2012 ANNUAL REPORT

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Saint John Airport

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Your YSJ Saint John Airport

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Saint John Airport Inc.

Saint John Airport Inc. is a community-based, not-for-profit company, governed by a nominated and elected Board of Directors and operated by a management team.

The Saint John Airport is a key driver to the economic and social development of the Greater Saint John area and to southern New Brunswick.

Vision Statement

The Saint John Airport will be a premier gateway to Canadian and trans-border destinations, offering the highest standards of safety and customer service to the New Brunswick community.

Key Strategies

- Promote Saint John Airport's capabilities and seek non-stop scheduled service to the United States.
- Develop a strategic plan for growth by focusing on customer service.
- Ensure the management team will be leaders in communicating the Saint John Airport's vision and branding through a published list of performance standards.

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

2012 was quite an eventful year. Since being elected Chairman, the Board has faced some unique challenges and major decisions as to the future direction of the airport. The Board sought assistance from Price Waterhouse Coopers, who in turn introduced Mintage Financial Corporation, an aviation advisory group with more than 30 years in revitalization experience to evaluate the airport and assist with increasing traffic. The Board hired Mintage in June with the mandate to:

- Expand passenger services with Air Canada;
- Obtain new direct services to a major 'gateway' airport in the United States; and
- Improve the services to the rest of Eastern Canada, particularly Halifax and Newfoundland.

October saw a change in some senior management, and Mintage helped the Board to hire David Allen as new President and CEO for the airport. David joined the airport effective October 15, 2012 and comes with over 40 years of aviation experience that ranges from airline training, commercial flying, leading a major aviation manufacturer and many years consulting with airports and airlines around the world. David's role is to work with Mintage and the airline industry to grow the airport's business and passenger traffic by providing access to major airports in the United States and improving access to the rest of Canada.

Our management team and staff continue to operate our airport efficiently and professionally with the continued approval of the regulators, passengers, airlines and other users.

You have a very dedicated and hardworking Board of Directors, who is guiding the airport through tough economic times and a turbulent time in the industry. Changes will continue to occur in the airline and travel industries, and these will continue to be on the Board's agenda.

I want to give a warm welcome to Jonathan McKenzie, Ross Jefferson and Nell Halse to the Board, and I look forward to working with them to make our airport the best in New Brunswick. I also want to say thank you for a job well done to Wayne Power, Kathleen MacDonald and Doug Gaudett, whose terms have expired and as a result have retired from the Board. The nomination of Christopher Waldschutz was renewed and he starts a new three-year term.

In closing, I would like to thank all who have worked so tirelessly during this year in an effort to move the Saint John Airport forward, in line with our vision for the future – to the benefit of our entire community.

Norman McFarlane
Chairman, Board of Directors

MESSAGE FROM THE CEO

As new CEO, I have to say that 2012 has been a busy, exciting year. At the onset, I must thank the Board and staff for their support and commitment in seamlessly integrating me into the team.

So much has been accomplished by the team in the short time I have been CEO.

In 2012, our passenger count increased by 4.5 per cent over 2011, to 216,000 passengers coming through the airport. We anticipate a further increase in passengers throughout 2013, as Sunwing has introduced a new destination, Punta Cana in the Dominican Republic. On the other hand, Air Canada will be reducing capacity on the Montreal evening flight, as a result of an expected redeployment of their Q400 aircraft to Western Canada. This shift will not have a big effect on the airport, and we will continue to work with Air Canada to increase the frequency of service to more destinations in general.

We have been working with Board-appointed consultants to develop a plan to reinvigorate the airport and increase passenger traffic. Due to this work, discussions with Air Canada have been initiated and are progressing positively. Any discussion with an airline is a long process, and airlines require up-to-date passenger data and economic rationale to support the case for more frequent service. To get a better understanding of the passenger demand out of Saint John, it necessitated an in-depth review of the travel needs and demands of businesses in the Saint John catchment area and of local travel agencies. Over 35 companies were interviewed and the data collected will be used to inform Air Canada as to the needs of the travelling public within our local catchment area. During this process, we have established that over 45 per cent of the travellers in our area use other airports in the province, or drive to Halifax to get flights to where they want to go and at the air fare they are willing to pay. We are working to help change that.

To maintain our high customer service standards, we realize that the airport's infrastructure also needs to expand and change to enable passenger growth, so we are exploring various avenues to modernize the terminal and improve the passenger experience. Our goal is to turn the airport into a more passenger-friendly facility. Some changes have been initiated to improve the terminal, with the creation of an extra washroom and additional seating in the departure lounge. A general refurbishment of the terminal is being planned and will commence in 2013. We are also working to improve parking at the airport.

