Vancouver Airport Authority

Unaudited non-consolidated financial statements
December 31, 2017

Vancouver Airport Authority

Unaudited non-consolidated statement of financial position

[expressed in thousands of dollars]

As at December 31

	2017	2016
	$	$
Assets		
Current		
Cash	**208,009**	159,686
Accounts receivable *[note 3]*	**44,997**	37,333
Other receivables *[note 14]*	**4,133**	6,962
Current portion of net investment in lease *[note 4]*	**1,602**	1,386
Inventory *[note 5]*	**11,246**	9,182
Prepaid expenses	**8,974**	4,934
Total current assets	**278,961**	219,483
Net investment in lease *[note 4]*	**1,311**	2,913
Investment in subsidiaries *[notes 6 and 14]*	**75,128**	75,128
Partnership interest *[notes 7, 14 and 17[c]]*	**13,660**	10,029
Capital assets, net *[note 8]*	**1,951,967**	1,923,764
Other long-term assets, net *[note 9]*	**42,648**	38,810
	2,363,675	2,270,127
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities *[notes 11, 12, 16[c] and 17[a]]*	**85,128**	74,621
Current portion of deferred revenue	**14,566**	15,653
Current portion of debentures *[note 12]*	**199,248**	—
Total current liabilities	**298,942**	90,274
Deferred revenue	**15,373**	15,718
Other long-term liabilities *[notes 16[b] and [c]]*	**17,024**	16,366
Deferred capital contributions *[note 13[a]]*	**39,455**	43,638
Debentures *[note 12]*	**346,390**	544,719
Total liabilities	**717,184**	710,715
Commitments, contingencies and guarantees *[note 17]*		
Subsequent event *[note 17[c][i]]*		
Net assets	**1,646,491**	1,559,412
	2,363,675	2,270,127

See accompanying notes to unaudited non-consolidated financial statements

Vancouver Airport Authority

Unaudited non-consolidated statement of operations

[expressed in thousands of dollars]

Year ended December 31

	2017	2016
	$	$
Revenue		
Landing fees	**45,948**	42,346
Terminal fees	**90,001**	84,883
Concession	**130,558**	115,204
Airport improvement fees *[note 15]*	**159,351**	150,447
Car parking	**37,139**	33,484
Rentals	**37,254**	36,336
Fees and miscellaneous *[note 14]*	**22,723**	20,609
Contributions *[note 13[b]]*	**6,217**	6,348
	529,191	489,657
Expenses		
Salaries, wages and benefits *[note 16]*	**55,357**	51,290
Materials, supplies and services *[note 5]*	**124,048**	109,086
Payments in lieu of taxes, insurance and other *[note 5]*	**31,241**	30,246
Amortization of capital assets	**147,221**	137,901
	357,867	328,523
Other expenses		
Ground lease	**55,259**	50,587
Revenue sharing *[note 17[b][iii]]*	**5,288**	—
Interest and financing charges	**29,972**	29,939
	90,519	80,526
Excess of revenue over expenses before undernoted items	**80,805**	80,608
Write-down of capital assets	**(367)**	(1,345)
Gain on disposal of capital assets	**230**	107
Foreign exchange loss	**(523)**	(231)
VAPH partnership income *[note 7]*	**4,788**	4,848
Excess of revenue over expenses for the year	**84,933**	83,987

See accompanying notes to unaudited non-consolidated financial statements

Vancouver Airport Authority

Unaudited non-consolidated statement of changes in net assets

[expressed in thousands of dollars]

Year ended December 31

	2017	2016
	$	$
Balance, beginning of year	**1,559,412**	1,478,389
Excess of revenue over expenses for the year	**84,933**	83,987
Employee future benefit plan measurements *[note 16]*	**2,146**	(2,964)
Balance, end of year	**1,646,491**	1,559,412

See accompanying notes to unaudited non-consolidated financial statements

Vancouver Airport Authority

Unaudited non-consolidated statement of cash flows

[expressed in thousands of dollars]

