there were zero runway closures in 2012 and only 2 cancellations due to airfield conditions. Congratulations to our operational teams for keeping airfield systems and surfaces serviceable in all weather.

Special appreciation also goes to members of the TBIAA Team that helped out in the Community's East End subsequent to the May 100-year rainstorm. Pumps and manpower were the order of the day as our team volunteered to assist the many residents who had backed-up sewers and flooded basements.

Each new year seems to bring with it another new benchmark for the Airport. Many thanks to each and every member of the TBIAA Team and our service provider partners for your innovation, continuous improvement, and dedication to our customers.

Scott McFadden,
President and Chief Executive Officer

Management Discussion

As a non-share capital, private corporation, the Thunder Bay International Airports Authority Inc. is focused on the safe and efficient operation of the Thunder Bay International Airport. The Board recognizes the Airport as a key contributor and catalyst for economic growth for the region and therefore the Board has set a long term direction for the Corporation that seeks to leverage the success of the Airport to the benefit of the local and regional economy.

The TBIAA has successfully operated with annual surpluses since 1997, generating consolidated net assets in excess of $30million. The Airport's capital program is funded by a combination of operating cash and debt.

The Thunder Bay International Airport remains the lowest priced of Canada's national airports, and the only one with no airport improvement/passenger departure fees.

The Canadian air transportation industry creates jobs, both internal and external to the sector. These "externalities' mean the Thunder Bay International Airport is responsible for over $.57 Billion of GDP for the community, 5000 direct and indirect jobs and $356Million in taxes paid to three levels of government (based on 2011 data).

TBIAA paid the City of Thunder Bay $352,688 in (payments in lieu of) taxes in 2012 not including building permits and water/utility charges.

The annual benefit of a single daily 19-seat aircraft is 33 full time jobs, $1.5Million in Labour Income and $3.73Million of GDP.

The difference in transportation policy between Canada (take cash from airports) and the US (fund airports and infrastructure) remains a competitive disadvantage for Canada and Thunder Bay. Some headway, in the form of dialogue with the Federal Government, was achieved in 2012 however the competitive disadvantage for Canada remains unchanged.

TBIAA worked hard to return transborder air service to Thunder Bay and we are excited that United Airlines recently began non-stop Chicago Service. The TBIAA believes the convenience of this superior service compared to driving to Duluth or Minneapolis is our best short-term answer to the disparity in airport financial philosophy between the US and Canada.

Upwards of 40,000 passengers per year drive to Duluth and Minneapolis (joining 5 million other Canadian passengers) to avoid paying the plethora of excise & regular taxes, surcharges, navigation fees, security fees and Federal Airport Rent added to or included in the price of air travel in Canada. TBIAA speculates there are far more people who simply decide not to fly or not travel at all (not to Canada anyway).

The need for Canada to refocus its air transportation policy is clear. The industry is uncompetitive and change is needed if we are going to realise our share of emerging market travel, tourism and economic development.

Airports are economic engines, not cash cows and governments and others can help the Canadian economy, and ultimately its tax base, by adopting the TBIAA's philosophy on fees, costs and continuous improvement.

A record of just over 761,000 passengers came through the Airport in 2012. Growth is attributed to activity in the mining, health sciences, and manufacturing sectors. In addition, excellent air service options continue to provide the community and region with the best possible business and leisure travel connectivity.

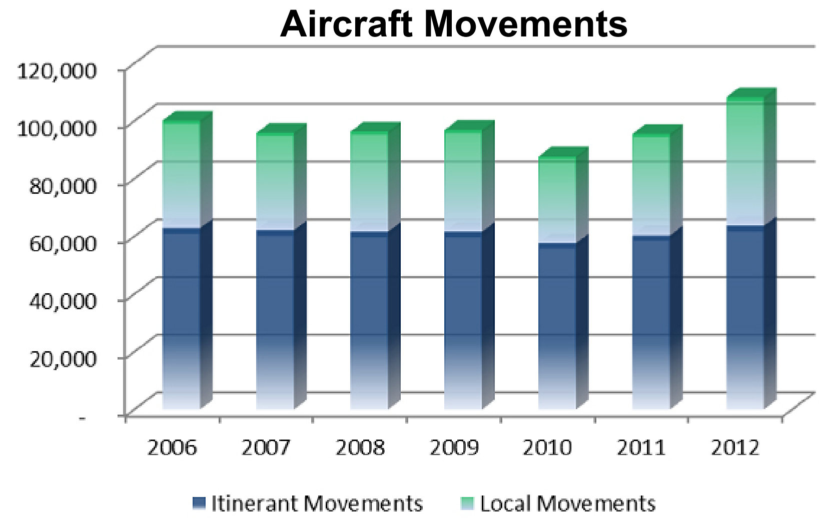
Report on Operations

The TBIAA's Business Plan focus remains on the safe, secure and efficient operation of the Thunder Bay International Airport, and leveraging the Airport and the Authority's expertise to create economic development opportunities for the region.

The 2012 Business Plan continued to pursue the Board's Ends. All key plan targets were substantially met in 2012. The 2013 Business Plan and updated Strategic Objectives and Milestones were drafted in the Fall along with the 2013 budget, approved by the Board in November.

The 2013 Business Plan contemplates an economic environment in which mining, manufacturing and health sciences continue to be the significant drivers of economic growth for Thunder Bay. This is consistent with the experience in 2012.

