WINNIPEG AIRPORTS AUTHORITY

2012 Annual Report

Vision, Mission, and Values

Our Vision
To lead transportation innovation and growth

Our Mission
With our community, we provide excellent airport services and facilities in a fiscally prudent manner

Our Values
Respect | Integrity | Service | Excellence

Our Strategic Directions

Enhance customer service and value
We will understand our customer needs and assure value through measurements relevant to them.

Deliver and operate excellent facilities and services
We will deliver safe, secure and environmentally sound facilities and services incorporating universal design principles.

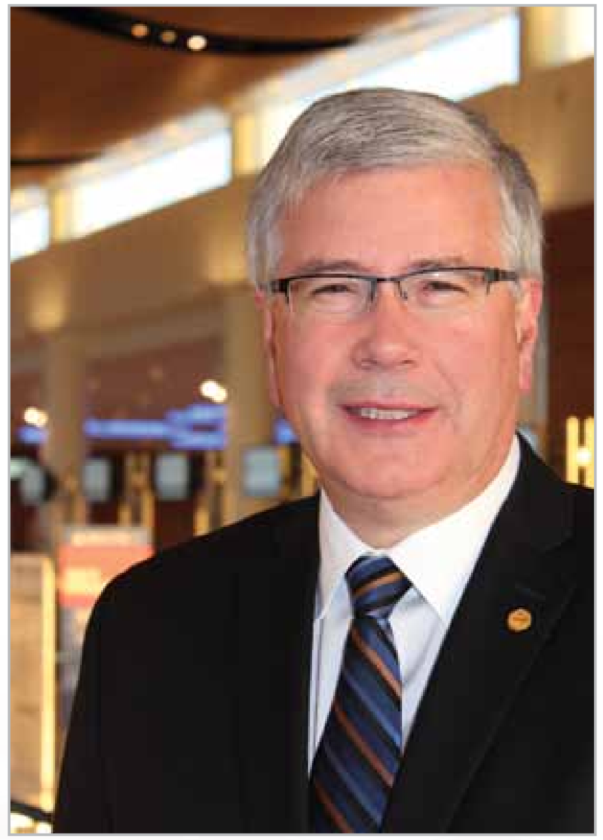
Expand air service to and from Winnipeg
To improve Manitoba's link to the world, we will build on our 24 hour access and our intermodal connectivity.

Be an effective community partner
We will be a source of pride for our community and a leader in its growth and development.

Develop and realize employee potential
Our team attracts and inspires excellence. We have engaged employees, with the right skills, in the right place at the right time.

Develop new revenue streams
Through business development initiatives, we will seek opportunities that will enhance and diversify our revenue streams.

A Message from the Board Chair



Mr. Garth Smorang, Board Chair

As I commence my role as Chair of the Board of Directors of Winnipeg Airports Authority, I reflect on the importance and honour in serving one's community. Our role as board members is to govern with integrity the management of Winnipeg Airports Authority and its affiliated subsidiaries in the best interest of the community.

And to one who upheld this responsibility, I thank our immediate past Chair, Tom Bryk for his contributions. His leadership propelled the Company towards many successes.

Along with Tom Bryk, two other Board members concluded terms in 2012. Our sincere appreciation to Kerry Hawkins and Shirley Render for their wisdom and stewardship.

In the airport world, along with every departure are arrivals. This year we welcomed three new Board members: BJ Reid nominated by the Winnipeg Chamber of Commerce, Jennifer Rattray nominated by the City of Winnipeg, and Don Boitson nominated by the Government of Canada. We look forward to their contributions and fresh perspective.

In 2013, the Board will participate in another bi-annual strategic board planning session, a planning approach that starts with a requirement to consider what might be. The vision is to have Winnipeg recognized globally as one of the top logistics and transportation related cities in the world; a place where all modes come together in a way that maximizes the true economic potential of our community. Airports, cities and their various business sectors must work together to ensure all are moving in the same direction for the benefit of their citizens.

Winnipeg Airports Authority is well-positioned to meet future changes and challenges as the team is comprised of thoughtful, dedicated professionals. I congratulate the Company, and in particular the management team, on being named one of Canada's Top 100 Employers and as well one of Manitoba's Top 25 Employers for 2013.

It is my great honour to serve as Chair of the Board. Along with my colleagues, I take to heart that we are entrusted by our community to act as stewards of a critical asset and fulfill a cooperative role in economic development.

A Message from the President & CEO

Mr. Barry Rempel, President & CEO

Over the course of 2012, while continuing to work with our community in the provision of excellent facilities and services, the Company also made important strides in preparing for future success.

The first full year of managing and operating the community's new passenger terminal facilities, as they say, just flew by. During this time, we also listened intently to customer feedback. It was extremely positive and for that we thank you. In the spirit of continuously evolving to meet stakeholders' needs, new retail options and concessions were introduced in the terminal - Metalsmiths Sterling and Harvey's. And as part of our revenue diversification, growth on the airport campus continued with the opening of the new 7-Eleven and Petro Canada, construction ramped up on THE GRAND by Lakeview and we were pleased to host the exciting construction announcement of Courtyard by Marriott.

The airport sector itself is highly competitive - competition is for access to a carrier's resources enabling the connectivity vital for a community's growth and development. The competition is every other airport and its host community and in meeting that need, we strive to maintain excellent relationships with carriers and to proactively engage community stakeholders in promoting this region's potential.

In 2013 the Board planning session will review the corporate strategy, our overall direction and priorities for the Company. In the interim, our approach remains focused on meeting stakeholder needs through revenue diversification, network development and championing the Airport City vision for our community.

In noting the priorities, the first two are likely somewhat self-evident. The Airport City concept may still be new to some but simply stated, it is a strategic economic development concept that at its heart understands the lifeline of any community is connectivity and what role airports play in today's business and community life. It is about coordinated civic and airport planning which effectively incorporates the airport as an accelerator in the development of existing industry clusters. This becomes a virtuous circle of business growth creating demand for additional air service, leading to more business growth, and so on.

With a strong board and team of employees all focused on Leading Transportation Innovation and Growth, I have no doubt the future indeed looks bright.

Management's Responsibility for Financial Reporting

Year ended December 31, 2012

The accompanying consolidated financial statements of Winnipeg Airports Authority Inc. have been prepared by management and approved by the Board of Directors of Winnipeg Airports Authority Inc.

Management is responsible for the preparation and representations contained in these financial statements and other sections of this Annual Report. The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee comprised entirely of directors who are neither officers nor employees of the Company reviews the financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Board of Directors prior to the approval of the audited financial statements.

Winnipeg Airports Authority Inc. maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

Winnipeg Airports Authority Inc.'s independent auditors, PricewaterhouseCoopers LLP, have been appointed by the Members of the Company to express their professional opinion on the fairness of these consolidated financial statements.

March 20, 2013

Barry W. Rempel
President and Chief Executive Officer

Catherine J. Kloepfer, CGA, FCA
Senior Vice President, Corporate Services and Chief Financial Officer

Management Discussion and Analysis

For the year ended December 31, 2012

Dated March 20, 2013

Introduction

The following is a discussion of the consolidated financial position and results of operations of Winnipeg Airports Authority Inc. (the "Company") for the year ended December 31, 2012 ("MD&A"). It is provided to explain management's view of the conditions and events that shaped the information contained in the financial statements and help in understanding how these conditions and events are expected to affect the business of the Company moving forward. This MD&A should be read together with the consolidated financial statements and the notes thereto. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company is responsible for the management, operation and development of Winnipeg James Armstrong Richardson International Airport (the "Airport") under an 80 year lease beginning in 1997 with Transport Canada. The Company is a non-share capital, community based corporation. The Company is responsible for financing its capital investments and net income is re-invested in airport infrastructure.

Key Performance Measures

Key performance measures used by management to monitor the performance of the Company include passenger volume, cargo tonnage landed, the landed weight of aircraft, the number of aircraft landings, car parking transactions, etc. In addition, the Company considers Earnings Before Interest, Taxes, and Depreciation ("EBITD") to be an appropriate indicator of its ability to service its debt. EBITD is a measure of the ability to generate cash flow and is used by other airports in Canada, investors and analysts for comparison purposes.

Forward Looking Statements

The Company's MD&A may contain certain forward looking statements. By their nature, forward looking statements require assumptions and are subject to inherent risks and uncertainties. Please refer to the section titled "Caution Regarding Forward Looking Statements" contained at the end of this MD&A for a discussion of such risks and uncertainties and the material factors and assumptions related to forward looking statements.

Operating Environment

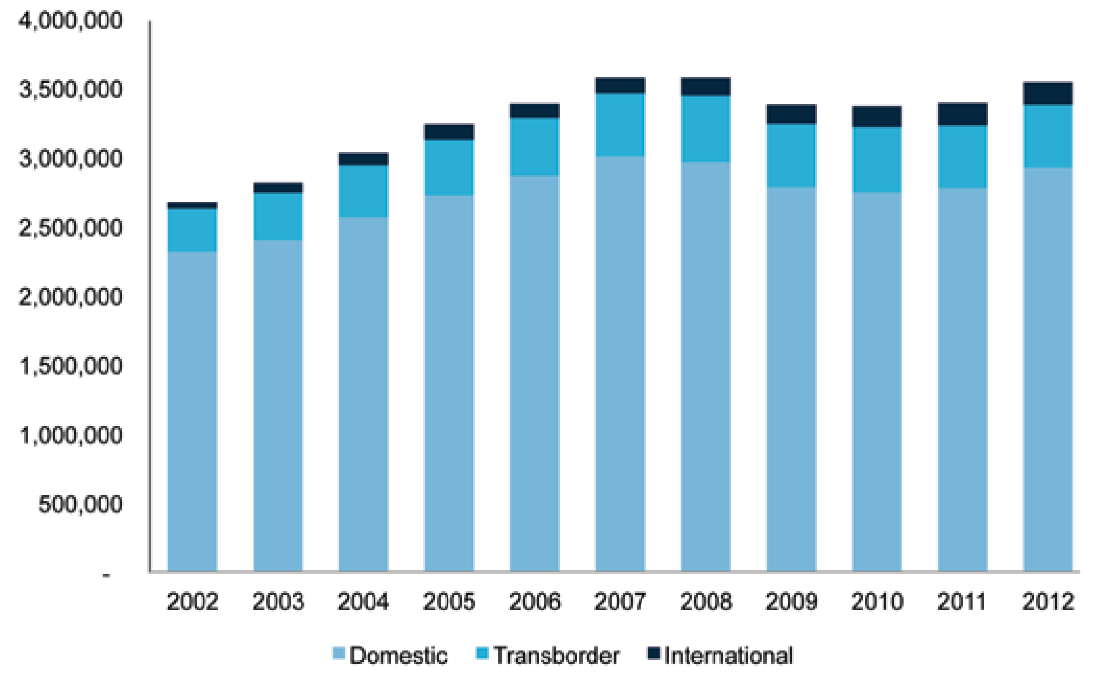
Overall Operating Activity

Passenger traffic in Winnipeg grew in 2012 to 3,538,175, an increase of 4.4% compared to 2011 levels. This compares favorably to North American traffic reported by International Air Transport Association at a growth rate of 1.3%. The 2012 statistics include revenue generating passengers using facilities other than the main air terminal building.