In support of our airlines, we initiated joint advertising campaigns with Sunwing and Air Canada to increase awareness of our airport's unique offerings and convenient, direct flights to sought-after destinations. The advanced bookings for Sunwing are already showing an increase in passenger interest. We will continue to monitor our marketing efforts, including results-focused marketing campaigns with our partner airlines.

I would like to again thank the staff and the Board for their commitment and personal support as I have stepped into my new role as CEO. We're slated to have a busy and exciting year at the airport. Together, I am sure we will see all of our goals and objectives achieved.

David Allen

David Allen
President and CEO

Saint John
Airport Inc.

BOARD OF DIRECTORS AS OF DECEMBER 2012

Chair: Norman McFarlane
Nominated by: Transport Canada
Term ends June 2013

Vice-Chair: Philip Reeves
Nominated by: Regional Mayors' Caucus
Term ends June 2014

Nell Halse, Cooke Aquaculture
Nominated by: Enterprise Charlotte
Term ends December 2015

Ron Oldfield, United Way of Greater Saint John
Nominated by: Saint John & District Labour Council
Term ends April 2014

Gary Rent
Nominated by: Enterprise Fundy
Term ends April 2013

Jamie Irving, Brunswick News Inc.
Nominated by: Saint John Board of Trade
Term ends May 2014

Norma Eaton, Rockies Sports Bar/
Relish Gourmet Burgers
Nominated by: New Brunswick Ministry of Transportation
Term ends June 2014

Ross Jefferson, Discover Saint John
Nominated by: City of Saint John
Term ends October 2015

Troy Northrup, Northrup Group
Nominated by: Enterprise Saint John
Term ends April 2014

Owen Green, Adams Green Consulting Ltd.
Nominated by: Saint John Airport Inc.
Term ends March 2013

Jonathan McKenzie, Irving Oil
Nominated by: City of Saint John
Term ends September 2015

Christopher Waldschutz
Nominated by: Transport Canada
Term ends October 2015

Saint John Airport Inc. Board Committees

FINANCE, AUDIT & INVESTMENT COMMITTEE
Chair - Jonathan McKenzie

A committee of five Directors, the CEO and Director of Finance and Administration meet on a regular basis to review the operational and corporate financial activities; review the Annual Business Plan, Capital Plan and Financial Budget; and make appropriate recommendations to the Board of Directors.

The annual audit is reviewed with the Corporation's auditors prior to presentation to the Board of Directors for approval. The Finance & Audit Committee recommends investment options to the Board and, as required, recommends options for the appointment of the Corporation's auditors.

GOVERNANCE COMMITTEE
Chair – Ross Jefferson

A committee of five Directors, the CEO, and the Manager of Regulatory Affairs meet to review Board policies, the corporation's bylaws and the Public Accountability Principles for Canadian Airports to ensure compliance with relevant legislation, regulations and current policies and procedures. New Board member recruitment and orientation are also the responsibility of this committee. This committee evaluates Board training options, committee Terms of Reference, Board composition and any potential gaps in Board expertise and diversity.

AIR SERVICE COMMITTEE
Chair – Jamie Irving

A committee of five Directors and the CEO meet as required to determine air service priorities and develop strategies for airline attraction. Committee members also seek and recruit community support for airline attraction activities, and expertise for presentations to potential airline partners, all in an effort to broaden our air service options.

FACILITIES AND GROWTH COMMITTEE
Chair – Norman McFarlane

A committee of six Directors and senior management meet, as required, to develop recommendations on infrastructure improvements and development and strategies for commercial growth opportunities. They provide guidance on matters related to long-term growth and viability, revenue diversification and land development options.

EXECUTIVE COMMITTEE
Chair – Norman McFarlane

A committee of six Directors meets from time-to-time, in between regular meetings of the Board, to deal with matters pertaining to the direction of the affairs and business of the Corporation.

Safety, Security, Environmental Responsibility & Operational Efficiency: Cornerstones at Saint John Airport

Regulatory Responsibilities & Obligations

All regulatory responsibilities and obligations will be achieved and, where reasonable, standards will be exceeded.

Safety Achievements

Safety is paramount for operating standards of the business. This year we completed the final phase of our Safety Management System (SMS) implementation – a risk-based approach to managing aviation safety. This has led to improvements in inter-agency communication, wildlife control and the implementation of a new electronic runway condition reporting system.