Thunder Bay continues to be well served by Air Canada Jazz, Porter Airlines and WestJet, with Bearskin Airlines, Wasaya Airways and Nakina Air Service continuing to network passengers within the region and the North. In addition, there is a good selection of sun-spot destinations available with Sun Wing offering Veradero Cuba, WestJet to, Cancun, Mexico and Air Transat to the Dominican Republic.



Financial Results

Consolidated revenue grew by 7% while total expenses increased by 3.4% with an increase in direct expenses of 7%. Cost increases were mostly associated with growth in demand for services and also included bad debt mostly attributable to Transport Canada's refusal to contribute to the cost of remediating contaminated soil uncovered during road construction.

Operating Earnings increased 33% to $1.56Million. Total excess of revenues over expenses was $2.98Million or 29% of revenues.

The TBIAA generated approximately $3.57Million in cash which was used to pay down debt, fund, in part, the TBIAA's capital program including substantial completion of Phase II of the ground transportation and parking expansion project, and the commencement of the north side commercial area expansion. The Authority was successful in securing up to $2.5Million from FedNor and NOHFC in support of the north side expansion, which includes extensions to Derek Burney Drive and the 'H' taxiway.

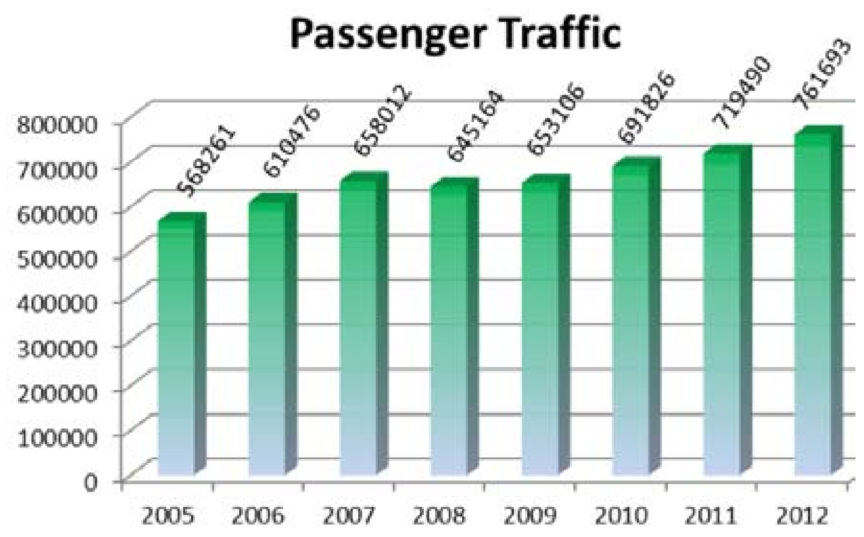
Consolidated total net assets grew to over $30.7Million, up 10.7% over 2011. For further details please refer to the financial statements and notes included in this report.

Activities

When the Authority assumed responsibility for the Airport in 1997 the Terminal Building was one of the newest in the country. It is now one of the oldest and TBIAA is determined to ensure the appearance, levels of service, and overall efficiency of the facility keeps pace with both the state of the art and customer expectations. With this in mind several upgrades have been completed and are planned. The most apparent in 2012 was the replacement of carpets with ceramic tile. Most of the second floor public areas were completed in 2012 with the upper and lower level departure areas scheduled for 2013. Many other less noticeable projects were completed such as passenger loading bridge floor and canopy replacements, building systems and IT systems upgrades, and outside, road system upgrades and repairs.

In addition, furnishings like public area seating are gradually being replaced and updating/repainting of facilities is on going.

The TBIAA continued its capital program in 2012 with the substantial completion of the parking and groundside redevelopment program, which includes the addition of new short and long term parking, new rental car parking, the relocation and reconfiguration of the main parking entrances, the addition of a new exit and a "cell phone lane."



Economic Development

The Board of Directors has recognized the benefits the Airport brings to Thunder Bay and region and the need to leverage the business and geographical strengths of the Thunder Bay International Airport.

Several business development expansions were realised at the Airport in 2012.

Aviation Expansion

With the growth in the mining and health sciences sectors comes demand for aviation services. In spite of a slight reduction in airline capacity, passenger traffic increased by 6% to over 761,000 for 2012. Continued growth in demand coupled with less capacity resulted in an increase in average airfares.

Thunder Bay aviation companies also expanded in 2012 to meet demand.

Pilatus Centre Canada (PCC) is the Canadian distributor of the hugely successful Pilatus PC12 aircraft. In 2012, PCC expanded its technical capabilities, service offerings and number of technicians. PCC is one of only three service centres in the world to offer 20,000-hour life extension airframe overhauls for the PC-12.

Cargo North arrived on the scene with its new Basler BT-67 offering specialized freight services into the north and far north.

Wasaya Airways also made big steps forward in 2012. The addition of 2 Dash-8 aircraft in 2011 required the construction of a new hangar which was completed in late Fall.

Aviation activity was up overall with increases in aircraft, (including helicopter) movements to over 108,000…the highest level in years.

TBIAA Subsidiary Companies

TBIAA's subsidiary companies contributed between 8%-17% of consolidated revenues. In terms of risk management, these companies diversify our business and broaden geographical opportunities. Customers include airlines and airports, hotels, municipalities and other government agencies across Canada and in the US and Caribbean. The activities of the subs provide new opportunities for employees and economic activity for TBIAA's business partners, most of whom are based in Thunder Bay.

Thunder Bay Airport Services Inc.

TBAS continues its successful relationship with the Municipality of Red Lake with the Airport celebrating the dedication of the new terminal building and another surplus for 2012!