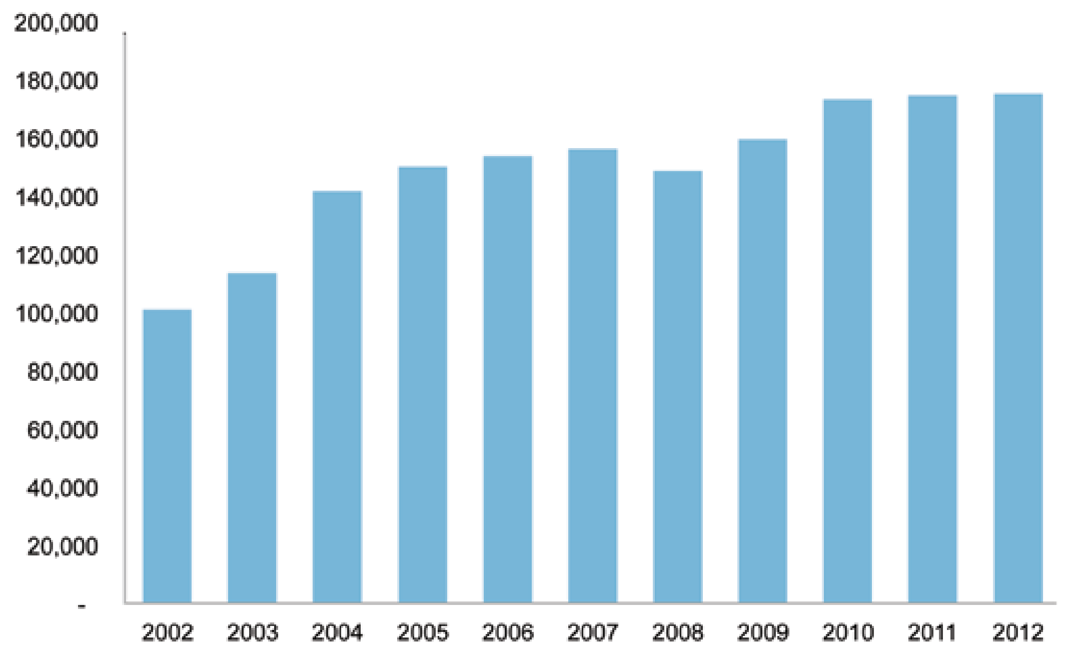
With the transition in late 2011 to a new air terminal building, the Company now offers a more complete suite of services to the air carriers operating in that building in a "common use environment". This provides for greater flexibility in operations and reduces barriers to entry to new carriers. With this change in operating philosophy, the fee for processing of passengers through the air terminal building has increased in relation to the Company's increased costs of providing these services.

Cargo tonnage, measured as actual volume of freight moved, was consistent with 2011 levels. This is not consistent with traffic patterns globally where cargo traffic actually declined in 2012 by 1.5%. Winnipeg's scheduled freighter traffic movements were in line with North American trends.

YWG Total Enplaned & Deplaned Passengers, by Sector



YWG Cargo Traffic Progression (Tonnes)



Total aircraft movements decreased in 2012 versus 2011. Cargo related movements decreased by 2.6%, passenger aircraft movements also decreased by 2.15%. The continuing trend in tighter airline capacity management in both passenger and cargo sectors is reflected in these figures.

Passenger Activity

Worldwide passenger traffic began 2012 on a positive note with the Middle East and Latin America leading the way; however Europe continued to struggle while North American carriers adjusted their capacity to improve load factors. Although China kept growing at a rapid pace, Asia as a region was dragged down by poor performance in Japan and India.

The Canadian economy was stable and the carriers were able to control capacity while keeping yields as high as possible. Both major carriers in Canada improved their performance from the year before with WestJet adding some capacity through its network and Air Canada reducing its domestic offering slightly.

In Winnipeg, the carriers were cautious with their capacity deployment and held up the market's growth by trying to increase load factors and fares. Air Canada pulled its capacity on certain markets, which helped WestJet improve its performance in the market. On the transborder side, both United and Delta improved their performance through the year while the international flights to the South performed well despite a mild winter.

Cargo Activity

Air cargo has continued to struggle around the world; capacity exceeded demand which has led to significant changes in the industry. In Asia, some carriers ceased operations while others decided to park some aircraft in an effort to reduce their costs. Integrators such as Fedex indicated some weakening demand on the overnight courier, while others like UPS decided to offer broader services in hopes of diversifying their revenues and compete with all cargo operators.

In Winnipeg, the year's modest upside in comparison to other markets' performance was due to a lower reliance on long haul heavy freight and strong performance by the consolidators. In the summer, the airport welcomed its first weekly flight to Iqaluit operated by First Air, operating on behalf of the Northwest Co. Inc. delivering food and other goods to the Baffin Island region.

Results of Operations

Net Operating Results

Operating results for the years ended December 31 are summarized in the following table:

(in thousands)	2012	2011
Revenue	$ 87,512	$ 81,230
Operating expenses	72,768	51,834
Income before the undernoted	14,744	29,396
Share of profit of associate	(261)	(131)
Finance expense	31,009	11,605
Investment income	(28)	(28)
Income taxes of subsidiaries	84	13
Net (loss) / income	(16,060)	17,937

Revenue

Total revenue increased to $87.5 million in 2012, compared to $81.2 million in 2011: an increase of $6.3 million or 8%. Revenues are derived from aeronautical charges (airfield fees and passenger processing charges), airport improvement fees ("AIF"), and non-aeronautical sources such as car parking and ground transportation, concessions, leasing, and other sources. The primary driver for aeronautical revenue is aircraft movements: airfield landing fees are based on the Maximum Take-Off Weight and passenger processing charges are based on the number of passenger seats on each aircraft. The airport improvement fee is charged per originating enplaned passenger and a significant portion of non-aeronautical revenues is correlated to passenger activity.

Aeronautical revenue totaled $34.3 million in 2012, which represents an increase of $3.1 million or 10% over 2011. Airfield revenue increased by 8% overall due to: rate adjustments, changes in aircraft size and the addition of a new fee on passengers flying from other than the main air terminal building. Passenger processing fees increased by 11%. With the switch to a common use environment in the new air terminal building, carriers pay for additional passenger processing services including gate positions, check-in positions as well as computerized passenger processing systems.

Concessions revenue grew in 2012 by 36% for a total of $3.1 million. With a full year in the new air terminal building, concession revenues from restaurants and flight kitchens performed well with growth of 31% while the Company's share of retailer sales also saw an increase of 85% over 2011.

Groundside revenue of $12.9 million increased from $11.8 million in 2011, an increase of 10%. Car parking is the largest component in this revenue category with the 2012 revenue being $7.4 million – up 7% over 2011. This is attributed to the first full year in the new terminal and its proximity to the four story parking garage.

Airport improvement fee revenue is consistent with 2011: a reflection of the stable passenger traffic in the main air terminal building. Airport Improvement Fees are $20 per enplaned passenger, less a 6% processing fee paid to the passenger airlines, and are directed to funding capital enhancements at the airport.

Revenue from leasing was $6.1 million in 2012, an increase of $0.4 million or 8% over 2011's revenue of $5.7 million. In addition to new land leases starting in 2012, such as gas station and hotel developments, market value adjustments to existing land leases positively impacted overall real estate revenue.

Other revenue increased by $1.0 million compared to 2011. This increase is substantially a result of the settlement of a long-standing legal suit in the United States regarding asbestos contamination.

Operating Expenses

Operating expenses increased by $20.9 million compared to 2011, or 40%, for a total of $72.8 million. Operating expenses are comprised of the costs to operate and maintain the Airport including depreciation of property and equipment.

Depreciation expense is the largest expense and this increased by $17.3 million in 2012 to a total of $30.7 million. The main driver for this increase is the occupancy of the new air terminal building at the end of 2011.

Salaries and benefits are the second largest component of operating expenses totaling $15.0 million in 2012: an increase of $1.0 million or 7% compared to 2011 due to more labour requirements for the common use environment. Collective agreements with the Company's workforce contained provisions for wage increases ranging from 3.0% to 3.5% annually. These agreements expired in 2012 and are under re-negotiation.

Costs incurred for services and repairs increased to $12.2 million, an increase of $1.9 million over 2011. The primary driver of this cost increase is the adoption of a common use environment in the new terminal, whereby WAA has the responsibility of all infrastructure and operating costs which in turn are collected through passenger processing fees.

Supplies and equipment costs in 2012 were in line with the prior year with an increase of $0.2 million. The pricing for fuel, runway chemicals and other supplies are tied to commodity prices and the volume of the usage depends primarily on weather.

Utilities expense includes natural gas, electricity and water consumption. During 2012 the favourable weather conditions allowed for less use of natural gas, but higher water use, resulting in an overall increase in utilities costs for 2012 of $0.3 million. This overall increase is only a 19% increase compared to a 50% increase in building size when comparing air terminals.

Insurance expense for airport operator's liability insurance, property insurance and other related policies has remained stable over the period with an overall slight increase from 2011 of $0.1 million.

Ground Lease payments are based on a percentage of gross revenue formula as established within the Ground Lease between Winnipeg Airports Authority Inc. and the Government of Canada. For 2012, this expense increased to $6.0 million compared to $5.5 million in 2011. The rent formula is a graduated scale with increasing percentages as larger revenue thresholds are met.

Property tax expense is consistent with 2011 with the 2012 expense being $1.6 million. Property taxes are paid to the City of Winnipeg and the Rural Municipality of Rosser based on valuations of real property using an income based approach. These taxes are in addition to property taxes paid by leasing tenants.

Finance expense

For 2012, net finance expense was $31.0 million compared to $11.6 million in 2011. The increase is due to the occupancy of the new air terminal building at the end of 2011 as interest on financing is no longer capitalized from that point. Also included in finance expense is a standby fee for the $100 million line of credit which was not used at all throughout 2011.

Airport Site Redevelopment and Capital Programs

Airport Site Redevelopment Program ("ASR") expenditures in 2012 totaled $25.9 million (compared to $65.0 million in 2011).

The redevelopment program comprises several major component projects, including a four level parking garage, road works, apron and taxi-ways, an upgrade of the Central Utilities Building (CUB) and an Air Terminal Building (ATB). Construction of the ATB was completed in 2011 with the opening on October 30, 2011. Other components of the project are still underway such as landscaping and demolition of the old air terminal building.

The Company has budgeted, has paid and will pay for agreed upon change orders to the program. As with any project of this nature, disputes that arise regarding the value of or liability for subsequent changes will be resolved through the arbitration process contained in the contracts. The Company is aware of several construction related claims. The Company is confident that it has secured sufficient financial resources to fulfill construction related obligations.

Other capital program expenditures in 2012 totaled $6.3 million compared to $4.7 million in 2011. These expenditures were primarily related to equipment acquisitions for both airside and groundside operations.