Following Labour Canada guidelines, our Joint Occupational Health and Safety Committee also completed a job hazard analysis. Field staff completed safety-related training including First Aid, WHMIS, Confined Space Entry and Live Fire Training for our firefighters.

Security Achievements

No deviation from security standards, in fact or implied, will be acceptable. Standards directed by federal legislation will be considered a minimum in developing local protocols.

We also developed and delivered a new security training module to our facility security team (Canadian Corps of Commissionaires) this year, and completed three table-top emergency exercises.

Environmental Responsibility

We are committed to ensuring that the many aspects of environmental protection for our constituents will be met or exceeded.

This year, we developed and initiated a new risk-based model for Environmental Management. Based on an ISO approach, the management system includes: water, wastewater, stormwater management, management plans for air quality, noise, wildlife, land use, and materials usage. We undertook audits of our tenant facilities, performed upgrades on our wastewater treatment facility, installed new piping and alarms for our fuel storage tank and new stormwater monitoring wells on the airfield. We worked with the City of Saint John in their efforts to study water distribution infrastructure in the fall, and conducted a HazMat simulation exercise with the aircraft re-fuelling company.

Our materials management efforts include a recycling program for petroleum waste, batteries, used tires, as well as cans and bottles which are donated to a local minor hockey team for fundraising. Construction projects are reviewed for environmental impacts.

Operational Efficiency

Operations and Maintenance at Saint John Airport saw a change in management with long-time Airport employee Randy Herrell retiring from the position of Manager, Operations and Maintenance at the end of March. Brian Wiggins joined the team in early April to fill the role.

Investment infrastructures for 2012 included the purchase of new equipment for the fleet, new line-painting equipment and a newly rebuilt runway sweeper. These acquisitions will help maintain excellent runway availability amid winter conditions.

New technology has been implemented in the area of runway surface condition reporting. This type of reporting is mandatory by NavCanada and the benefits of the new system include timely and accurate information delivered in a much more efficient manner. Response to this system has been very favorable from system users and end users of the information.

Saint John Airport
and the Community

To heighten our community engagement efforts, we hosted a number of community events and employee celebrations in 2012. The three major events were the Royal Jubilee visit by the Prince of Wales and Duchess of Cornwall, the 2nd Annual Runway Run with over 300 runners and volunteers, and the YSJ Air Show that attracted more than 2,500 attendees and volunteers. The community response to these events was tremendous and the dedication of our staff was evident as they made the planning seem seamless.

Saint John Airport also demonstrated its commitment to the community by organizing or supporting the following events/initiatives:

- Planting of marigolds by Loch Lomond School
- Arrival of US Military helicopters
- Open house and tours for the arrival of CF 18 Hornets – Century of Powered Flight celebration
- Booth at Port Days
- Saint John Airport Night at the Saint John Sea Dogs Game
- Saint John Sea Dogs Welcome Home Party (from Memorial Cup tournament)
- Bare Necessities Campaign
- Loch Lomond School Choir at Christmas
- Saint John Sea Dogs Annual Banquet – award sponsorship

Moreover, the Airport celebrated the retirement of some of its employees by organizing the following events:

- Commissionaire Retirement Celebration: Ester VanWart, Terry Morris, Paul O'Connor & Paul Jacques recognized for their dedicated service to our airport.
- Departure party for firefighter Carolyn Moore who left to pursue other opportunities and further her career
- Retirement party for Randy Herrell for 36 years of dedicated service to our airport

This year was rich with memorable and successful events, and the Saint John Airport will ensure that 2013 demonstrates the same sense of community pride.

Planning for the Future

2012 Capital Initiatives

Capital Projects Implemented by the Saint John Airport in 2012 were:	
Runway Sweeper	$156,171
Runway reporting equipment	32,215
Fuel tank	28,265
CSB furnace	27,450
Security fencing	24,441
Light duty truck	20,545
Taxiway paving	10,892
Other fixed assets <$10,000	35,232
	$335,211