TBAS was also successful in completing a significant physical and systems security audit with the Government of Canada and continues to process over $6million annually in receivables for the Department of Fisheries and Oceans, Canadian Coast Guard Western Region.

iFIDS.com

iFIDS.com is a 50% joint venture with Aviation Intertec Services Inc. that created the world's first internet-based flight information system. In 2012 the company continued the development of new products and the refinement of existing to offer customers the best possible solutions.

The company continues to be successful marketing its products and service to airlines, airports, and hotels. In a somewhat ironic twist, iFIDS.com was successful in winning the FIDS contract for the new $78Million terminal building development at the Duluth International Airport.

iFIDS.com will be releasing new product upgrades and add-ons in 2013 along with new technologies and branding…so stay-tuned!

SGE Ltd.

The Greater Moncton International Airport Authority became SGE's newest customer in 2012 with the delivery of the first of potentially three JetBrooms. JetBroom is the most advanced airport surface maintenance vehicle in existence, manufactured by Boschung AG and distributed and supported in Canada exclusively by SGE Ltd.

SGE clients now include Fort McMurray Airport Authority, Greater Toronto Airport Authority, St. John's International Airports Authority, Red Lake Airport, Victoria Airport Authority and of course the Greater Moncton International Airport Authority.

Safety Management

The TBIAA Board has articulated and confirmed its long established high level End: "Superior standards of safety and customer service at airports operated by the Authority." TBIAA implemented its first iteration of a safety management system in 2003 and in 2012 the final phase of Transport Canada approval was achieved. TBIAA is one of a select few airports of its size to achieve "Phase 4" approval.

The TBIAA is a leader in the implementation of proactive safety methodologies at airports. In 2012 a computerized hazard identification, assessment, tracking and follow-up system "Q5" was commissioned. The result has been an increase in the number of hazards reported, with a corresponding increase in the number of risks mitigated in addition to increased overall awareness throughout the operations group.

Enterprise Risk Management

TBIAA is in the business of risk management. Our continuous improvement philosophy means we are always looking for ways to improve aviation safety, public safety and occupational safety, while reducing business risk.

TBIAA views risk from the perspective of its entire operation, recognising that managing risk in one area, can have the unintended consequence of increasing risk in another area. Similarly, compliance with outdated regulations (designed for the old world reactive methodology) without occasionally reviewing the potential for unintended consequences can leave the enterprise vulnerable to unnecessary risk.
A challenge for airports in implementing risk-based processes including safety management systems is that all the old regulations are still in place, and the natural "reactive" tendencies of the process of creating new regulations can lead to this conflict between old and new safety management.

A current example of the apparent clash between old and new is the Transport Canada proposal to require the construction of runway end safety areas (RESA). RESA is a clear example of reactive safety and associated thinking. Cost prohibitive RESA will do nothing in terms of reducing the risk of a runway overrun or undershoot. There are many much more effective and less costly alternatives. Many have already been implemented by the industry in response to prudent risk management. TBIAA supports many in the industry that believe proposed RESA regulation should be scrapped as a concept that has been overtaken by current realities.

Community Participation

TBIAA was proud sponsor in cash or in kind of the following key Community events in 2012:

- Northwestern Ontario Innovations Centre (annual Sponsorship $40,000)
- Thunder Bay Bordercats baseball
- Thunder Bay Bluesfest
- Lakehead Thunderwolves – Lakehead University hockey generates >1100 passengers per annum
- MS Society 2012 Passion for Fashion event
- United Way Campaign - TBIAA & staff raise >$10,000 for the 2012 campaign
- Thunder Bay Miles with the Giant Marathon
- TBIAA Directors and employees involved in Community organizations:
  - Community Economic Development Commission,
  - Thunder Bay Chamber of Commerce,
  - Ambassadors Northwest,
  - TBayTel
  - Northwestern Ontario Aviation Heritage Centre
- Motorcycle Ride for Dad
- Leadership Thunder Bay - Two TBIAAI Managers are currently active

Thanks to Our Partners & Customers

The Thunder Bay International Airports Authority extends thanks and appreciation to all of our business partners, and above all to our customers including passengers/Meeters & Greeters, air operators, airports, municipalities, and governments.

Wasaya Airways' President Tom Morris presents TBIAA CEO Scott McFadden with a model Dash 8 aircraft.

Grant Thornton

Independent Auditor's Report

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To the Directors of
Thunder Bay International Airports Authority Inc.

We have audited the accompanying consolidated financial statements of Thunder Bay International Airports Authority Inc., which comprise the consolidated statement of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, and the consolidated statement of operations, statement of changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 consolidated financial statements in accordance with Canadian accounting standards for not for profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Thunder Bay International Airports Authority Inc. as at December 31, 2012, December 31, 2011 and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not for profit organizations.

Grant Thornton LLP

Thunder Bay, Canada
March 21, 2013

Chartered Accountants
Licensed Public Accountants

Thunder Bay International Airports Authority Inc.