Assets and Liabilities

Assets

Current assets, excluding cash and cash equivalents, totaled $10.5 million compared to $9.8 million in 2011, an increase of $0.7 million. The change is due to moderate increases in other components of working capital assets such as accounts receivable, inventory and prepaid expenses.

The net increase of $1.5 million in property and equipment to a total of $718.2 million is an increase over the 2011 balance of $716.7 million. Of this increase, $25.9 million was incurred for the ASR project. The remainder of the change in the balance is due to other property and equipment additions less depreciation of $30.7 million.

Investments in associates (SRG Security Resource Group Inc.) value at December 31, 2012 is $2.5 million, an increase from the 2011 value of $2.2 million. The Company uses the equity basis of accounting for such investments in affiliates where it has significant influence.

Liabilities

Current liabilities, net of debt, have decreased to $20.2 million for 2012, compared to $29.7 million in the prior year. There was a significant reduction in construction payables and hold-back accounts, the largest component of the current liabilities.

The accrued pension liability totaled $6.1 million at the end of 2012 compared to $5.3 million in 2011. This represents an increase of $0.8 million. The Company continues to make additional funding payments as a result of the pension plans' deficits.

Long-term employee benefits relate to separation and post-employment benefits for employees. This liability is determined actuarially, based upon current employee and pensioner data. The balance at December 31, 2012 has increased to $3.3 million from the 2011 balance of $3.0 million: an increase of $0.3 million.

The Company has three debt issues outstanding in the form of Revenue Bonds. The balance of these Revenue Bonds totals $531.6 million which has declined from the 2011 balance of $537.3 million correlating to principal repayments. No principal payments are required on Series C until maturity in 2020.

5388946 Manitoba Ltd., a wholly owned subsidiary, entered into an agreement with the Province of Manitoba under the Manitoba Industrial Opportunity Program ("MIOP"), to borrow up to $20.0 million for the purposes of building a manufacturing facility, which in turn is being leased to a third party over a 32 year period. At the end of 2012, $18.4 million is outstanding under this facility, an increase of $0.3 million over the 2011 balance of $18.1 million.

Through an amendment to the Ground Lease in 2005, the Government of Canada agreed to defer lease payments of $762,000 to be repaid over a 10 year period beginning in 2006. The reduction in the balance by $76,000 represents the current year's repayment.

Capital lease obligations have increased during 2012 with the addition of more airside equipment to the program. Total lease obligation is now $3.8 compared to $2.9 million in 2011. The program includes emergency response vehicles and snow clearing equipment.

Cash Flows

Operating Activities

Cash flow generated from operations for the year was $4.5 million compared to $19.7 million in 2011. There are two key drivers of this figure: a decrease in non-cash working capital of $10.1 million, primarily due to decreases in accounts payable and accrued liabilities; a current year loss of $16.0 million versus net income of $17.9 million in the previous year, mainly the result of increased interest and depreciation expenses upon opening of the new air terminal building.

Investing Activities

The net cash outflow on investing activities during 2012 was $25.4 million versus $64.6 million in 2011. The main reason for the decrease of this cash outflow was a reduction in additions to property and equipment of $32.2 million this year over last.

Financing Activities

The Company had a net inflow of cash in 2012 from financing activities of $5.1 million. During 2012, additional borrowing occurred on the MIOP loan as well as long term leases totaling $2.4 million while repayments were made on the deferred lease payments and on the Revenue Bonds totaling $7.4 million, plus $10 million was advanced on the line of credit.

Liquidity and Capital Resources

As a non-share corporation, the Company is funded through operating revenues, AIF revenue, the Revenue Bonds and a bank credit facility. A Master Trust Indenture was established in 2005, setting out the terms of all debt, including bank facilities and revenue bonds. At December 31, 2012, $531.6 million of debt is outstanding in the form of Revenue Bonds. The bank credit facility is for $100 million and the Company has drawn $10 million on this facility at December 31, 2012 (2011 - $nil).

In addition to the above noted debts, the Company is party to a capital lease financing arrangement for the purpose of acquiring airside vehicles and related equipment. During 2012 additional leasing obligations were incurred totaling $1.5 million (2011 - $2.8 million). It is the Company's intention to seek out financing arrangements which allow for flexibility while complying with existing terms and conditions of the Master Trust Indenture.

In 2008, the Company entered into a loan agreement with the Province of Manitoba (Manitoba Industrial Opportunity Program) in order to invest in direct financing lease arrangements on a long-term basis with a tenant. This loan has Provincial guarantees to minimize the Company's exposure to default. During 2012 additional advances of $0.9 million were added to this loan (2011 - $2.9 million).

The Company manages its liquidity risks by maintaining adequate cash and credit facilities, by updating and reviewing multi-year cash flow projections on a regular and as-needed basis, and by matching its long-term financing arrangements with its cash flow needs. In view of its credit ratings (Moody's: A1 and Standard & Poors: A), the Company has ready access to sufficient long-term funds as well as a committed line of credit through credit facilities with a Canadian Chartered bank.

Significant Accounting Policies and Estimates

The Company complies with International Financial Reporting Standards ("IFRS"). In preparing financial statements, management is required to make certain critical accounting judgments and estimates including: estimates for amortization of property and equipment, provisions, accruals for legal and other disputes, assumptions related to post-employment benefit obligations and leases. Actual results may differ from these estimates.

Property and equipment includes improvements to leased land, runways, air terminal and other buildings, equipment and roadways. These assets are recorded at cost and each asset type is depreciated over their estimated useful lives. Depreciation of such assets begins when the asset is completed and brought into service.

Provisions for litigation and claims are recognized in cases where legal actions, proceedings and other claims are pending or may be instituted or asserted in the future against the Company which are a result of past events, where it is probable that a cash outflow will be required for the settlement and a reliable estimate of the obligation amount can be made.

Actuarial valuations are used to estimate post-employment benefit obligations. These valuations rely on assumptions relating to discount rates, expected return on plan assets and mortality rates.

Financial Instruments and Other Instruments

Financial instruments are classified into one of five categories: held-for-trading, loans and receivables, held-to-maturity, available-for-sale or other liabilities. Initial measurement of financial instruments is at fair value, subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading.

The Company's cash, restricted cash and bank indebtedness are classified as held-for-trading and accounts receivable and direct financing lease are classified as loans and receivables. Accounts payable and accrued liabilities and long term debt are classified as other liabilities.

Financial assets and liabilities classified as held-for-trading are measured at fair value at each reporting period with changes in fair value in subsequent periods included in net income. Financial assets and liabilities classified as loans and receivables and other liabilities are measured at amortized cost. The Company recognizes changes in the fair value of loans and receivables only if realized or if impairment in the value of an asset occurs.

Financial assets and liabilities classified as available-for-sale are measured at fair value. Subsequent changes in fair value are recorded in other comprehensive income (loss) until the investments are derecognized or impaired, at which time the amounts would be recorded in net income.

Effective interest method:

Financing costs are included in the related long-term debt balances and recognized as an adjustment to interest expense over the life of the related long-term debt. In addition, the effective interest method is used to recognize interest expense, where the amount recognized varies over the life of the long-term debt based on the principal outstanding.

Comprehensive income:

Comprehensive income is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Accounting Changes for 2013

Numerous changes are expected in IFRS throughout 2013 and these items are detailed in note 3 to the consolidated financial statements.

Risks and Uncertainties

The Company faces certain risks beyond its control which may or may not have a significant impact on its financial condition.

Airport revenues are affected by carriers' changes in aircraft size and frequency of flights, based on the carriers' view of passenger demand. Over the past years several significant events have demonstrated the fragile nature of air travel demand. In addition, economic conditions, global health epidemics, political unrest, government regulations, the price of oil and airfares, all contribute to traffic demand. The continued uncertainty over the health of the United States economy and the European Union issues contribute to the risk that passenger demand and cargo volumes could decrease, having a potential negative impact on revenue.

The financial stability of the airline industry globally, and more particularly in the United States, could have an impact on the Company's ability to generate revenue. General demand risk is mitigated by the 91.5% origin and destination characteristics of Winnipeg's passenger traffic. In addition, the Company's rights under the Airport Transfer (Miscellaneous Matters) Act to seize and detain aircraft until outstanding aeronautical fees are paid mitigates the risk of credit losses. The Company's unfettered ability to increase its rates and charges mitigates the impact of these risks.

Another potential impact to the stability of the Company's earnings is the air carriers' continued trend to use smaller gauge aircraft. Such changes in the mix of aircraft size and type impact the Company's ability to project aircraft landing fees and to plan for adequate capacity on the airfield and in the air terminal building. Aeronautical revenue may therefore be lower than expected if projected aircraft activity is not realized.

The availability of adequate insurance coverage is subject to the conditions of the overall insurance market and the Company's claims and performance record. The Company participates with an insurance buying group and insurance reciprocal that includes airports in Halifax, Montreal, Ottawa, Calgary, Edmonton and Vancouver. This group has been successful in placing all of its insurance needs. The Government of Canada has issued an Order in Council to provide indemnity for "war risk and allied perils" up to December 31, 2013, which is renewable for further periods at the option of the Minister of Transport.

The Company sponsors defined benefit pension plans and other post-employment benefits for all its employees. These plans have associated risks because the cost of pensions and other post-employment benefits (which includes separation, health care and insurance benefits) earned by employees is actuarially determined. This actuarial estimate is based on management's best estimate of expected plan investment performance, salary escalation, mortality and expected health care costs.

Financial Outlook for 2013

Consumer demand for air travel is expected to increase moderately through 2013 in the Winnipeg marketplace. The Company's 2013 business plan projects revenues to be $95.7 million with projected growth in passenger traffic of 0.4%. The increase in revenue is primarily a result of increasing the airport improvement fees on April 1, 2013.

With the opening of the new air terminal building during 2011, net income declined as expected due to the impact of increased depreciation and interest expense. Despite continuing efforts to control operating expenses, the Company continues to experience increases in ongoing costs for items such as utilities and commodities plus negotiated increases for salaries and benefits ranging from 3.0 to 3.5%. Collective agreements for both of the Company's bargaining units expired June 30, 2012 so pay scales are under negotiation. The ground lease payments for 2013 are estimated to be $6.6 million, an increase over 2011 of $1.1 million. With projected operating costs estimated to be $46.5 million in 2013, excluding depreciation, the planned EBITD for 2013 is $49.2 million.

Despite the opening of the new air terminal building in 2011, the ASR project continues into 2013 with deconstruction of the old air terminal building. ASR expenditures for 2013 are estimated to be $15.5 million while other property and equipment expenditures are expected to be an additional $13.2 million for airside improvements, equipment, plus improvements to existing structures and other technology upgrades.

In order to finance projected future capital expenditures over the next decade, the Company plans to issue up to $100 million of Series E revenue bonds in the second quarter of 2013.

Caution Regarding Forward Looking Statements

This Management's Discussion and Analysis ("MD&A") contains certain statements about the Company and its future expectations. By their nature, forward looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions and projections will not prove to be accurate, that the Company's assumptions may be not correct and that actual results may differ materially from such predictions, forecasts, conclusions and projections. The Company cautions readers of this MD&A not to place undue reliance on the forward looking statements as a number of factors could cause actual results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward looking statements.