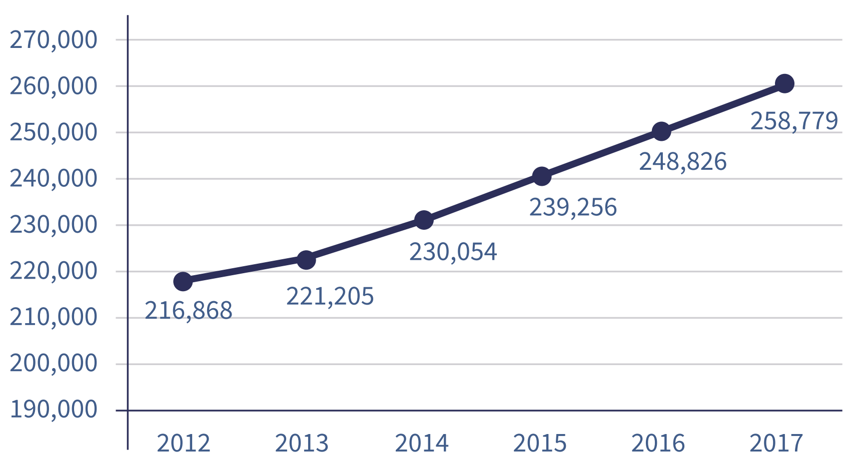
2012 Actual versus Business Plan

	Plan	Actual	fav (unfav)
Revenue[1]	4,785,843	5,082,873	297,030
Expenses[2]	4,373,929	4,158,873	215,056
Capital Expenditures	612,000	335,211	276,789

Business Plan Forecast 2013-2017

	2013	2014	2015	2016	2017
Revenue[3]	4,896,777	5,097,356	5,264,197	5,436,971	5,615,899
Expenses[2]	4,325,159	4,433,292	4,544,237	4,658,069	4,774,866
Capital Expenditures[4]	188,000	1,045,000	705,000	820,000	780,000

Five-Year Passenger Forecast



Notes:

1. Revenue includes Passenger Facility Fees and Operations.
2. Expenses include interest and do not include non-cash items of amortization of capital assets and the deferred grant.
3. Assumes passenger growth of 2% for 2013 and 4% for 2014 to 2017.
4. Capital forecast includes LED runway lighting, service road repaving and fleet equipment replacement.

Government funding will be required to complete major long-term infrastructure projects, such as runway resurfacing and upgrading, during the next five years. We seek to partner with all levels of government in our effort to secure the necessary funding.

Financial Review

The Saint John Airport Inc. was incorporated as a corporation without share capital on February 19, 1997 under Part II of the Canadian Corporation Act. On June 1, 1999 the corporation signed an agreement with the Government of Canada to transfer managerial, operational and developmental control of the Saint John Airport to the Corporation. The Saint John Airport Inc. is exempt from income tax according to the Airport Transfer (Miscellaneous Matters) Act. All earnings are retained and reinvested in airport operations and development. The Saint John Airport Inc. is not required to pay any rent to the Government of Canada until 2016.

The net earnings for 2012 were $449,485 compared to $359,198 in 2011. The 25% increase in net earnings is a result of an increase in passenger traffic of 4.1% and an increase in passenger derived revenue such as parking and concessions. All contributions are used to fund operational and capital works ranging from mobile equipment to airfield lighting.

A restricted Capital Asset Replacement Fund, established by the Board for the purpose of replacing capital assets grew to $4,537,792 over the prior year balance of $4,472,840 through investment interest income.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Saint John Airport Inc.

We have audited the accompanying financial statements of Saint John Airport Inc., which comprise the statement of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of changes in net assets, operations 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 auditors' 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 auditors consider 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. The audits also include 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.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Saint John Airport 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.

Teed Saunders Doyle Co.

CHARTERED ACCOUNTANTS

Saint John, NB
February 20, 2013

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

	2012	2011
ASSETS		
CURRENT		
Cash (Notes 3 and 4)	$ 847,798	$ 560,785
Accounts receivable (Notes 3 and 4)	474,987	360,838
Parts inventory (Note 3)	91,246	98,354
Prepaid expenses	96,888	64,604
	1,510,919	**1,084,581**
ACCRUED DEFINED BENEFIT PENSION ASSET (Notes 3 and 7)	668,000	477,000
RESTRICTED INVESTMENTS FOR CAPITAL ASSET REPLACEMENT (Notes 3 and 4)	4,537,792	4,472,840
CAPITAL (Notes 3 and 5)	6,619,515	7,284,915
	$ 13,336,226	**$ 13,319,336**
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Notes 3 and 4)	$ 554,890	$ 535,376
Harmonized sales tax payable	62,425	77,809
	617,315	613,185
PROVISION FOR RETIREMENT ALLOWANCE (Notes 3 and 7)	83,091	78,835
DEFERRED GRANT FOR AIRPORT CAPITAL IMPROVEMENTS (Notes 3 and 6)	2,999,590	3,505,523
NET ASSETS		
NET ASSETS		
Unrestricted	1,478,514	869,562
Invested in capital assets (Note 10)	3,619,924	3,779,391
Internally restricted-Replacement Reserve Fund (Note 3)	4,537,792	4,472,840
	9,636,230	9,121,793
	$ 13,336,226	**$ 13,319,336**

COMMITMENTS AND CONTINGENCIES (Note 8)
APPROVED ON BEHALF OF THE BOARD:

Jim McKenzie ____________________ Director   ____________________ Director

SAINT JOHN AIRPORT INC.