Contents

Thunder Bay International Airports Authority Inc.
Consolidated Statement of Operations

Year ended December 31	**2012**	2011
	$	$
REVENUE *[schedule]*	**10,161,578**	9,493,085
EXPENSES		
Direct		
Advertising and promotion	**127,396**	95,855
Benefits	**565,464**	577,919
Contracted maintenance	**360,375**	398,738
Contracted services	**620,385**	498,764
Equipment rentals	**16,079**	3,002
Federal rent	**54,932**	42,877
Interest on long-term debt	**-**	7,553
Materials and supplies	**520,474**	502,472
Office and administration	**54,752**	62,657
Professional and consulting fees	**366,673**	276,715
Purchased repairs	**269,352**	241,840
Salaries	**2,561,438**	2,404,967
Telephone	**38,362**	32,434
Training and meetings	**44,721**	49,528
Travel	**58,313**	53,307
Utilities	**424,706**	421,466
	6,083,422	5,670,094
Indirect		
Amortization	**1,652,641**	1,878,001
Bad debts (recovered)	**44,240**	(928)
Directors' fees	**149,284**	122,900
Payment in lieu of property taxes	**352,688**	335,894
Insurance	**146,810**	150,215
Interest and bank charges	**47,758**	45,751
Interest on long-term debt	**125,526**	115,876
	2,518,947	2,647,709
Total expenses	**8,602,369**	8,317,803
Earnings before the following	**1,559,209**	1,175,282
Realized earnings on investments	**659,994**	328,515
Fair market value adjustment	**535,539**	(9,965)
Amortization of deferred capital contributions *[note 13]*	**222,101**	772,211
Asset write-down *[note 20]*	**-**	(189,592)
Earnings of IFIDS.COM INC. *[note 7[b]]*	**2,863**	8,854
Excess of revenue over expenses	**2,979,706**	2,085,305

See accompanying notes to the consolidated financial statements.

Thunder Bay International Airports Authority Inc.
Consolidated Statement of Financial Position

As at	**December 31, 2012**	December 31, 2011	January 1, 2011
	$	$	$
ASSETS			
Current			
Cash and cash equivalents	**580,610**	663,179	1,636,832
Accounts receivable *[note 4]*	**1,283,218**	975,304	661,971
Inventory, at cost	**150,503**	816,800	79,089
Prepaid expenses and deposits	**360,894**	138,148	117,250
Current portion of net investment in direct financing lease *[note 3]*	**-**	95,000	95,000
Investment in IFIDS.COM INC. *[note 7]*	**6,912**	4,049	-
Total current assets	**2,382,137**	2,692,480	2,590,142
Property and equipment, net *[note 5]*	**20,174,467**	19,310,903	17,735,588
Other			
Investments *[note 6]*	**16,662,365**	15,480,231	15,174,746
Net investment in direct financing lease *[note 3]*	**-**	285,000	380,000
Accrued benefit asset *[note 17]*	**1,090,000**	802,000	703,000
Total other assets	**17,752,365**	16,567,231	16,257,746
	40,308,969	38,570,614	36,583,476
LIABILITIES AND NET ASSETS			
Current			
Accounts payable and accrued liabilities *[note 9]*	**1,721,218**	2,224,577	1,573,866
Due to the Municipality of Red Lake	**95,117**	32,204	59,509
Due to Marcel Boschung AG	**115,427**	785,647	-
Interim construction demand facility *[note 10]*	**1,117,000**	117,000	-
Current portion of long-term debt *[note 11[a]]*	**594,784**	862,784	862,784
Deferred revenue	**132,260**	95,677	151,419
Investment in IFIDS.COM INC.	**-**	-	4,805
Total current liabilities	**3,775,806**	4,117,889	2,652,383
Non-current			
Security deposits	**34,080**	46,580	24,080
Long-term debt *[note 11[a]]*	**3,308,771**	4,177,438	5,026,605
Deferred capital contributions *[note 13]*	**1,997,583**	1,994,963	2,734,674
Retirement allowance liability *[note 12]*	**403,579**	424,300	421,595
Total non-current liabilities	**5,744,013**	6,643,281	8,206,954
Net Assets			
Investment in property and equipment *[note 14[a]]*	**13,156,329**	12,538,718	9,586,525
Unrestricted	**17,632,821**	15,270,726	16,137,614
Net assets	**30,789,150**	27,809,444	25,724,139
	40,308,969	38,570,614	36,583,476

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Director
Ian McCormack

Director
Paul Fitzpatrick

Thunder Bay International Airports Authority Inc.
Consolidated Statement of Changes in Net Assets

Year ended	**December 31, 2012**			December 31, 2011	January 1, 2011
	Investment in property and equipment	**Unrestricted**	**Total**	Total	Total
	$ *[note 14]*	$	$	$	$
Net assets, beginning of year	**12,538,718**	**15,270,72**	**27,809,444**	25,724,139	23,293,178
Excess (shortfall) of Rev over Exp	**(1,441,657)**	**4,421,36**	**2,979,706**	2,085,305	2,430,961
Net change in invest. in property & equip.	**2,059,268**	**(2,059,268)**	**-**	-	-
Net assets, end of year	**13,156,329**	**17,632,821**	**30,789,150**	27,809,444	25,724,139

See accompanying notes to the consolidated financial statements.