Words such as "believe", "expect", "plan", "intend", "estimate", "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward looking statements. Specific forward looking statements in this MD&A include, among others, statements regarding: future demand for air travel, budgets and expenditures relating to capital programs; insurance; liquidity; and annual debt requirements.

These forward looking statements are based on a variety of factors and assumptions including, but not limited to: long-term growth in population; employment and personal income as the basis for increased aviation demand; the world economic growth expectation in the near term; the growth and sustainability of low fare and other air carriers contribution to aviation demand; continued trans-border and international travel growth; the cost of enhancing aviation security will not overly burden air carriers or the Company; the commercial aviation industry will not be directly affected by terrorism; and no significant event will occur which impacts the ordinary course of business such as a natural disaster or other calamity. These assumptions are based on information currently available to the Company, including information obtained from third party experts and analysts.

Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward looking statements include, among other things; levels of aviation activity; air carrier instability; aviation liability insurance; construction risk; geographical unrest; terrorist attacks; war; health epidemics; labour disruptions; capital market and economic conditions; changes in laws; adverse regulatory developments or proceedings; lawsuits; and other risks from time to time.

The forward looking statements contained in this MD&A represent the Company's expectations as of the date of this report and are subject to change. Except as required by applicable law, the Company disclaims any intention or obligation to update or revise any forward looking statements included in this MD&A whether as a result of new information, future events, or for any other reason.

Financial and Operating Highlights

(In thousands)	2008	2009	2010	2011	2012
Revenue	$ 80,106	$ 81,963	$ 79,727	$ 81,230	$ 87,512
Operating expenses[1]	34,525	34,775	31,182	32,995	36,135
Ground lease rent	4,088	4,264	5,268	5,483	5,977
Earnings before interest, taxes, and depreciation	41,493	42,924	43,277	42,752	45,400
Depreciation	7,397	6,346	5,969	13,356	30,656
Earnings[2]	34,096	36,578	37,308	29,396	14,744
Capital expenditures, including other assets	$ 139,605	$ 142,277	$ 118,858	$ 72,125	$ 32,464

[1] – Operating expenses excluding ground lease rent and depreciation

[2] – Earnings before finance income, finance expense and share of profit of associate

Consolidated Financial Statements of Winnipeg Airports Authority Inc.

Year ended December 31, 2012

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Winnipeg Airports Authority Inc.

We have audited the accompanying consolidated financial statements of Winnipeg Airports Authority Inc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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 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 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 audits 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 Winnipeg Airports Authority Inc. and its subsidiaries as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Manitoba
March 20, 2013

Consolidated Balance Sheet

(In thousands of Canadian dollars)

	December 31 2012	December 31 2011
Assets		
Current		
Cash and cash equivalents	$ 9,586	$ 25,489
Accounts receivable [note 6]	8,993	8,582
Prepaid expenses	534	428
Current portion of financing lease receivable [note 8]	26	21
Inventory	946	820
	20,085	35,340
Non-current		
Property and equipment [note 7]	718,169	716,682
Restricted cash [note 5]	18,190	25,310
Investments in associates [note 9]	2,461	2,200
Financing lease receivable [note 8]	7,071	7,082
Other assets	18,361	18,084
	$ 784,337	$ 804,698
Liabilities and Equity		
Current		
Bank indebtedness [note11]	$ 10,000	$ -
Accounts payable and accrued liabilities	19,330	28,786
Deferred revenue	885	910
Current portion of long-term debt [note 12]	7,349	7,211
	37,564	36,907
Non-current		
Deferred income tax [note 15]	788	704
Post-employment benefits [note 14]	9,486	8,309
Long-term debt [note 12]	546,628	551,487
	$ 556,902	$ 560,500
Equity		
Retained earnings	231,046	250,501
Accumulated other comprehensive loss	(41,175)	(43,210)
	189,871	207,291
	$ 784,337	$ 804,698

Contingencies, commitments & guarantees [note 13]
The accompanying notes are an integral part of these financial statements

On behalf of the Board:

Director

Director

Consolidated Statement of Operations

Year ended December 31, 2012 with comparative figures for 2011
(In thousands of Canadian dollars)

	2012	2011
Revenue:		
Airport improvement fees [note 10]	$ 29,240	$ 29,520
Airfield	16,291	15,035
Passenger processing	18,032	16,188
Concessions	3,087	2,264
Groundside	12,920	11,764
Leasing	6,113	5,677
Other	1,829	782
	87,512	81,230
Operating expenses:		
Salaries and benefits	15,029	13,981
Services and repairs	12,211	10,300
Supplies and equipment	2,753	2,536
Other	1,792	2,104
Utilities	2,175	1,833
Insurance	624	560
Ground lease rent [note 8]	5,977	5,483
Property taxes	1,551	1,681
Depreciation	30,656	13,356
	$ 72,768	$ 51,834
Income before investment income, finance expense and income tax	14,744	29,396
Share of profit of associate [note 9]	(261)	(131)
Investment income [note 9]	(28)	(28)
Finance expense [note 12]	31,009	11,605
	(15,976)	17,950
Income tax expense of subsidiaries		
Deferred [note 15]	84	13
	84	13
Net (loss) / income	$ (16,060)	$ 17,937

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Comprehensive Income

Year ended December 31, 2012 with comparative figures for 2011

(In thousands of Canadian dollars)

	2012	2011
Net (loss) / income	$ (16,060)	$ 17,937
Other comprehensive income:		
Recognition of loss on previously settled cash flow hedges	2,178	2,066
Unrealized/(realized) gain on available for sale investments	(143)	10
Actuarial gain/(loss) on defined benefits obligations	(3,395)	1,575
Comprehensive income	$ (17,420)	$ 21,588

Consolidated Statement of Changes in Equity

Year ended December 31, 2012 with comparative figures for 2011

(In thousands of Canadian dollars)

	Accumulated other comprehensive income	Retained earnings	Total equity
Balance – January 1, 2011	$ (45,286)	$ 230,989	$ 185,703
Net income for the year	-	17,937	17,937
Other comprehensive income			
Unrealized gain on available for sale securities	10	-	10
Actuarial gain on defined benefit obligations	-	1,575	1,575
Recognition of loss on previously settled cash flow hedges	2,066	-	2,066
Balance – December 31, 2011	$ (43,210)	$ 250,501	$ 207,291
Net loss for the year	$ -	$ (16,060)	$ (16,060)
Other comprehensive income			
Realized gain on available for sale securities	(143)	-	(143)
Actuarial loss on defined benefit obligations	-	(3,395)	(3,395)
Recognition of loss on previously settled cash flow hedges	2,178		2,178
Balance – December 31, 2012	$ (41,175)	$ 231,046	$ 189,871

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Cash Flows

Year ended December 31, 2012 with comparative figures for 2011

(In thousands of Canadian dollars)

	2012	2011
Operating activities		
Net (loss) / income	$ (16,060)	$ 17,937
Adjustments for:		
Depreciation	30,656	13,356
Deferred income taxes	84	13
Non-cash interest expense [note 12]	2,406	1,004
Change in benefit liabilities	(2,218)	183
Share of profit of associate	(261)	(131)
Change in non-cash operating working capital [note 20]	(10,124)	(12,695)
	4,483	19,667
Investing activities		
Additions to property and equipment	(32,187)	(69,771)
Proceeds on disposal of property, plant and equipment	44	-
Additions to other assets	(277)	(2,344)
Decrease in direct financing lease	6	41
Decrease in restricted cash	7,120	7,487
Proceeds from available-for-sale financial assets	(143)	-
	(25,437)	(64,587)
Financing activities		
Proceeds from bank indebtedness	10,000	-
Proceeds in long-term debt	2,449	5,808
Repayment of long-term debt	(7,398)	(6,966)
	5,051	(1,158)
Decrease in cash and cash equivalents	(15,903)	(46,078)
Cash and cash equivalents, beginning of year	25,489	71,567
Cash and cash equivalents, end of year	$ 9,586	$ 25,489
Cash and cash equivalents:		
Cash on hand	$ 9,586	$ 5,167
Cash equivalents	-	20,322
Interest paid	29,058	29,321

The accompanying notes are an integral part of these financial statements

Notes to Consolidated Financial Statements

Year ended December 31, 2012 with comparative figures for 2011

(In thousands of Canadian dollars)

1. Governing statutes and nature of operations:

Winnipeg Airports Authority Inc. (the "Company") is incorporated under Part II of the Canada Business Corporations Act as a corporation without share capital. The address of the Company and its principal place of business is 249 – 2000 Wellington Avenue, Winnipeg, Manitoba, Canada R3H 1C2.

The Company operates the Winnipeg James Armstrong Richardson International Airport (the "Airport"), and associated businesses in Winnipeg, Manitoba under a long-term lease with the Government of Canada for the benefit of the community. Net income is used to fund airport capital improvements.

The Company is governed by a maximum fifteen member Board of Directors of whom eleven members are nominated by the City of Winnipeg, the Rural Municipality of Rosser, Economic Development Winnipeg, the Winnipeg Chamber of Commerce, The Assiniboia Chamber of Commerce and the Federal and Provincial governments, with the remaining members appointed by the Board from the community at large.

2. Basis of presentation and adoption of IFRS:

The Company prepares its annual financial statements in accordance with Canadian generally accepted accounting principles as set out in Part I of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 20, 2013, the date the Board of Directors approved the statements.

There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2012 that have a material impact on the Company.

3. Significant accounting policies:

The significant accounting policies used in the preparation of the consolidated financial statements are described below:

(a) Basis of measurement:

These consolidated financial statements are prepared using the historical cost method, except for certain financial instruments measured at fair value, including available-for-sale investments. The historical cost is usually the fair value of the consideration given to acquire the assets.

(b) Principles of consolidation:

The financial statements include the accounts of Winnipeg Airports Authority Inc. and its wholly-owned subsidiaries, Winnipeg Airport Services Corporation, 5388946 Manitoba Ltd., and 6473025 Manitoba Ltd. A subsidiary is an entity over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

All inter-company balances and transactions have been eliminated on consolidation.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

(d) Restricted cash:

Restricted cash represents funds held by banks relating to debt service reserves and builder lien holdbacks. Payment of builder lien holdbacks occurs upon substantial completion of the specific project.

(e) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost is determined according to the average cost method for replacement parts and according to the first in, first out method for bulk inventories.

(f) Leases:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included on the balance sheet as a finance lease obligation.

Finance lease payments are apportioned between financing costs and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financing costs are recognized immediately in the statement of operations, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a deferred liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

The Ground Lease is accounted for as an operating lease.

(g) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and impairment losses. Property and equipment include items such as improvements to leased land, runways, building and roadways. These assets will revert to Transport Canada upon the expiration or termination of the Ground Lease. No amounts are amortized longer than the lease term plus one renewal option.

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates each part separately. Residual values, the method of depreciation and estimated useful lives of the assets are reviewed annually and adjusted if appropriate. Property and equipment are depreciated on a straight-line basis as follows:

Assets	Term
Airfield infrastructure	10 to 40 years
Buildings and other structures	5 to 40 years
Leasehold improvements	3 to 40 years
Vehicles, machinery and equipment	3 to 20 years

Assets under construction are not depreciated and are transferred to property and equipment when the asset is available for use.