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Invested In Capital Assets	Subtotal	Replacement Reserve Fund	Total 2012	Total 2011
BALANCE AT BEGINNING OF YEAR	$ 869,562	$ 3,779,391	$ 4,648,953	$ 4,472,840	$ 9,121,793	$8,701,889
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURE	924,000	(474,515)	449,485	64,952	514,437	419,904
CAPITAL ASSETS PURCHASED	(335,211)	335,211	-	-	-	-
CAPITAL ASSETS DISPOSED OF	20,163	(20,163)	-	-	-	-
BALANCE AT END OF YEAR	**$ 1,478,514**	**$ 3,619,924**	**$ 5,098,438**	**$ 4,537,792**	**$ 9,636,230**	**$ 9,121,793**

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
REVENUE (Notes 3 and 9)		
Aircraft landing and terminal fees	$ 1,625,081	$ 1,369,837
Concessions	495,593	484,529
Vehicle parking	600,143	509,130
Land and office rentals	203,375	202,642
Other	134,111	147,649
Interest income	2,590	602
Amortization of deferred grant (Note 6)	505,933	526,837
	3,566,826	**3,241,226**
EXPENDITURE		
Salaries, wages and benefits	2,089,866	1,971,639
Materials, supplies and services	1,098,194	1,078,668
General and administrative	970,813	804,463
Amortization of capital assets	982,837	961,983
	5,141,710	**4,816,753**
DEFICIENCY OF REVENUE OVER EXPENDITURE BEFORE PASSENGER FACILITY FEE	(1,574,884)	(1,575,527)
PASSENGER FACILITY FEE (Notes 3 and 9)	2,024,369	1,934,725
EXCESS OF REVENUE OVER EXPENDITURE	**$ 449,485**	**$ 359,198**
ALLOCATED TO:		
Unrestricted	$ 924,000	$ 794,344
Invested in Capital Assets	(474,515)	(435,146)
	$ 449,485	**$ 359,198**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
CASH PROVIDED BY (USED IN)		
Operating activities		
Excess of revenue over expenditure	$ 449,485	$ 359,198
Items not involving cash		
Amortization of capital assets	982,837	961,983
Amortization of deferred grant	(505,933)	(526,837)
Gain on disposal of capital assets	(2,389)	-
Increase in accrued defined benefit pension asset	(191,000)	(119,000)
Increase in provision for retirement allowance	4,256	3,272
	737,256	**678,616**
Changes in non cash working capital balances		
Accounts receivable	(114,149)	(37,754)
Parts inventory	7,108	2,556
Prepaid expenses	(32,284)	(995)
Accounts payable and accrued liabilities	19,514	(81,023)
Harmonized sales taxes payable	(15,384)	10,327
	602,061	**571,727**
Investing activities		
Purchase of capital assets	(335,211)	(177,236)
Proceeds on disposal of capital assets	20,163	-
Investments restricted for capital asset replacement	-	(500,000)
	(315,048)	**(677,236)**
INCREASE (DECREASE) IN CASH	287,013	(105,509)
CASH AT BEGINNING OF YEAR	560,785	666,294
CASH AT END OF YEAR	**$ 847,798**	**$ 560,785**
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest received	$ 67,542	$ 61,308

NOTES TO THE FINANCIAL STATEMENTS

1. Incorporation and Activities

Saint John Airport Inc. (the "Corporation") was incorporated on February 19, 1997 under the Companies Act of New Brunswick as a non-share capital, not-for-profit corporation.

On June 1, 1999, the Corporation signed an agreement with the Government of Canada to transfer managerial, operational and developmental control of the Saint John Airport to the Corporation. Effective that date, the Corporation signed a ground lease agreement (the "ground lease") with the Government of Canada which provides that the Corporation will lease the airport facilities for an initial term of sixty years. A twenty year renewal option may be exercised but at the end of the renewal term, unless otherwise extended, the Corporation is obligated to return control of the Saint John Airport to the Government of Canada. Regulation of Safety Standards for the airport continues to be the responsibility of the Government of Canada, but the Corporation is responsible for operating the airport safely.

Income arising from the operation of the Saint John Airport is exempt from federal and provincial income taxes. The Corporation is subject to HST and real property tax.

