

FRONTIER DUTY FREE ASSOCIATION
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Independent Auditors' Report
Statement of Financial Position
Statement of Revenue and Expenses and Changes in Unrestricted Net Assets
Statement of Cash Flows
Notes to Financial Statements





INDEPENDENT AUDITOR'S REPORT

To the Members of:
Frontier Duty Free Association

We have audited the accompanying financial statements of Frontier Duty Free Association, which comprise the statement of financial position as at December 31, 2011, and the statements of revenue and expenses and changes in unrestricted net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

In common with many non-profit organizations, FDFA derives revenue from social activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to revenue, net revenue (expenditure) for the year, assets and net assets.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Frontier Duty Free Association as at December 31, 2011, and the results of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada.

A handwritten signature in black ink that reads "Frouin Group". The signature is written in a cursive, flowing style.

Licensed Public Accountants
To Be Dated When Approved

Authorized to practice public accounting by the Institute of Chartered Accountants of Ontario

FROUIN GROUP PROFESSIONAL CORPORATION
CHARTERED ACCOUNTANTS

2301 Carling Avenue, Suite 101, Ottawa, ON K2B 7G3

Tel: 613-230-1022 Fax: 613-230-2954

E-mail: info@frouin.com Web: www.frouin.com

FRONTIER DUTY FREE ASSOCIATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash	\$ 58,626	\$ 26,746
Short-term investments (note 3)	75,000	150,000
Accounts receivable	52,961	125,021
Prepaid expenses	<u>9,773</u>	<u>9,213</u>
	<u>\$ 196,360</u>	<u>\$ 310,980</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 23,352	\$ 69,691
Deferred income	<u>0</u>	<u>25,000</u>
	<u>23,352</u>	<u>94,691</u>
NET ASSETS		
Unrestricted	<u>173,008</u>	<u>216,289</u>
	<u>\$ 196,360</u>	<u>\$ 310,980</u>

APPROVED ON BEHALF OF THE BOARD :

Director _____

Director _____

(See accompanying Notes to Financial Statements)



FRONTIER DUTY FREE ASSOCIATION
STATEMENT OF REVENUE AND EXPENSES AND CHANGES
IN UNRESTRICTED NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2011

	2011	2010
REVENUE		
Membership dues	\$ 107,154	\$ 101,037
Annual Convention	307,476	343,933
Sales to operator members	155,120	161,334
Interest and miscellaneous income	<u>627</u>	<u>3,784</u>
	<u>570,377</u>	<u>610,088</u>
EXPENSES		
Annual convention	82,802	194,022
FDFA programs	166,971	139,657
Salaries and benefits	154,187	150,042
Office	21,924	23,932
Office Rent	18,587	16,587
Professional fees	3,200	3,250
Marketing and business development	158,708	116,047
Interest and bank charges	1,405	1,334
Foreign exchange gain/loss	(856)	656
Travel	<u>6,730</u>	<u>5,303</u>
	<u>613,658</u>	<u>650,830</u>
EXCESS OF EXPENSES OVER REVENUE FOR THE YEAR	(43,281)	(40,742)
Unrestricted net assets, beginning of year	<u>216,289</u>	<u>257,031</u>
UNRESTRICTED NET ASSETS, END OF YEAR	\$ <u>173,008</u>	\$ <u>216,289</u>

(See accompanying Notes to Financial Statements)



FRONTIER DUTY FREE ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

	2011	2010
CASH FROM OPERATING ACTIVITIES		
Excess of expenses over revenue for the year	\$ (43,281)	\$ (40,742)
Net change in non-cash working capital	<u>161</u>	<u>(40,081)</u>
Cash flows from current operating items	<u>(43,120)</u>	<u>(80,823)</u>
NET CHANGE IN CASH AND EQUIVALENTS	(43,120)	(80,823)
CASH AND EQUIVALENTS, beginning of year	<u>176,746</u>	<u>257,569</u>
CASH AND EQUIVALENTS, end of year	<u>\$ 133,626</u>	<u>\$ 176,746</u>
REPRESENTED BY		
Cash	\$ 58,626	\$ 26,746
Short-term investments	<u>75,000</u>	<u>150,000</u>
	<u>\$ 133,626</u>	<u>\$ 176,746</u>

(See accompanying Notes to Financial Statements)



FRONTIER DUTY FREE ASSOCIATION
NOTES TO UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. PURPOSE OF THE ORGANIZATION

The Frontier Duty Free Association (FDFA) was incorporated as a non-profit organization without share capital under the Canada Corporations Act and as such is exempt from income taxes. The membership of the Frontier Duty Free Association consists of operators of duty free stores and their suppliers. The objectives of the Association are to promote duty free business, to act as a lobby on behalf of its members and to promote interaction between duty free stores and their suppliers.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results may differ from those estimates.

b. Revenue recognition

Membership fees are recorded in the fiscal year to which they relate. Sales of goods are recorded when they are shipped to the operator member. Convention registration fees received prior to the year end which represent fees for an event occurring in the following fiscal year are deferred and recorded in revenue in the year the event is held.

c. Contributed services and materials

Because of the difficulty in determining the fair value of volunteers' services, contributed services are not recognized in the financial statements. Contributed materials, if any, are also not recognized in these financial statements.

d. Contributions in-kind

Contributions received in the form of materials and services are recorded at fair value at the date of the contribution when the fair value can be reasonably estimated and when the materials and services are used in the normal course of operations.

FRONTIER DUTY FREE ASSOCIATION
NOTES TO UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

e. Financial instruments

The FDFA's financial instruments consist of cash and term deposits at a Canadian chartered bank, accounts receivable from its operator and associate members and accounts payable and accrued liabilities owing to creditors. The FDFA's financial instruments' carrying values approximate their fair market value.

3. SHORT-TERM INVESTMENTS

The short-term investment is a Guaranteed Investment Certificate earning interest at 0.75% per annum. It is recorded at fair value and matures on August 13, 2012.

4. COMMITMENT

FDFA is required to provide 120 days written notice of termination in order to discontinue the present lease agreement which is in effect for 3 years starting January 2011. The monthly rental payment is \$1,907.

FDFA has entered into a three year contract with Hilton Niagara Falls Fallsview for the next three conventions dated November 11-18, 2011, November 9-16, 2012 and November 15-22, 2013. The estimated charges of the contract total \$200,000 per year; This includes the charges for hotel rooms that will be paid by the individual guests attending the event. If FDFA were to cancel this contract to hold the annual convention in another location the following cancellation fees would apply for both the convention in 2012 and 2013:

More than 1 year before the convention	10,000.00
9-12 months before the convention	50,000.00
6-9 months before the convention	80,000.00
3-6 months before the convention	120,000.00
0-3 months before the convention	160,000.00

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate their fair market value due to the relatively short periods of maturity of these instruments.

It is management's opinion that FDFA is not exposed to significant interest, currency or credit risks arising from these financial instruments.

FRONTIER DUTY FREE ASSOCIATION
NOTES TO UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

6. CAPITAL DISCLOSURES

FDFA defines the capital that it manages as net assets. The capital management objectives of FDFA include ensuring the ability to continue as a going concern and maintaining sufficient liquidity to meet its obligations as they become due.

7. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current presentation.