Normal repairs and maintenance are expensed as incurred. Expenditures constituting enhancements to the assets by way of change in capacity or extension of useful lives are capitalized.

(h) Borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in financing costs in the period in which they are incurred.

(i) Investment in associates:

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding between 20% and 50%. The Company uses the equity method of accounting for investments in associates over which it has significant influence. The original investment is initially recorded at cost, and is subsequently increased or decreased to account for the Company's share of comprehensive income or loss of the investee company and is reduced by dividends received.

(j) Impairment:

Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or 'CGUs'). Recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

The Company assesses at each year-end whether there is any objective evidence that its investments in associates are impaired. If so, the carrying value of the Company's share of the underlying assets of associates is written down to its net recoverable amount (being the higher of fair value less cost to sell and value in use) and the loss is charged to the consolidated statement of operations.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

With the exception of available-for-sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss in the period it arises to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(k) Revenue recognition:

Revenue is recognized when it is probable that the economic benefits will flow to the Company and the related service has occurred, the sales price is fixed or determinable, and collectability is reasonably assured.

The Company's principal sources of revenues are comprised of revenue from the rendering of aeronautical activities, commercial activities, airport improvement fees, real estate and other activities.

Airfield, passenger processing and groundside revenue are recognized as the airport facilities are used. Airport improvement fees are accrued based on the enplanement of passengers and are subject to reconciliation with the air carriers. Concession revenue is earned on a monthly basis and is recognized based on a percentage of sales or specified minimum rent guarantees. Leasing revenue is recognized straight-line over the duration of the respective agreements.

(l) Defined benefit obligations:

The Company sponsors defined benefit pension plans and other post-employment benefit plans on behalf of its employees. The benefits are based on years of service and indexed to the employee's compensation during the five best consecutive years' earnings.

The Company accrues its obligation under the employee defined benefit plans as the employees render the services necessary to earn the pension and other employee future benefits. The cost of providing benefits is actuarially determined using the projected unit credit method.

Actuarial valuations for defined benefit plans are carried out at each balance sheet date. Where a deep market for high quality corporate bonds exists, the discount rate applied in arriving at the present value of the pension liability represents yields on high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. In the absence of a deep market for such corporate bonds, a government bond yield is used.

Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income and retained earnings without recycling to the statement of operations in subsequent periods. Current service cost, the recognized element of any past service cost, the expected return on plan assets and the interest arising on the pension liability are included in Salaries and Benefits in the statement of operations as the related compensation cost. Likewise, the expected return on employee benefit plan assets is presented in the statements of operations as finance income.

Past service costs are recognized immediately to the extent the benefits are vested, and otherwise are amortized straight-line over the average period until the benefits become vested.

The amount recognized in the balance sheet at each year end reporting date represents the present value of the defined benefit obligation, adjusted for unrecognized past service costs, and reduced by the fair value of plan assets. Any recognized asset or surplus is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions. To the extent that there is uncertainty regarding entitlement to the surplus, no asset is recorded. The Company's funding policy is in compliance with statutory regulations.

(m) Financial instruments:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial assets and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

All financial instruments measured at fair value are classified according to the following hierarchy:

- Level 1 valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 valuation techniques with significant observable market parameters
- Level 3 valuation techniques with significant unobservable market parameters

All financial instruments are classified into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity, available-for-sale and other financial liabilities. Initial measurement of financial instruments is at fair value, subsequent measurement of financial instruments depends on their initial classification. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading.

The Company's cash and cash equivalents, restricted cash, accounts receivable and financing lease receivable are classified as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as other liabilities.

Financial assets and liabilities classified as held-for-trading are measured at fair value at each reporting period with changes in fair value in subsequent periods included in net income. Financial assets and liabilities classified as loans and receivables and other liabilities are measured at amortized cost. The Company recognizes changes in fair value of loans and receivables only if realized or if impairment in the value of the financial asset occurs.

Financial assets and liabilities classified as available-for-sale are measured at fair value. Dividend and interest income on available-for-sale investments are recorded in net income when receivable. Changes in fair value are recorded in other comprehensive income (loss) until the investments are derecognized or impaired, at which time the amounts are recorded in net income.

Financing costs are included in the related long-term debt balances and recognized as an adjustment to interest expense over the estimated life of the related long-term debt. The effective interest method is used to recognize interest expense.

Losses incurred upon the settlement of derivative contracts recognized as part of an effective hedging relationship are recorded in accumulated other comprehensive income (loss). These losses are recognized into income over the life of the previously hedged item. During the year, $2,178 (2011 - $2,066) of losses recorded in accumulated other comprehensive income were recognized in income as finance expense.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of operations within finance expense.

(n) Direct financing lease receivable:

Finance income related to the direct financing lease is recognized in a manner that produces a constant rate of return on the investment in the lease. The investment in the lease for purposes of income recognition is composed of net minimum lease payments and unearned finance income.

(o) Other assets:

Other assets consist of investments in real property development projects and are carried at cost.

(p) Income taxes:

The Company is exempt from income taxes under Government of Canada legislation. The subsidiaries are taxable corporations and follow the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized based on expected future tax consequences of differences between the carrying amount of the balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the years in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(q) Provisions:

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is managements' best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When the effect of the time value of money is material, provisions are measured at the present value of the expenditure expected to settle the Company's present obligation.

Provisions for litigation and claims are recognized in cases where legal actions, proceedings and other claims are pending or may be instituted or asserted in the future against the Company which are a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required for the settlement and a reliable estimate of the obligation amount can be made.

(r) Comprehensive income:

Comprehensive income is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with IFRS. Accumulated other comprehensive income comprises the recognized loss on previously settled cash flow hedges.

(s) Future changes in accounting policies:

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

IFRS 10 – Consolidation replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This standard is effective for the accounting period beginning January 1, 2013.

IFRS 11 – Joint Arrangements requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas joint operations, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities — Non-monetary Contributions by Venturers. This standard is effective for the accounting period beginning January 1, 2013.

IFRS 12 – Disclosure of Interest in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces additional disclosures addressing the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for the accounting period beginning January 1, 2013.

IFRS 13 – Fair Value Measurement is a comprehensive standard that defines fair value, requires disclosure about fair value measurement and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. This standard is effective for the accounting period beginning January 1, 2013.

IAS 19 – Employee Benefits, has been amended to make changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits for accounting periods beginning on or after January 1, 2013. The main impact to the Company will be to replace interest cost and expected return on plan assets with a net interest amount calculated by applying the discount rate to the net defined benefit liability. The Company has not yet assessed the full impact of the amendments.

In December 2011 the International Accounting Standards board issued an amendment to the guidance in IAS 32, 'Financial instruments: Presentation', to clarify requirements for offsetting financial assets and financial liabilities. The IASB also published an amendment to IFRS 7, 'Financial instruments: Disclosures'. The amendments clarify that the right of set-off must not be contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendments clarify that gross settlement mechanisms with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement. The disclosures in IFRS 7 are to be retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2013.

IFRS 9 – Financial Instruments, issued in November 2009, addresses classification and measurement of financial assets. It replaces the category and measurement models in IAS 39 for debt instruments with a new model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses remain in accumulated comprehensive income. The effective date of IFRS 9 is accounting periods beginning on or after January 1, 2015.

4. Critical accounting judgments and estimates:

In applying the Company's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

(a) Depreciation of property and equipment:

Critical judgments are utilized in determining depreciation rates and useful lives of property and equipment. Depreciation is calculated to write off the cost, less estimated residual value, of property and equipment on a straight-line basis over expected useful lives. Estimates of residual value and useful lives are based on data and information from various sources including vendors, industry practice and Company-specific history. A change in any of the significant assumptions or estimates could result in a material change in the depreciation amount.

(b) Provisions:

The determination of a provision is based on the best available information. Such estimates are subject to change based on new information. The Company provides for anticipated settlement costs where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome of the dispute, and legal and other expenses arising from claims against the Company. Provisions, if required, take into account the relevant facts and circumstances of each matter and the consideration of any legal advice obtained. For further information on outstanding claims and litigation matters see note 13.

(c) Post-employment benefit obligations:

The Company accounts for pension and other post-employment benefits in accordance with actuarial valuations. These valuations rely on statistical and other factors in order to anticipate future events. These factors include key actuarial assumptions including discount rates, expected return on plan assets, expected salary increases and mortality rates. Actual results may differ from results which are estimated based on assumptions.

(d) Leases:

The Company accounts for its Ground Lease Agreement as an operating lease. In consideration of the terms of the lease, the Company has concluded that the agreement does not transfer substantially all of the risks and rewards of the leased item to the Company. The agreement shows that the risks and rewards are substantially retained by the Lessor.

5. Restricted cash:

	December 31 2012	December 31 2011
Debt service reserve	$ 17,512	$ 17, 505
Construction holdback	678	7,805
Total restricted cash	$ 18,190	$ 25,310

Under the terms of the trust indenture, the Company is required to maintain a debt services reserve to cover principal and interest payments to be made on the long-term bonds [note 12].

6. Accounts receivable:

	December 31 2012	December 31 2011
Trade accounts	$ 5,048	$ 7,433
Other receivables	3,945	1,149
Total accounts receivable	$ 8,993	$ 8,582

As of December 31, 2012, accounts receivable of $2,599 (December 31, 2011 - $1,222) were considered past due but not considered impaired. These amounts relate to a number of customers with no recent history of default.