2. First-Time Adoption of Accounting Standards For Not-For-Profit Organizations

During the year, the corporation adopted accounting standards for not-for-profit organizations (ASNPO). These financial statements are the first prepared in accordance with these standards. The adoption of ASNPO had no impact on net assets as at January 1, 2011 or operations or cash flows for the year ended December 31, 2011 as previously reported in accordance with pre-changeover Canadian generally accepted accounting principles.

With regard to the corporation's transition from former Canadian generally accepted accounting principles (GAAP) to ASNPO, the organization has not made any elections available under Canadian Institute of Chartered Accountants (CICA) Handbook Section 1501 of Canadian accounting standards for not-for-profit organizations:

The balance sheet at January 1, 2011 has no restatements.

ASSETS	
CURRENT	
Cash	$ 666,294
Accounts receivable	323,084
Parts inventory	100,911
Prepaid expenses	63,608
	1,153,897
ACCRUED DEFINED BENEFIT PENSION ASSET	358,000
RESTRICTED INVESTMENTS FOR CAPITAL ASSET REPLACEMENT	3,912,134
CAPITAL	8,069,661
	$ 13,493,692
LIABILITIES	
CURRENT	
Accounts payable and accrued liabilities	$ 616,398
Harmonized sales tax payable	67,482
	683,880
PROVISION FOR RETIREMENT ALLOWANCE	75,563
DEFERRED GRANT FOR AIRPORT CAPITAL IMPROVEMENTS	4,032,360
NET ASSETS	
NET ASSETS	
Unrestricted	752,453
Invested in capital assets	4,037,302
Internally restricted –	
Replacement Reserve Fund	3,912,134
	8,701,889
	$ 13,493,692

3. Summary of Significant Accounting Policies

Lease with Government of Canada
The ground lease is accounted for as an operating lease.

Financial Instruments Policy
Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

Parts Inventory
Parts inventory is valued at the lower of cost or replacement value. Cost is determined on a first in, first out basis.

Capital Assets
Capital assets are stated at cost less accumulated amortization. As assets are put in use, amortization is provided for on a straight line basis at the following annual rates:

Leasehold improvements	
Buildings	5.0 to 20.0 %
Runways	5.0 to 20.0 %
Vehicles	5.5 to 25.0 %
Machinery and equipment	6.7 to 30.0 %
Systems and software	20.0 to 33.3 %
Furniture and fixtures	10.0 %

Restricted Investments for Capital Asset Replacement and Replacement Reserve Fund
The Board of Directors has established a Replacement Reserve Fund for the purpose of replacing capital assets. Transfers to and from the fund require approval from the Board of Directors. Interest earned on the fund is recorded as a direct increase in net assets of the Replacement Reserve Fund. In the prior year, the Board of Directors approved a transfer to the fund of $500,000.

The Replacement Reserve Fund is comprised of Guaranteed Investment Certificates and cash and is stated at cost plus accrued interest which approximates market value. At December 31, 2012 the market value was $4,537,792 (2011- $4,472,840).

Employee Future Benefits Defined Benefit Pension Plan
The Corporation has a contributory defined benefit plan for its employees. The Corporation has elected to report its employee future benefits using the deferral and amortization approach. Under this method, the cost of annual pension benefits are based on actuarial estimates using assumptions developed for reporting purposes. The accrued benefit asset reported represents the accumulated benefit costs less the corporation's contributions to date. Actuarial gains and losses and past service costs are deferred and amortized over future periods.

Deferred Grant for Airport Capital Improvements
In accordance with the terms of the ground lease the Corporation received a capital based grant of $6.3 million during the period ended December 31, 1999 from the Government of Canada. These funds, and all interest accrued thereon, have been spent on airport safety and security infrastructure capital projects. The deferred grant will be amortized to income on the same basis as the related capital assets acquired with the funds.

Revenue Recognition
Aircraft landing and terminal fees and parking revenues are recognized as the airport facilities are utilized. Concession revenues are recognized on the accrual basis and calculated using agreed percentages of reported concessionaire sales, with specified minimum rent guarantees. Rental revenues are recognized over the lives of respective leases. Passenger facility fees are recognized upon the enplanement of passengers.

Measurement Uncertainty
The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known.

Examples of significant estimates contained in these financial statements include:

- the allowance for doubtful accounts;
- the allowance for inventory obsolescence;
- the estimated useful lives of assets;
- the recoverability of tangible assets; and
- certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension obligations and pension plan assets.

4. Financial Instruments

The Corporation is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the company's risk exposure and concentration as of December 31, 2012.