Thunder Bay International Airports Authority Inc.
Consolidated Statement of Cash Flows

Year ended December 31	2012	2011
	$	$
OPERATING ACTIVITIES		
Excess of revenue over expenses	**2,979,706**	2,085,305
Add charges (deduct credits) to earnings not involving a current payment (receipt) of cash		
Amortization	**1,652,641**	1,878,001
Amortization of deferred capital contributions	**(222,101)**	(772,211)
Increase in accrued benefit asset	**(288,000)**	(99,000)
Increase (decrease) in retirement allowance liability	**(20,721)**	2,705
Interest added to long-term debt	**11,117**	13,617
Fair market value adjustment	**(535,539)**	9,965
Earnings of IFIDS.COM INC.	**(2,863)**	(8,854)
Asset write-down	**-**	189,592
	3,574,240	3,299,120
Net change in non-cash working capital balances related to operations *[note 15[a]]*	**(950,946)**	303,869
Cash provided by operating activities	**2,623,294**	3,602,989
INVESTMENT ACTIVITIES		
Purchase of property and equipment *[note 15[b]]*	**(1,291,484)**	(3,493,408)
Purchase of investments, net	**(646,595)**	(315,450)
Cash used in investment activities	**(1,938,079)**	(3,808,858)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(1,147,784)**	(862,784)
Repayment of direct financing lease	**380,000**	95,000
Cash used in financing activities	**(767,784)**	(767,784)
Decrease in cash and cash equivalents during year	**(82,569)**	(973,653)
Cash and cash equivalents, beginning of year	**663,179**	1,636,832
Cash and cash equivalents, end of year	**580,610**	663,179

See accompanying notes to the consolidated financial statements.

Thunder Bay International Airports Authority Inc.
Notes to the Consolidated Financial Statements

December 31, 2012

GENERAL

The Thunder Bay International Airports Authority Inc. (the "Authority") was incorporated without share capital on August 3, 1995 under the laws of Canada.

1. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING

These consolidated financial statements are the first financial statements for which the Authority has applied the Canadian accounting standards for not-for-profit organizations ("ASNPO"). The consolidated financial statements for the year ended December 31, 2012 were prepared in accordance with ASNPO. Comparative period information presented for the year ended December 31, 2011 and the opening consolidated statement of financial position as at January 1, 2011 were prepared in accordance with ASNPO and the provisions set out in Section 1501 First-time adoption by not-for-profit organizations.

The date of transition to ASNPO is January 1, 2011. The Authority's transition from Canadian Generally Accepted Accounting Policies (previously "GAAP") to ASNPO has had no significant impact on the opening net assets as at January 1, 2011 or the consolidated statement of operations or the consolidated statement of cash flows for the year ended December 31, 2011.

As a result, although the consolidated statement of financial position as at January 1, 2011 has been provided, the reconciliation's and disclosures required by Section 1501, for the net assets at the transition date, the comparative period excess of revenue over expenses and the consolidated statement of cash flows are not necessary and have not been presented in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of the Authority have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The more significant of these accounting policies are summarized below.

Basis of consolidation

The accompanying financial statements are prepared on a consolidated basis to include the accounts of the Authority and its subsidiaries, Thunder Bay Airport Services Inc., Sleeping Giant Enterprises Ltd. and Superior Aerospace Services Ltd. which are wholly-owned. IFIDS.COM INC. which is 50% owned has been accounted for using the equity basis.

Investments in which the Authority has the ability to exercise significant influence but does not have control are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to reflect the Authority's share of earnings or loss. When there is a loss in the value that is other than a temporary decline, the investment is written-down to recognize the loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and cash held in money market instruments with maturity dates of less than three months from the date they are acquired. They are recorded at the lower of cost or market value.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Property and equipment

Property and equipment are initially recorded at cost. Normal maintenance and repair expenditures are expensed as incurred.

Amortization is provided on the basis and at the rates below. It is expected these procedures will charge earnings with the cost of the property and equipment over their estimated useful lives. Gain or loss on disposal of individual assets is recognized in earnings in the year of disposal.

Airside equipment	1/15 straight-line - salvage value 10%
Computer hardware	1/3 straight-line
Computer software	1/3 straight-line
Land transfer tax	1/60 straight-line
Land development costs	1/30 straight-line
Leasehold improvements	1/5 straight-line
Office furniture and equipment	1/5 straight-line
Runway upgrades	1/15 straight-line and 1/30 straight-line
Security upgrades	1/5 straight-line
Vehicles and equipment	1/5 straight-line - salvage value 10%

Property and equipment acquired during the year, but not placed into use, are not amortized in the year of acquisition.

Net investment in direct financing leases

Assets leased under terms which transfer substantially all the benefits and risks of ownership to customers are accounted for as direct financing leases. Income is recognized over the terms of the applicable leases in a manner that produces a constant rate of return on the lease investment.

Revenue recognition

The Authority follows the deferral method of accounting for contributions, which includes government grants. Restricted contributions are reflected as deferred contributions and are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Sales and services revenue is recognized at point of sale or when the service has been provided and collectability is reasonably assured. Annual licence fees and product support are recognized over the period of service. Lease revenue is recognized in the period in which it was earned.

Financial instruments

Financial instruments

The Authority considers any contract creating a financial asset, liability or equity instrument as a financial instrument, except in certain limited circumstances. The Authority accounts for the following as financial instruments:

- cash and cash equivalents
- accounts receivables
- investments
- accounts payable and accrued liabilities
- long-term debt

A financial asset or liability is recognized when the company becomes party to contractual provisions of the instrument.

Measurement

Financial assets or liabilities obtained in arm's-length transactions are initially measured at their fair value. In the case of a financial asset or liability not being subsequently measured at fair value, the initial fair value will be adjusted for financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance or assumption.

Financial assets or liabilities obtained in related party transactions are measured in accordance with the accounting policy for related party transactions except for those transactions that are with a person or entity whose sole relationship with the Authority is in the capacity of management in which case they are accounted for in accordance with financial instruments.

Financial assets and financial liabilities are subsequently measured according to the following methods:

Financial instrument	**Subsequent measurement**
Cash and cash equivalents	Amortized cost (which approximates fair value)
Accounts receivable	Amortized cost
Investments in publicly traded companies	Fair value (determined using closing prices)
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost

Derecognition

The Authority removes financial liabilities, or a portion of, when the obligation is discharged, cancelled or expires.

Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in the consolidated statement of operations.

Foreign currency translation

Foreign currency transactions entered into directly by the Authority are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates. Other balance sheet items are translated at historical exchange rates. Revenue and expense items are translated at average rates of exchange prevailing during the year. Any resulting exchange gains and losses are included in the consolidated statement of operations in the current year. At year-end, monetary assets and liabilities denominated in U.S. dollars are translated using the exchange rate of U.S. $1 = Cdn $1.0051.

Management estimates

Management reviews the carrying amounts of items in the financial statements at each balance sheet date to assess the need for revisions. Many items in the preparation of these financial statements require management’s best estimate based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

These estimates are reviewed periodically and adjustments are made to earnings as appropriate in the year they become known.

Significant items subject to management estimates include:

Financial statement element	Management estimate
Accounts receivable	Allowance for doubtful accounts
Inventory	Obsolete inventory provision
Property and equipment	Asset useful lives

3. NET INVESTMENT IN DIRECT FINANCING LEASE

Net investment in direct financing lease consists of the following:

	2012 $	2011 $
Total minimum lease payments	**-**	409,396
Unearned lease revenue	**-**	(29,396)
	-	380,000
Less current portion	**-**	(95,000)
Non-current portion	**-**	285,000

Under the terms of the lease, the lease term is a twelve-month period from the commencement date of the lease. The lessee has the option to renew the lease for a further term of twelve months for a maximum of four renewals. The rent is set at 5% of the base price repayable over twelve months. The lease rent is equal to the base price times the interest rate of the Authority's banker's acceptance rate and stamping fee plus 2.5% adjusted monthly. The agreement also includes a renewal principal repayment equal to 10% of the base price payable on each anniversary of the commencement date in order to extend the lease term. The lessee may purchase the equipment at the end of any lease term for the remaining principal plus $58,950.

4. ACCOUNTS RECEIVABLE

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Trade	**1,028,682**	871,560	631,695
Allowance for doubtful accounts	**(49,992)**	(3,223)	(9,167)
Accrued receivables	**-**	26,878	39,443
Harmonized sales taxes receivable	**79,808**	80,089	-
Grants receivable	**224,720**	-	-
	1,283,218	975,304	661,971

5. PROPERTY AND EQUIPMENT

Details of year-end property and equipment balances are as follows:

	Cost $	Accumulated amortization $	December 31, 2012 Net book value $	December 31, 2011 Net book value $	January 1, 2011 Net book value $
Airside equipment	**3,759,762**	**1,036,390**	**2,723,372**	2,669,122	2,865,069
Computer hardware	**207,534**	**207,534**	**-**	-	4,737
Computer software	**522,793**	**476,205**	**46,588**	2,437	10,050
Land and land transfer costs	**1,031,411**	**45,934**	**985,477**	988,539	991,601
Land development costs	**4,183,710**	**989,892**	**3,193,818**	3,011,392	3,165,791
Leasehold improvements	**8,486,321**	**2,867,686**	**5,618,635**	4,374,645	2,034,447
Office furniture and equipment	**266,654**	**181,011**	**85,643**	77,627	59,120
Runway upgrades	**9,736,742**	**2,659,036**	**7,077,706**	7,514,132	7,319,094
Security upgrades	**3,183,786**	**3,183,786**	**-**	159,191	795,956
Vehicles and equipment	**2,356,115**	**1,912,887**	**443,228**	513,818	489,723
	33,734,828	**13,560,361**	**20,174,467**	19,310,903	17,735,588

Amortization for the year is $1,652,641 [2011 - $1,878,001]. Included in property and equipment balances are $376,436 of land development assets not being amortized as they are not in use.

6. INVESTMENTS

	2012 Cost $	2012 Market $	2011 Cost $	2011 Market $
Cash and cash equivalents	**860,146**	**860,574**	571,054	572,169
Fixed income	**6,566,484**	**6,823,432**	6,551,013	6,887,536
Equities	**7,994,332**	**8,978,359**	7,651,449	8,020,526
Total	**15,420,962**	**16,662,365**	14,773,516	15,480,231

7. INVESTMENT IN IFIDS.COM INC.

[a] The Authority's 50% interest in IFIDS.COM INC. is accounted for using the equity method.

	2012 $	2011 $
Balance, beginning of year	**4,049**	(4,805)
Earnings for year	**2,863**	8,854
Balance, end of year	**6,912**	4,049

[b] Financial information of IFIDS.COM INC. is as follows:

	2012 $	2011 $
Balance sheet		
Total assets	**303,255**	294,988
Total liabilities	**391,808**	389,266
Net assets	**(88,553)**	(94,278)
Authority's share of deficit	**(44,277)**	(47,139)
Earnings statement		
Sales	**297,846**	378,500
Cost of sales	**57,894**	115,360
	239,952	263,140
Expenses	**233,645**	244,205
Interest and other income	**(582)**	(1,227)
Earnings for year	**5,725**	17,708
Authority's share of net earnings	**2,863**	8,854

8. BANK INDEBTEDNESS

TD Canada Trust

The Authority has available a demand operating loan of $550,000 bearing interest at the bank's prime lending rate plus 0.5% per annum [3.50% at year-end]. As collateral, the Authority has provided a general security agreement representing a first floating charge subject to the Ministry of Transport's first position on all assets except accounts receivable, chattel paper, document of title, instrument and money.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Accounts payable and accrued liabilities	**1,709,206**	2,210,731	1,517,492
Government remittances	**5,306**	5,365	3,661
Income taxes	**6,706**	8,481	(610)
Harmonized sales taxes payable	**-**	-	53,323
	1,721,218	2,224,577	1,573,866