The aging of the trade accounts receivables is as follows:

	December 31 2012	December 31 2011
1 – 120 days	$ 3,449	$ 6,211
121 + days	1,599	1,222
Total balance	$ 5,048	$ 7,433

Changes in the allowance for doubtful accounts are as follows:

	December 31 2012	December 31 2011
Balance, beginning of year	$ -	$ 243
Provision for new doubtful accounts	9	-
Amounts written off during the year	(9)	-
Amounts recovered during the year	-	(243)
Balance, end of year	$ -	$ -

7. Property and equipment:

	Vehicles, machinery and equipment	Airfield infrastructure	Buildings and other structures	Leasehold improvements	Construction in progress	2012 Total
Gross value						
Balance, January 1, 2012	$ 23,734	$ 86,477	$ 544,797	$ 118,789	$ 4,315	$ 778,112
Additions	2,867	463	–	–	28,857	32,187
Capitalized interest	–	–	–	–	–	–
Transfers	–	2,014	19,267	–	(21,281)	–
Disposals	(159)	–	–	–	–	(159)
At December 31, 2012	$ 26,442	$ 88,954	$ 564,064	$ 118,789	$ 11,891	$ 810,140
Accumulated depreciation						
Balance, January 1, 2012	$ 10,231	$ 13,953	$ 15,944	$ 21,302	$ –	$ 61,430
Depreciation	1,469	1,933	26,482	772	–	30,656
Disposals	(115)	–	–	–	–	(115)
At December 31, 2012	$ 11,585	$ 15,886	$ 42,426	$ 22,074	$ –	$ 91,971
Net value at						
December 31, 2012	$ 14,857	$ 73,068	$ 521,638	$ 96,715	$ 11,891	$ 718,169

	Vehicles, machinery and equipment	Airfield infrastructure	Buildings and other structures	Leasehold improvements	Construction in progress	2011 Total
Gross value						
Balance, January 1, 2011	$ 19,627	$ 42,802	$ 52,756	$ 35,556	$ 557,698	$ 708,439
Additions	4,190	124	37	2	47,888	52,241
Capitalized interest	–	–	–	–	17,515	17,515
Transfers	–	43,551	492,004	83,231	(618,786)	–
Disposals	(83)	–	–	–	–	(83)
At December 31, 2011	$ 23,734	$ 86,477	$ 544,797	$ 118,789	$ 4,315	$ 778,112
Accumulated depreciation						
Balance, January 1, 2011	$ 9,029	$ 12,288	$ 6,296	$ 20,544	$ –	$ 48,157
Depreciation	1,285	1,665	9,648	758	–	13,356
Disposals	(83)	–	–	–	–	(83)
At December 31, 2011	$ 10,231	$ 13,953	$ 15,944	$ 21,302	$ –	$ 61,430
Net value at						
December 31, 2011	$ 13,503	$ 72,524	$ 528,853	$ 97,487	$ 4,315	$ 716,682

8. Leases:

Operating leases:

The Company as lessee: The airport facilities are rented under a long-term lease entered into on December 31, 1996 with Transport Canada. On January 1, 1997, the Company assumed the expenditure contracts and became the beneficiary of the revenue contracts in effect at that time. The lease is for a fixed term of 60 years and can be terminated only in the event of default. The Company has exercised an option to renew the lease for a further period of 20 years. The lease is on an “absolute net” basis allowing the Company peaceful possession of the leased premises. The associated rent expense relating to this lease is subject to a calculation based on actual revenues of the Company each year.

The estimated Ground Lease rent payments for the next five years are as follows:

2013	$ 6,595
2014	6,988
2015	7,241
2016	7,544
2017	7,806

The Company as lessor: The Company leases out, under operating leases, land and certain assets that are included in property and equipment. Many leases include renewal options, in which case they are subject to market price revision. The lessee does not have the possibility to acquire the leased assets at the end of the lease.

The estimated lease revenue for the next five years is approximately as follows:

2013	$ 6,118
2014	6,179
2015	6,241
2016	6,803
2017	6,871

Finance leases:

The Company as a lessee: Finance lease obligations which the Company has entered into are described in note 12. The net book value of those assets included in property and equipment and associated with capital lease obligations is $5,332 (2011 - $4,008).

The Company as a lessor: The Company’s net investment in the direct financing lease is:

	December 31 2012	December 31 2011
Total minimum lease payments receivable	$ 23,052	$ 24,624
Unearned income	15,955	17,521
	7,097	7,103
Current portion	26	21
	$ 7,071	$ 7,082

9. Investments in associates:

	December 31 2012		December 31 2011	
Investment in an affiliated company:				
Equity accounted investment	$	1,893	$	1,632
Preference shares		568		568
	$	2,461	$	2,200

Preference shares have a 5% per annum cumulative dividend rate calculated on the issue price of the 568,092 preference shares of $568,092. The Company holds a put option to require the affiliated company to purchase the shares which is exercisable at any time on or after March 1, 2015. The option expires and terminates upon the date of completion of an initial public offering of the shares of the affiliated company. The price to be paid for the common shares is generally equal to the fair market value at that time. The price to be paid for the preference shares is equal to the redemption value of $1 per share.

Name of Entity	Principal Activity	Place of Incorporation	Ownership %
SRG Security Resource Group Inc.	Security Services	Canada	35%
Churchill Transportation Inc.	Airport Operations	Canada	50%
Compass Transportation Consulting	Consulting	Canada	45%

Summarized financial information in respect of the Company's associates is set out below:

	2012		2011	
Financial Position:				
Total assets	$	5,795	$	4,931
Total liabilities		1,689		1,586
Company's share of associates' net assets		1,437		1,170
Financial Performance:				
Total sales and other revenues		9,489		9,794
Total profit (loss) for the year		747		373

Primarily all of the carrying value of the investments in associates relates to SRG Security Resource Group Inc.

During the year, the Company received $28 dividends (2011 - $28).

During the year the Company's share of profits was $ 261 (2011 - $131).

10. Airport improvement fees:

The Company charges Airport Improvement Fees (AIF) on the basis of $20 per local boarded passenger through an agreement with the Air Transport Association of Canada and major air carriers serving the Airport. Effective April 1, 2013, the AIF increases to $25. AIF revenue is collected by the airlines for the benefit of the Company and is recorded net of a 6 percent handling fee. AIF revenues can only be used to pay for airport infrastructure development and related financing costs as jointly agreed with air carriers operating at the airport.

11. Bank indebtedness:

The Company has authorized credit facilities with a Canadian chartered bank. Under the credit facilities the Company is provided with a revolving credit facility in the amount of $100 million. These facilities are secured under the Master Trust Indenture (note 12). They are available by way of overdraft, prime rate loans, or bankers' acceptances. As at December 31, 2012, the Company has drawn on these facilities in the amount of $10,000 (December 31, 2011 - $ nil).

12. Long-term debt:

	December 31 2012		December 31 2011	
Revenue bonds series A, 5.205%, due September 28, 2040, semi-annual blended principal and interest payments of $8,221 payable March 28 and September 28 of each year until maturity	$	238,573	$	242,231
Revenue bonds series C, 4.569%, due November 20, 2019, interest payable semi-annually on May 20 and November 20 of each year until maturity		124,110		124,029
Revenue bonds series D, 6.102%, due November 20, 2040, interest payable semi-annually on May 20 and November 20 of each year until maturity, semi-annual blended principal and interest payments commenced on May 20, 2011		168,889		171,107
Manitoba Industrial Opportunity Program		18,361		18,084
Capital lease obligation		3,816		2,942
Deferred lease payments		228		305
		553,977		558,698
Current portion		7,349		7,211
	$	546,628	$	551,487

(a) Revenue bonds:

The revenue bonds are direct obligations of the Company ranking pari passu with all other indebtedness issued under a Master Trust Indenture (MTI). All indebtedness, including indebtedness under bank credit facilities are secured under the MTI by assignment of revenue and related accounts receivable, a security interest in money in the investment of debt service reserve and certain accounts of the Company, and an unregistered mortgage of the Company's leasehold interest in the Airport.

Pursuant to the terms of the MTI, the Company is required to establish and maintain with a trustee a debt service reserve (note 5) with a balance at least equal to 50 percent of annual debt service costs. These trust funds are held for the benefit of the bond holders for use and application in accordance with the terms of the MTI. In addition the Company is required to maintain an operating and maintenance reserve of approximately $17.5 million. The operating and maintenance reserve may be satisfied by cash, letter of credit or the availability under a committed credit facility.

(b) Capital lease obligation:

The Company leases certain equipment with an effective interest rate of 3.7 percent over a five year term ending in 2017.

(c) Manitoba Industrial Opportunity Program (MIOP) loan:

The loan is unsecured, and repayable to the Province of Manitoba in equal monthly installments over 32 years, at 5.875 percent interest.

(d) Deferred lease payments:

In accordance with an amendment to the Ground Lease Agreement (note 8), the Government of Canada deferred lease payments of $762,000. These deferred lease payments are repayable without interest on a straight line basis over a ten year period ending January 1, 2015.

(e) The future annual principal payments of long-term debt are as follows:

2013	$	7,349
2014		7,762
2015		8,148
2016		9,135
2017		9,115
Total thereafter		512,468

(d) Net financing expense:

		2012		2011
Revenue bond interest	$	29,216	$	29,147
Amortization of deferred financing costs		2,406		1,004
Other interest and financing costs		324		115
Interest income		(937)		(1,146)
		31,009		29,120
Less capitalized interest [note 7]		-		17,515
	$	31,009	$	11,605

13. Contingencies, commitments and guarantees:

(a) Ground Lease Agreement:

The operating lease for the Airport requires the Company to calculate rent payable to the Landlord utilizing a formula reflecting annual airport revenues.

(b) Development:

At December 31, 2012, the Company had outstanding contractual construction commitments amounting to approximately $ 3.1 million (December 31, 2011 - $12 million).

(c) Contingencies:

There are claims and disputes which the Company is involved with, arising from the airport site redevelopment project, the potential impact of which may be material.

Subsequent to an arbitration process, the Company has been found responsible for certain costs relating to the airport site redevelopment project. The quantum of such costs will be based on a second phase of arbitration that has not yet begun. For known costs associated with these claims, which the Company believes are valid and the likelihood is determinable, accruals have been made in the financial statements. Beyond those known costs, it is not practicable at this time to determine an estimate of the possible financial effect, uncertainties relating to the amount, timing of any outflows or the possibility of any cost recovery.

Also related to the airport site redevelopment project, other lawsuits and claims have arisen. The Company continues to work through resolving the claims though legal proceedings. The Company is in the process of filing counter claims but at this time there is uncertainty relating to the claims as well as any amounts that may be recoverable. At this time, it is not practicable to determine the extent of any liability resulting from these lawsuits and claims and accordingly no provisions have been made in these financial statements.

(d) Director and officer indemnity:

The Company has agreed to indemnify its directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by them as a result of any lawsuit or any other judicial administrative or investigative proceeding in which they are sued as a result of their service as long as they have acted honestly and in good faith. These indemnification claims will be subject to any statutory or other legal limitation period

14. Post-employment benefit plans:

Information for the post-employment benefit plans, based on the latest actuarial reports, measured as of December 31 is as follows:

	Defined Benefit Pension Plans		Other Post Employment Plans	
	2012	2011	2012	2011
Change in accrued benefit obligation:				
Balance, beginning of year	$ 44,886	$ 38,603	$ 2,996	$ 2,620
Current service cost	2,086	1,818	203	181
Past service cost	-	-	(26)	(26)
Interest cost	2,202	2,090	139	134
Actuarial loss (gain) recognized in other comprehensive income	4,175	3,610	200	144
Benefits paid	(1,692)	(1,235)	(168)	(57)
Balance, end of year	$ 51,657	$ 44,886	$ 3,344	$ 2,996
Change in plan assets:				
Fair value, beginning of year	$ 39,573	$ 38,018	$ -	$ -
Expected return on plan assets	2,450	2,716	-	-
Actuarial gain (loss) recognized in other comprehensive income	980	(2,736)	-	-
Contributions	4,204	2,810	-	-
Benefits paid	(1,692)	(1,235)	-	-
Fair value, end of year	$ 45,515	$ 39,573	$ -	$ -
Funded status:				
Plan deficit	$ 6,142	$ 5,313	$ 3,344	$ 2,996
Accrued pension liability	$ 6,142	$ 5,313	$ 3,344	$ 2,996

The Company's net benefit plan (income) expense is as follows:

	Defined Benefit Pension Plans		Other Post Employment Plans	
	2012	2011	2012	2011
Net benefit plan cost:				
Current service cost – net employer				
Contributions	$ 1,715	$ 1,468	$ 203	$ 181
Interest cost	2,202	2,090	139	134
Expected return on plan assets	(2,450)	(2,716)	-	-
Past service cost	-	-	(26)	(26)
Net benefit plan expense recognized in the year	$ 1,467	$ 842	$ 316	$ 289
Actual return on plan assets	$ 3,430	$ (20)	$ -	$ -
Amounts recognized in other comprehensive income:				
Actuarial losses	$ (3,195)	$ (6,346)	$ (200)	$ (144)
Minimum funding liability	-	8,065	-	-
	$ (3,195)	$ 1,719	$ (200)	$ (144)
Cumulative actuarial gains (losses) recognized in other comprehensive income:				
Cumulative amount beginning of year	$ 9,752	$ 3,406	$ (2,162)	$ (2,306)
Recognized during the year	$ 3,195	$ 6,346	$ 200	$ 144
Cumulative amount, end of year	$ 12,947	$ 9,752	$ (1,962)	$ (2,162)

The significant weighted average assumptions used are as follows:

	December 31 2012	December 31 2011
Accrued benefit obligation:		
Discount rate	4.5%	5.0%
Long-term average rate of compensation increase	3.5%	3.5%
Long-term average rate of health benefit cost increase		
Initial trend rate	13%	13%
Annual decrease	1%	1%
Ultimate trend rate	3%	3%
Year of ultimate trend rate	2016	2016
Benefit costs:		
Discount rate	5.0%	5.0%
Expected long-term rate of return on plan assets	6.0%	6.0%
Long-term average rate of compensation increase	3.5%	3.5%

The plan assets consist of the following asset mix:

	December 31 2012	December 31 2011
Equity funds	56%	56%
Debt and mortgage funds	39%	39%
Real estate funds	5%	5%

The effective date of the most recent actuarial valuation for funding purposes was December 31, 2012 for all plans and the next required valuation will be as of December 31, 2013. The expected rate of return on plan assets is based on historical and projected rates of return for each asset category measured over a 30 year term. Based on most recent actuarial valuations, during 2013 the Company expects to contribute $3.6 million in cash to the defined benefit pension plans and $183 in cash to the other post-employment plans.

15. Deferred income taxes:

Deferred income taxes of $84 (2011 - $13) have been recognized in respect of the temporary difference associated with the Company's investments in associates. The change in the Company's deferred tax balance has been recognized in income.

16. Financial instruments:

Fair value:

The fair value of cash and cash equivalents, restricted cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximates their carrying value due to their relatively short term to maturity. The fair value of other financial instruments is as follows:

	December 31 2012	December 31 2011
Direct finance lease	$ 7,106	$ 7,123
Revenue bonds Series A	276,625	266,897
Revenue bonds Series C	140,522	138,706
Revenue bonds Series D	213,114	206,168
MIOP loan	30,189	25,977
Capital lease	2,736	2,364

The fair value of direct financing lease, revenue bonds, MIOP loan and capital lease obligation is determined through current market rate yield calculations.

Risk management:

The Company is exposed to a number of risks as a result of the financial instruments on its balance sheet that can affect its operating performance. These risks include liquidity risk, credit risk, interest rate risk and concentration risk. The Company's financial instruments are not subject to foreign exchange risk or other price risk.

Liquidity risk:

The Company manages its liquidity risks by maintaining adequate cash and credit facilities, by updating and reviewing multi-year cash flow projections on a regular and as-needed basis, and by matching its long-term financing arrangements with its cash flow needs. In view of its credit ratings (Moody's: A1 and Standard & Poors: A), the Company has ready access to sufficient long-term funds as well as committed lines of credit through credit facilities with a Canadian bank. The future annual principal payment requirements of the Company's obligations under its long-term debt are described in note 12.

Credit and concentration risks:

The Company is subject to credit risk through its cash and cash equivalents, restricted cash, accounts receivable and investments. The Company is exposed to credit losses on cash and restricted cash in the event that the counterparty defaults. The Company manages this exposure by contracting only with financial institutions that maintain a very high credit rating, and therefore considers the exposure to be low.

The Company performs ongoing credit valuations of these accounts receivable balances and maintains valuation allowances for potential credit loss. The investments are limited to short term debt instruments with high quality credit ratings in order to minimize credit exposure.

The Company derives a substantial portion of its revenues from air carriers through landing fees and terminal charges and through the airlines' collection of airport improvement fees on its behalf. The Company's right under the Airport Transfer (Miscellaneous Matters) Act to seize and detain aircraft until outstanding aeronautical fees are paid mitigates the risk of credit losses.

Passenger activity at the airport is approximately 91 percent origin and destination traffic, and although there is concentration of service with three air carriers, the Company believes that any change in the airline industry will not have a significant impact on revenues or operations. In addition, the Company's unfettered ability to increase its rates and charges mitigates the impact of these risks.

The credit quality of financial assets can be assessed by reference to external credit ratings (if available) or to historical information about the customer:

	December 31 2012	December 31 2011
Trade accounts receivable:		
Customers with external credit rating:		
AAA	$ -	$ -
BBB	-	-
Baa1	409	14
B	228	2,643
B-	-	-
CCC+	1,953	-
	2,590	2,657
Customers without external credit ratings:	6,403	5,925
Total	$ 8,993	$ 8,582
Existing customers with no history of default	$ 7,040	$ 6,096
Investment ratings (in thousands of dollars):		
AAA	$ -	$ 3,615
A-1+	-	16,687
A-1	-	-
Cash	-	20
	$ -	$ 20,322

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's cash equivalents and restricted cash (debt service reserve and holdbacks) are subject to floating interest rates. Management has oversight over interest rates that apply to its cash equivalents and restricted cash. These funds are invested from time to time in short term bankers' acceptances permitted by the Master Trust Indenture, while maintaining liquidity for purposes of investing in the Company's capital programs. The following financial instruments are subject to interest rate risk as at December 31:

	2012		2011	
	Carrying value	Effective year end interest rate	Carrying value	Effective year end interest rate
Cash equivalents	$ -	-	$ 20,322	1.0%
Debt service reserve fund	$ 17,512	1.0%	$ 17,505	1.0%

If interest rates had been 50 basis points (0.50 percent) higher/lower and all other variables were held constant, including timing of expenditures related to the Company's capital expenditure programs, the Company's earnings for the year would have increased/decreased by $138 as a result of the Company's exposure to interest rates on its floating rate assets.

The Company has entered into fixed rate long-term debt, and accordingly, the impact of interest rate fluctuations has no effect on interest payments. However, changes in prevailing benchmark interest rates and credit spreads may impact the fair value of this debt.

17. Related party transactions:

The Company's related party transactions include key management personnel and post-employment benefit plan for the Company's employees. None of the transactions incorporate special terms and conditions and no guarantees were given or received.

Transactions with key management personnel

Key management includes the Board of Directors, the President and Vice Presidents. Compensation paid, payable or provided by the Company to key management personnel during the year ended were as follows:

	2012	2011
Salaries and short-term benefits	$ 1,504	$ 1,278
Post-employment benefits	87	77
Total (included in salaries and benefits)	$ 1,591	$ 1,355

Transactions with post-employment benefit plan

The defined benefit plan referred to in note 14 is a related party to the Company.

The Company's transactions with the pension plan include contributions paid to the plan, which are disclosed in note 14. The Company has not entered into other transactions with the pension plan, neither does it have any outstanding balances at the reporting periods under review.

18. Capital management:

The Company is incorporated without share capital under Part II of the Canada Business Corporations Act and, as such, net income is retained and reinvested in airport operations and development. Accordingly, the Company's only sources of capital for investing in airport operations and development are bank debt, long-term debt and accumulated earnings included on the Company's balance sheet as retained earnings. The Company incurs debt, including bank debt and long-term debt, to fund development. It does so on the basis of what it considers affordable based on revenues from AIF and in order to maintain a minimum debt service coverage ratio. This provides for a self-imposed limit on what the Company can spend on major development of the airport.

The Company manages its rates for aeronautical and other fees to safeguard the Company's ability to continue as a going concern and to maintain a conservative capital structure. It makes adjustments to these rates in light of changes in economic conditions and events, and to maintain sufficient net income to meet ongoing debt coverage requirements. The Company is not subject to capital requirements imposed by a regulator.

19. Working capital

	December 31 2012	December 31 2011	Increase (Decrease) in Cash
Accounts receivable	$ 8,993	$ 8,582	$ (411)
Prepaid expenses	534	428	(106)
Inventory	946	820	(126)
Accounts payable and accrued liabilities	19,330	28,786	(9,456)
Deferred revenue	885	910	(25)
			(10,124)

20. Post-reporting date events:

The Company plans to issue up to $100 million of Series E revenue bonds in the second quarter of 2013.

2013 Annual Meeting

Winnipeg Airports Authority's Annual Meeting will be held at 1:30 pm on Wednesday, May 1, 2013 at The Fairmont Hotel, Winnipeg, Manitoba. We invite the community to attend and meet the Officers and Directors of the Company.

Disclosure of Corporate Governance Systems

Governance Principles

The Board recognizes that it has stewardship responsibility of a valuable community resource. This has resulted in a governance system that rests on the following four principles:

1. Accountability

2. Clear delineation of responsibilities between the Board and Management

3. The full Board, not Board committees, is involved in decision making

4. Transparency

Board Committees

The Board has organized its affairs around two standing committees – Governance and Audit. They are complemented by the use of Task Forces on an as required basis to deal with particular matters. The full Board meets on a regular basis (at least six meetings annually).

The mandate of the Governance Committee is to assist the Board in effectively meeting its responsibilities.

The Audit Committee attends to matters that are financial and/or risk related.

Public Accountability Principles

Incorporated into the By-laws of Winnipeg Airports Authority is a set of accountability principles that were accepted by the Board as part of the airport transfer conditions. Following is a summary of these principles.

Board Composition and Director Requirements

The Board is comprised of 15 members of which 11 are nominated by seven different public and private sector agencies:

City of Winnipeg (3)

The Assiniboia Chamber of Commerce (1)

Province of Manitoba (1)

R.M. of Rosser (1)

Government of Canada (2)

Economic Development Winnipeg (1)

Winnipeg Chamber of Commerce (2)

A maximum of four members may be nominated by the Board of Directors.

The Board cannot consist of fewer than seven or more than 15 members at any time.

The qualification and eligibility requirements of Board members prescribe that a Director may serve for a term not exceeding three years and that no more than three terms (or nine years) may be served. Directors can be neither elected to nor employed by any level of government. The Chairperson cannot be an elected official or government employee at any time during the two years prior to the appointment as Chairperson.

Community Consultative Committee

Winnipeg Airports Authority Inc. complies with its Ground Lease requirement to establish a community consultative committee (CCC) to provide for effective dialogue and dissemination of information on various matters, including airport planning, operational aspects of the airport and municipal concerns. The CCC meets not less than twice each Lease Year, and is comprised of members who are generally representative of the community, including persons representing the interests of consumers, the traveling public and organized labour, aviation industry representatives and appropriate provincial and municipal government representatives.