Credit Risk
The Corporation is exposed to credit risk on the accounts receivable from its customers. The Corporation reviews a new customer's credit history before extending credit and conducts regular reviews of existing customer's credit performance. At December 31, 2012, accounts receivable consisted primarily of aviation fees and passenger facility fees arising from normal operations. A significant portion of the accounts receivable is from one customer and its subsidiaries.

Interest Rate Risk
Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The Corporation is not exposed to interest rate risk as it does not have any interest bearing debt.

Currency Risk
Currency risk is the risk to the Corporation's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Corporation is not exposed to this type of risk as it does not hold foreign currency.

Liquidity Risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to this risk mainly in respect of its receipt of funds from its customers, contributions to the pension plan and accounts payable.

5. Capital Assets

	2012			2011
	Cost	Accumulated Amortization	Net	Net
Leasehold improvements				
Buildings	$ 5,997,319	$ 3,041,344	$ 2,955,975	$ 3,243,855
Runways	6,193,776	3,348,879	2,844,897	3,196,306
Vehicles	2,399,725	1,874,038	525,687	534,486
Machinery and equipment	795,349	556,909	238,440	280,722
Systems and software	113,694	62,461	51,233	25,535
Furniture and fixtures	29,751	26,468	3,283	4,011
	$ 15,529,614	**$ 8,910,099**	**$ 6,619,515**	**$ 7,284,915**

6. Deferred Grant for Airport Capital Improvements

	2012	**2011**
Balance at beginning of year	$ 3,505,523	$ 4,032,360
Amortized during the year	(505,933)	(526,837)
Balance at end of year	**$ 2,999,590**	**$ 3,505,523**

7. Employee Future Benefits

	2012	**2011**
Accrued Defined Benefit Pension Asset	**$ 668,000**	**$ 477,000**
Provision for Retirement Allowance	**$ 83,091**	**$ 78,835**

Defined Benefit Pension Plan
On June 1, 1999, the Corporation joined the Canadian Airport Authorities and Canadian Port Authorities Pension Plan, a multi-employer pension plan. This plan covers employees of the Corporation who, immediately prior to joining the Corporation, were employees of the Federal Public Service and were accruing pension benefits under the Public Service Superannuation Act. The federal government remains responsible for all pension benefits accrued in respect of those individuals up to that time.

Pension assets consist primarily of Canadian and foreign equity and fixed income funds. The fair value of the plan assets is based on management's best estimate of the long term rate of return on the pension asset portfolio. Pension benefit obligations are determined based on management's best estimate of long term salary escalation rates and are discounted based on management's best estimate of long term interest rates. The significant actuarial assumptions used in measuring the Corporation's accrued benefit obligation and the fair value of the plan assets are as follows:

	2012	2011
Expected long term rate of return on assets	6.50%	6.50%
Rate of compensation escalation	4.00%	4.00%
Discount rate	4.50%	5.10%

Variances between such estimates and actual experience, which may be material, are amortized over the life expectancy of retired members.

The Corporation bears the risk of experience loss against the above assumptions. The maximum risk of loss is equal to the difference between the fair value of the pension benefit obligation and the amount of the pension benefit obligation accrued in the financial statements. Should actual experience differ from the assumptions, future contributions will be adjusted to make up for any variances. Risk is managed by placing the pension plan assets in trust and through the pension investment policy, which defines the plan's allowable investments.

Actuarial reports prepared are based on projections of employees' compensation levels to the time of retirement and estimates of long term interest rates provided by the plan's management. The most recent actuarial valuation was performed as at January 1, 2012. The valuation was performed using the Attained Age Normal Actuarial Cost Method to determine the minimum employer contribution under the Pension Benefits Standards Act and the maximum deductible contribution according to the Income Tax Act of Canada. Based on the recommendations of the Plan's actuary, the employer contributions for the year were set at 22.9% (2011-22.7%) of the employees' earnings plus an additional special contribution of $15,617 per month (2011-$11,317). These contribution requirements will remain in effect until the next actuarial valuation scheduled for January 1, 2013.

Information about the defined benefit portion of the plan as at December 31 is as follows:

	2012	2011
Fair market value of plan assets	$ 3,084,000	$ 2,659,000
Accrued benefit obligation	3,457,000	2,996,000
Funded status plan deficit	(373,000)	(337,000)
Unamortized net actuarial loss	1,041,000	814,000
Accrued benefit asset	**$ 668,000**	**$ 477,000**
Accrued benefit asset beginning of year	$ 477,000	$ 358,000
Net pension expense for the year	(92,000)	(136,000)
Employer contributions	283,000	255,000
Accrued benefit asset end of year	**$ 668,000**	**$ 477,000**
Employee contributions	$ 20,000	$ 26,000
Pension and termination benefits paid	108,000	88,000

The actuarial present value of accumulated benefits for the 2012 fiscal year is based on an extrapolation provided by the actuaries. The actuaries believe that the financial results would not differ materially from the extrapolation if a formal valuation was performed at year end.