10. INTERIM CONSTRUCTION DEMAND FACILITY

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Interim demand facility (multiple draw) up to a maximum of $2,808,370, interest only payments monthly at the applicable banker's acceptance rate plus a stamping fee of 0.95% [2.17% combined at year-end], maturing December 31, 2013 by way of a committed term loan which will be payable over 20 years. As collateral, the Authority has provided a general security agreement as described in note 8 and a fixed charge on specific equipment, compensating balance of investments, and assignment of insurance.	**1,117,000**	117,000	-

11. LONG-TERM DEBT

[a]	**December 31, 2012** $	December 31, 2011 $	January 1, 2011 $
Ontario Ministry of Finance $360,000 interest-free loan, payable in five equal instalments commencing 2011, discounted using a 4.2% effective interest rate.	**198,743**	259,626	318,009
Toronto-Dominion Bank Term loan, repayable in monthly instalments of $27,000 plus interest and a stamping fee of 0.95% per annum [2.17% combined at year-end]. As collateral, the Authority has provided a general security agreement as described in note 8, a fixed charge on specific equipment, compensating balance in investments and cash, and assignment of insurance.	**151,000**	475,000	799,000
Term loan repayable in monthly instalments of $10,750 plus interest and a stamping fee of 0.95% per annum [2.17% combined at year-end]. As collateral, the Authority has provided a general security agreement as described in note 8 and a fixed charge on specific equipment and assignment of insurance.	**397,750**	526,750	655,750
Carried forward	**747,493**	1,261,376	1,772,759

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Brought forward	**747,493**	1,261,376	1,772,759
Toronto-Dominion Bank Term loan repayable in monthly instalments of $20,232 plus interest and a stamping fee of 0.95% per annum [2.17% combined at year-end]. As collateral, the Authority has provided a general security agreement as described in note 8 and a fixed charge on specific equipment, compensating balance in investments, and assignment of insurance.	**3,156,062**	3,398,846	3,641,630
Term loan repayable in monthly instalments of $10,750 plus interest and a stamping fee of 0.95% per annum [2.17% combined at year-end]. As collateral, the Authority has provided a general security agreement as described in note 8 and a fixed charge on specific equipment and assignment of insurance. - Draw #1, repaid in the year.	**-**	380,000	475,000
	3,903,555	5,040,222	5,889,389
Less amounts included in current liabilities	**594,784**	862,784	862,784
Long-term portion	**3,308,771**	4,177,438	5,026,605

[b] Principal repayments, based on the undiscounted cash flows required over the next five years, are as follows:

	$
2013	594,784
2014	443,784
2015	443,784
2016	253,534
2017	242,784
Thereafter	1,942,142
	3,920,812

The Authority has available an interim demand facility (multiple draw) up to a maximum of $1,250,000, interest only payments monthly at prime lending rate plus 0.5% per annum plus a stamping fee of 0.95% per annum. In the absence of demand, the facility is to be repaid in full by no later than September 30, 2013.

The Authority also has a committed reducing term facility (single draw) at the Authority's option by the way of a fixed rate term loan or a floating rate term loan which will be payable over 10 years.

12. RETIREMENT ALLOWANCE LIABILITY

Under the terms of the transfer agreement with Transport Canada, the Authority assumed the Government of Canada's obligation to pay its former employees compensation upon retirement or termination in accordance with the collective agreements. The Authority has continued to record the liability in accordance with the agreements.

Information about the Authority's retirement allowance liability is as follows:

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Balance, beginning of year	**424,300**	421,595	454,734
Expense for the year	**31,206**	28,602	31,665
Benefits paid during the year	**(51,927)**	(25,897)	(64,804)
Balance, end of year	**403,579**	424,300	421,595

13. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions related to property and equipment represent the unamortized amount of contributions received for the purchase of property and equipment. The amortization of capital contributions is recorded as revenue in the consolidated statement of operations.

	December 31, 2012 $	December 31, 2011 $	January 1, 2011 $
Balance, beginning of year	**1,994,963**	2,734,674	3,438,647
Contributions received during year	**224,721**	32,500	-
Amortization	**(222,101)**	(772,211)	(703,973)
Balance, end of year	**1,997,583**	1,994,963	2,734,674

14. INVESTMENT IN PROPERTY AND EQUIPMENT

[a] Investment in property and equipment is calculated as follows:

	2012 $	2011 $
Property and equipment at net book value	**20,174,467**	19,310,903
Amounts financed by:		
Deferred capital contributions	**(1,997,583)**	(1,994,963)
Interim construction demand facility	**(1,117,000)**	(117,000)
Long-term debt	**(3,903,555)**	(4,660,222)
	13,156,329	12,538,718

[b] Change in net assets investment in property and equipment is calculated as follows:

	2012 $	2011 $
Excess (shortfall) of revenue over expenses		
Amortization of deferred capital contributions	**222,101**	772,211
Amortization of property and equipment	**(1,652,641)**	(1,878,001)
Interest added to long-term debt	**(11,117)**	(13,617)
Asset write-down	**-**	(189,592)
	(1,441,657)	(1,308,999)

[c] Net change in investment in property and equipment:

	2012 $	2011 $
Purchase of property and equipment	**2,516,205**	3,642,908
Amounts funded by:		
Restricted contributions	**(224,721)**	(32,500)
Loan proceeds	**(1,000,000)**	(117,000)
Repayment of long-term debt	**767,784**	767,784
	2,059,268	4,261,192

15. STATEMENT OF CASH FLOWS

[a] The net change in non-cash working capital accounts related to operations is represented by the following:

	2012 $	2011 $
Decrease (increase) in current assets		
Accounts receivable	**(307,914)**	(313,333)
Inventory, at cost	**666,297**	(737,711)
Prepaid expenses and deposits	**(222,746)**	(20,898)
	135,637	(1,071,942)
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	**(503,359)**	650,711
Due to the Municipality of Red Lake	**62,913**	(27,305)
Due to the Marcel Boschung AG	**(670,220)**	785,647
Deferred revenue	**36,583**	(55,742)
Security deposits	**(12,500)**	22,500
	(1,086,583)	1,375,811
	(950,946)	303,869

[b] During the year, property and equipment were acquired at an aggregate cost of $2,516,205 [2011 - $3,642,908] of which $224,721 [2011 - $32,500] were funded by restricted contributions and $1,000,000 [2011 - $117,000] were funded by means of long-term debt. Cash payments and net proceeds of disposition of $1,291,484 [2011 - $3,493,408] were used to purchase property and equipment.

16. COMMITMENTS

The Authority has a Ground Lease with Transport Canada which calculates rent as a percentage of revenue using an escalating percentage of Airport Revenue which has the following ranges: 0% for revenue below $5 million, 1% for revenue between $5 and $10 million, 5% for revenue between $10 and $25 million, 8% for revenue between $25 and $100 million, 10% for revenue between $100 and $250 million, and 12% for revenue in excess of $250 million.

17. PENSION PLANS

The Authority sponsors a pension plan on behalf of its employees which has defined benefit and defined contribution components.

The defined contribution component of the pension plan has 14 employees currently participating in it.

Employer contributions amounted to $471,000 and employee contributions amounted to $42,000 in 2012. Benefit payments totalled $68,000 in 2012. The Authority has an accrued benefit asset of $1,090,000 at December 31, 2012 [2011 - $802,000].

Based on the actuarial valuation, the fair value of the entire plan assets and the accrued benefit obligation as of the most recent actuarial extrapolation at December 31, 2012 were $5,631,000 and $6,260,000 respectively, leaving a deficit of $629,000.

The significant actuarial assumptions adopted in measuring the Authority's accrued benefit obligations as of January 1, 2012 are as follows:

Discount rate	4.50%
Expected long-term rate of return on plan assets	6.50%
Rate of compensation increase	4.00%

18. FINANCIAL INSTRUMENTS

[a] Fair value

The fair values of cash and cash equivalents, accounts receivables, and accounts payable and accrued liabilities are not materially different from their carrying values due to the short-term nature of these financial instruments. The fair value of investments and long-term debt are reflected in the consolidated statement of financial position.

[b] Credit risk

Credit risk is the risk that a third party will fail to discharge its obligation to the Authority reducing the expected cash inflow from the Authority assets recorded at the balance sheet date. Credit risk can be concentrated debtors that are similarly affected by economic or other conditions. A significant portion of the Authority's revenues and resulting receivable balances are derived from airlines. The Authority performs ongoing credit valuations of receivable balances and maintains provision for potential credit losses.

[c] Interest rate risk

The Authority is exposed to interest rate risk for certain of its financial assets and liabilities. Under the revolving terms of credit, the Authority may have short-term borrowings for working capital purposes, which would expose the Authority to fluctuations in short-term interest rates (borrowings in the form of prime rate loans in Canadian dollars).

[d] Foreign exchange risk

The Authority's foreign currency translation policy is described in note 2. The Authority does not enter into foreign currency futures and forward contracts to manage its exposure to foreign currency fluctuations.

[e] Market risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Authority is exposed to other price risk through its investment quote in an active market.

The Authority mitigates price and concentration risk of these financial instruments by holding investment with three different investment management companies and managing the investment mix of Canadian, U.S. and International equities and fixed income bonds and preferred shares.

19. CONTINGENT LIABILITIES

The Authority is subject to legal proceedings and claims from time to time, which arise in the normal course of business for which the amount of settlement, if any, is indeterminable at this time. The settlement, if any, will be expensed in the financial statements at the time of settlement.

20. ASSET WRITE-DOWN

In 2011, the Authority recognized an expense related to previous costs capitalized for building design. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. Since the Authority no longer intends to make use of the design plans the full amount of the asset was expensed in 2011.

Thunder Bay International Airports Authority Inc.
Consolidated Schedule of Revenue

Year ended December 31	**2012**	2011
	$	$
Airside	**2,943,874**	2,778,568
Industrial land leases	**627,553**	585,608
Miscellaneous	**175,775**	140,333
Parking and ground transportation	**1,474,520**	1,371,122
Terminal	**3,883,674**	3,595,604
Federal rent recovery	**32,702**	29,768
	9,138,098	8,501,003
Revenue from business initiatives	**1,023,480**	992,082
	10,161,578	9,493,085

Included in revenue from business initiatives are net sales and commissions as follows:

	2012	2011
	$	$
Equipment sales revenue	**1,861,000**	795,000
Parts sales and other commissions	**53,357**	105,215
	1,914,357	900,215
Direct costs		
Cost of equipment	**1,716,507**	730,400
Parts	**46,685**	82,155
	1,763,192	812,555
Net sales and commissions	**151,165**	87,660

THUNDER BAY
International Airports Authority Inc.

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