Corporate Reporting & Disclosure Requirements

- Winnipeg Airports Authority has adopted a Code of Conduct and monitors its compliance to the ethical business practices outlined therein. Winnipeg Airports Authority confirms that it has complied with this Code of Conduct.
- Winnipeg Airports Authority discloses non-arm's length transactions.
- Any nominating entity may cause a meeting to be held on matters of public interest concerning the business of Winnipeg Airports Authority.
- Directors make a general report annually to their respective Nominator and the Board reports collectively to all Nominators.
- As a general practice, Winnipeg Airports Authority optimizes the use of Canadian resources and supplies and employs a competitive public tendering process for contracts in excess of $75,000 (1994 dollars).
- In the event Winnipeg Airports Authority increases airport user charges it provides 60 days advance public notice.
- Full audits in accordance with generally accepted auditing standards are conducted and Transport Canada has the right at any time to cause a complete audit to be conducted.
- Winnipeg Airports Authority publishes its Annual Report and includes specific performance comparisons and discloses the remuneration paid to Board members and to its senior officers. The Annual Report is distributed in advance of the Annual General Meeting to all Nominators and the Minister of Transportation.
- At least once every five years Winnipeg Airports Authority conducts a comprehensive independent review of Winnipeg Airports Authority's management operation and financial performance by a qualified independent person. The report is distributed on a timely basis to the Minister of Transportation and to each Nominator and is available to the public on request.
- Winnipeg Airports Authority provides for public access: Airport Master Plan, five-year business plan, past five-year annual financial statements and business plans, incorporation documents, and all signed airport transfer agreements.

Specific TSX Corporate Governance Criteria Disclosure

Winnipeg Airports Authority Governance Systems are fully aligned with the TSX Corporate Governance Guidelines.

Environmental Compliance

From July 6, 2012 to December 31, 2012, WAA approved 21 projects to be carried out on Federal Lands. All projects were evaluated for environmental impacts to determine if the project would cause any significant adverse environmental effects. No approved project was deemed to cause significant adverse environmental effects, and mitigation measures were implemented for those projects determined to cause minor environmental effects.

Winnipeg Airport Authority Inc. Board of Directors 2012

Nominated by the City of Winnipeg

D. Greg Doyle, Corporate Director
Kerry Hawkins, Corporate Director
H. Sanford Riley, President & CEO, Richardson Financial Group Limited

Nominated by The Assiniboia Chamber of Commerce

Gerry Glatz, Owner, Teledisc Systems

Nominated by Economic Development Winnipeg Inc.

Paul Soubry, President & CEO, New Flyer Industries

Nominated by the Government of Canada

Ross Robinson, President & CEO B.A. Robinson Group
Shirley Render, Executive Director, Western Canada Aviation Museum

Nominated by the Province of Manitoba

Eugene Kostyra, Corporate Director

Nominated by the Rural Municipality of Rosser

Thomas Payne Jr., President, Payne Trucking LP

Nominated by the Winnipeg Chamber of Commerce

Doneta Brotchie, President, FUNdamentals Creative Ventures
Thomas Bryk, FCA, President and CEO, Cambrian Credit Union (Chair)

Appointed by the Winnipeg Airports Authority Board

Janice Filmon, Corporate Director
David Friesen, Chairman, Friesens Corporation
Arthur Mauro, Corporate Director (Chair Emeritus)
Garth Smorang, Lawyer, Myers Weinberg (Vice Chair)

2012 Board Committees

Audit

D. Greg Doyle (Chair)
Doneta Brotchie
Gerry Glatz
Eugene Kostyra
Shirley Render
H. Sanford Riley
Ross Robinson

Governance

David Friesen (Chair)
Janice Filmon
Kerry Hawkins
Thomas Payne Jr.
Ross Robinson
Garth Smorang
Thomas Bryk (ex-Officio)

Board Attendance

	Board Meetings			Governance Committee Meetings		
	Elegible	Attended	Telephone	Elegible	Attended	Telephone
Thomas Bryk	6	6		5	4	1
Janice Filmon	6	5	1	5	3	2
David Friesen	6	6		5	4	1
Kerry Hawkins**	5	5		3	2	
Thomas Payne	6	6		5	4	1
Garth Smorang	6	6		5	4	1
Paul Soubry	6	5		5	3	2
				Audit Committee Meetings		
Doneta Brotchie	6	5	1	5	4	1
D. Greg Doyle	6	6		5	5	
Gerry Glatz*	6	6		3	3	
Eugene Kostyra	6	6		5	5	
H. Sanford Riley	6	4	2	5	3	
Shirley Render	6	5	1	5	5	
Ross Robinson*	6	5	1	3	2	

* Audit committee membership term began on April 1, 2012
** Board membership completed September 30, 2012

Board of Directors Compensation for 2012

Thomas Bryk	$	41,000
Doneta Brotchie		17,350
D. Greg Doyle		24,350
Janice Filmon		16,000
David Friesen		20,580
Gerry Glatz		15,020
Kerry Hawkins		12,530
Eugene Kostyra		18,710
Thomas Payne		16,000
Shirley Render		17,350
H. Sanford Riley		15,250
Ross Robinson		14,270
Garth Smorang		16,000
Paul Soubry		15,400
Total	$	259,810

Executive Officers 2012

Barry Rempel, President and Chief Executive Officer
Catherine Kloepfer, Senior Vice President Corporate Services and Chief Financial Officer
Pascal Belanger, Vice President Business Development
Michael O'Gorman, Vice President Operations and Customer Experience

Executive Officers 2012 – Salaries

The salary range for the President & CEO is $250,000 to $300,000.

The salary range for Vice Presidents is $140,000 to $200,000.

Public Competitive Tendering

Winnipeg Airports Authority Inc., under the terms of its lease agreement with the Government of Canada, reports all contracts in excess of $105,000 ($75,000 in 1994 dollars) entered into during the year that were not awarded on the basis of a public, competitive, tendering process. In 2012, Winnipeg Airports Authority Inc. entered into the following contracts as described for the reasons indicated in the following table:

	Vendor	Value	Basis for Selection
Advance Electronics	Maintenance	116,400	B
Air-Transport IT Services, Inc	System Changes	128,435	B
Airport Technologies Inc	Airfield Equipment	260,135	A
Airport Technologies Inc	Airfield Equipment	810,386	A
Broadview Networks	Software Upgrade	136,798	D
Liberty Airport Systems	Airfield Lighting	441,636	A
LSL Contracting and Materials	Airfield Supplies	120,540	B
Otis Canada Inc.	Maintenance	475,120	B
Skidata Inc.	Parking System Upgrade	421,211	A
SM Industries	Airfield Maintenance	112,059	D
The City of Winnipeg	Effluent Processing	150,000	B
Valley Technologies Inc.	Security Equipment	130,090	B
Wausau Equipment Inc.	Airfield Equipment	291,700	A

Basis for Selection

A – Introduction of products from other vendors would cause operational impacts and incur additional maintenance cost or affects the equipment standardization program.

B – A vendor has a monopoly on the technology or service because of a patent, licensing rights or proprietary system.

C – The goods and services are required due to an emergency in which delay would be injurious to the Company. An emergency is described when unforeseen circumstances arise where goods and services are needed to prevent loss of life or property or continuation of essential services or any event that is deemed to compromise the health, safety and security of the Company's employees, tenants or customers.

D – The vendor was awarded a contract for goods or services as a result of previous competitive process and has no prior performance issues

E – There is only one qualified vendor available when all factors are considered. Factors must be clearly specified as to why they have the specific skills, experience, and any special expertise.

F – A strategic alliance/partnership can be formed with one vendor in order to take advantage of current technology and expertise.

G – Consistent with sound business practices and our guiding principles an alliance/partnership can be formed with one supplier in order to significantly promote the strategic objectives of the Company.

Community Consultative Committee and their Affiliations

Colin Ferguson – Travel Manitoba
Dave Angus – Winnipeg Chamber of Commerce
Grand Chief Derek Nepinak – Assembly of Manitoba Chiefs Secretariat Inc.
Doug McNeil – Transportation, Province of Manitoba
Hugh Eliasson – Finance, Province of Manitoba
Marina James – Economic Development Winnipeg
Phil Sheegl – City of Winnipeg
Jeff Traeger – United Food & Commercial Workers
Ken Webb – Manitoba Aerospace Association

Corporate Information

Auditors: PricewaterhouseCoopers LLP
Lead Bank: Canadian Imperial Bank of Commerce
Legal Counsel: Aikins, MacAulay & Thorvaldson; Miller Thompson; and Duboff Edwards Haight & Schachter

WINNIPEG JAMES ARMSTRONG RICHARDSON INTERNATIONAL AIRPORT SERVICES

Passenger Carriers (serving Main Terminal Building)
Air Canada
Air Canada Jazz
Air Transat
Bearskin Airlines
Calm Air
Canjet
Comair
Delta Air Lines
First Air
Iceland Express (flights operated by Astraeus Airlines)
Mesaba Aviation operating on behalf of Delta Airlines
Pinnacle Airlines operating on behalf of Delta Airlines
Skyservice
Skywest operating on behalf of United Express
Sunwing
Wasaya Airways
WestJet

Passenger Carriers (other)
Air Nunavut
Canadian North
Enerjet
Execaire
Fast Air
Flair Airlines
Keystone Air Service
Kivalliq Air (a division of Keewatin Air)
Miami Air
Missinippi Airways
Nolinor
Northway Aviation
Perimeter Aviation
Skynorth Air
Sunwest Home Aviation
Thunder Airlines
Voyageur Airways
West Wind Aviation

Air Cargo Carriers (Scheduled)
Cargojet
DHL (operated by Ameriflight)
Federal Express
Morningstar Air Express
Perimeter Aviation
Purolator (operated by Kelowna Flightcraft)
Southern Air
Transwest Air
UPS

Air Cargo Carriers (Non-scheduled)
Air Bridge Cargo Airlines
Atlas Air Cargo
Centurion Cargo
China Cargo Airlines
Japan Airlines
Korean Air Cargo
Singapore Airlines Cargo
Volga-Dnepr Airlines

Restaurants/Bars

Pre-Security
Harvey's
Tim Horton's
Stella's Café and Bakery

Post-Security Domestic
TGI Fridays
Upper Crust
Salisbury House
Gondola Pizza
Red Wok
Tim Horton's
Fuel Bar
Starbucks

Post-Security Trans-border
Tim Horton's Express
TGI Fridays

Retailers

Pre-Security
Ice Currency Exchange
Liquor Mart Express
Red River News

Post-Security Domestic
Aer Rianta Duty Free Shop
Ice Currency Exchange
PGA Store
The Exchange, News and Gifts
The Exchange, News and Gifts
Red River News Express
Rocky Mountain Chocolate Factory
Toad Hall Toys

Post-Security Trans-border
Aer Rianta Duty Free Shop
CNBC News
Ice Currency Exchange

Hotel
Four Points Sheraton

Car Rentals
Avis/Budget Rent-A-Car
National/Alamo Rent-A-Car
Enterprise Rent-A-Car
Hertz Rent-A-Car

WINNIPEG
AIRPORTS AUTHORITY

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