Defined Contribution Pension Plan

The Corporation's defined contribution pension plan covers new employees who have joined the Corporation since June 1, 1999. Employees covered by this plan are required to contribute 5% of their earnings which are matched by the Corporation. All employer contributions vest with the employee after two years of service with the Corporation. During the year the Corporation contributed $44,718 (2011 $37,087) towards this plan.

Retiring Allowance

Following the guidelines set forth by the Saint John Airport Collective Agreement, employees who have ten or more years of service are entitled to a retirement allowance of one week's pay per year of service since June 1, 1999. This is limited to a maximum of thirty weeks of pay. During the current year, the Corporation paid $7,629 (2011 $12,382) in retiring allowances.

8. Commitments and Contingencies

As described in Note 1 to the financial statements, the Corporation signed a ground lease agreement with the Government of Canada which provides that the Corporation will lease the airport for an initial term of sixty years. A twenty year renewal option may be exercised but at the end of the renewal term, unless otherwise extended, the Corporation is obligated to return control of the Saint John Airport to the Government of Canada.

a) Under the terms of the amended ground lease, the occupation of the airport by the Corporation is rent free until the year 2016. From the year 2016 onwards, the rent formula will be as follows: no rent charged on the first $5,000,000 of airport revenue; 1% of the portion of airport revenue in excess of $5,000,000 but equal to or less than $10,000,000; 5% of the portion of airport revenue in excess of $10,000,000 but equal to or less than $25,000,000; 8% of the portion of airport revenue in excess of $25,000,000 but equal to or less than $100,000,000; 10% of the portion of airport revenue in excess of $100,000,000 but equal to or less than $250,000,000; and 12% of the portion of airport revenue in excess of $250,000,000.

b) An environmental site assessment on the Saint John Airport property was carried out in December 1998 by the Government of Canada and the report that was issued is referred to as the Environmental Baseline Study Report. This report was to identify the extent of the hazardous substances that existed as of December 1998 and extended to the June 1, 1999 transfer date. Article 37 of the Ground Lease for the airport will govern responsibility for any remedial work, if necessary.

The responsibility for any liability that may arise in the future relating to the existence of a hazardous substance originating before the transfer on June 1, 1999 to the Corporation rests with the Government of Canada. The Corporation has responsibility for any environmental liabilities that arise from hazardous substances that occur subsequent to the transfer date. At December 31, 2012 there are no known environmental liabilities.

9. Economic Dependence

The Corporation derives a significant amount of revenue from Air Canada and its subsidiaries and consequently, is economically dependent on this customer.

10. Net Assets Invested in Capital Assets

	2012	**2011**
Invested in capital assets, beginning of year	$ 3,779,391	$ 4,037,302
Amortization of capital assets	(982,837)	(961,983)
Amortization of deferred grants	505,933	526,836
Loss on disposal of capital assets	2,389	-
Purchase of capital assets	335,211	177,236
Proceeds on disposal of capital assets	(20,163)	-
Invested in capital assets, end of year	**$ 3,619,924**	**$ 3,779,391**

11. Comparative Figures

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

COMPENSATION AND DISCLOSURES

Compensation for the Board of Directors and Management

BOARD & MANAGEMENT TEAM

Annual Fee to the Chairman	$5,000
Annual Fee to Directors	$1,000

The Chairman and Directors receive $100 per meeting.

The total compensation paid to the Board of Directors was $29,885.

The total compensation paid to the management team was $592,020 which includes compensation to three managers who departed during the year.

CODE OF CONDUCT

All Directors have completed "Disclosure Statements" and there were no instances of real or potential "Conflicts of Interest" brought before the Board of Directors during 2012.

Contracts awarded over $75,000
With Public Tender / By Invitation

A contract for cleaning services was awarded to J. Valle Enterprises Ltd.

A contract to rebuild a runway sweeper was awarded to Airport Technologies Inc.

Contracts awarded over $75,000
Without Public Tender

A contract to provide consulting and financial services was awarded to Mintage Financial Corporation as few Canadian companies provide air service and financial consulting and Mintage was strongly recommended by Price Waterhouse Coopers.

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