Year ended December 31

	2017	2016
	$	$
Operating activities		
Excess of revenue over expenses for the year	**84,933**	83,987
Add (deduct) items not involving cash		
Amortization of capital assets	**147,221**	137,901
Amortization of deferred capital contributions *[note 13[b]]*	**(6,205)**	(6,291)
Amortization of deferred financing costs	**919**	871
Amortization of other long-term assets	**1,956**	1,848
Write-down of capital assets	**367**	1,345
Gain on disposal of capital assets	**(230)**	(107)
Foreign exchange loss	**523**	231
VAPH partnership income	**(4,788)**	(4,848)
Changes in non-cash operating working capital *[note 20[a]]*	**(10,599)**	(15,562)
Cash provided by operating activities	**214,097**	199,375
Investing activities		
Additions to capital assets	**(167,941)**	(160,212)
Proceeds on disposal of capital assets	**230**	110
Partnership distributions from VAPH *[note 7]*	**1,157**	485
Decrease in net investment in lease	**1,386**	1,196
Decrease in investment in VAEL *[note 6[a]]*	**1,679**	—
Increase in investment in VAEL Templeton *[note 6[b]]*	**(1,679)**	(1,100)
Increase in other long-term assets *[note 20[b]]*	**(3,654)**	(3,746)
Cash used in investing activities	**(168,822)**	(163,267)
Financing activities		
Increase in other long-term liabilities	**658**	1,795
Deferred capital contributions received *[note 20[b]]*	**2,913**	1,227
Cash provided by financing activities	**3,571**	3,022
Effect of foreign exchange on cash	**(523)**	(231)
Net increase in cash during the year	**48,323**	38,899
Cash, beginning of year	**159,686**	120,787
Cash, end of year	**208,009**	159,686

See accompanying notes to unaudited non-consolidated financial statements

Notes to unaudited non-consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2017

1. Operations

The Vancouver Airport Authority [the "Airport Authority"] is incorporated under the *Canada Not-for-profit Corporations Act*. The Airport Authority is governed by a Board of Directors [the "Board"], with nine members appointed by the Government of Canada and various government and professional bodies, up to five directors appointed by the Board from the community at large, and one seat on the Board held by the President and CEO of the Airport Authority.

The Airport Authority operates the Vancouver International Airport [the "Airport"] pursuant to a lease of most of Sea Island, Richmond, British Columbia, from the Government of Canada [the "Ground Lease"].

2. Significant accounting policies

Presentation and basis of accounting

These non-consolidated financial statements have been prepared in accordance with the significant accounting policies described herein pursuant to the financial reporting provisions of Section 7.11 of the Trust Indenture Agreement [the "Trust Indenture"] dated December 6, 1996, one Supplemental Indenture dated November 14, 2006, two dated December 7, 2006, one dated November 14, 2007, one dated October 5, 2015, and one dated November 10, 2015.

The Airport Authority prepares its financial statements in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Organizations" ["ASNPO"]. The basis of accounting used to prepare these non-consolidated financial statements materially differs from ASNPO because the Airport Authority's wholly owned subsidiaries are accounted for using the cost method.

The Airport Authority also distributes audited consolidated financial statements prepared for the same period in accordance with ASNPO.

Inventory

Inventory is valued at the lower of weighted average cost and net realizable value. Weighted average cost includes the purchase price, import duties, other net taxes, transportation, handling and other costs directly attributable to acquisition. Net realizable value is the estimated current replacement cost.

Investments in subsidiaries

The Airport Authority accounts for its investments in subsidiaries using the cost method. The Airport Authority has four wholly owned subsidiaries:

- Vancouver Airport Enterprises Ltd. ["VAEL"] holds a 100% investment in YVR Project Management Ltd. ["YVRPM"], which provides capital project management and consulting services to affiliated and non-affiliated entities.

[tabular amounts in thousands of dollars]

- Vancouver Airport Authority (Hong Kong) Ltd. [“YVRHK”] is a Hong Kong domiciled company that provides various marketing and support services to promote the Airport Authority as a premier passenger and air cargo hub for Asian customers.

- Vancouver Airport Enterprises (Templeton) Ltd. [“VAEL Templeton”] holds the Airport Authority’s 50% investment in the Templeton DOC Limited Partnership [“DOC Partnership”], which has developed a retail designer outlet centre [“DOC”] on Sea Island.

- Vancouver Airport Properties Ltd. [“VAPL”] holds a 0.1% interest in and manages the following partnerships:
  - Vancouver Airport Property Holding LLP [“VAPH”] – VAPH’s purpose is to hold the leasehold interest from the Airport Authority. The Airport Authority holds the other 99.9% interest in VAPH.
  - Vancouver Airport Property Management LLP [“VAPM”] – VAPM is the limited liability partnership that owns and operates multi-tenanted buildings on Sea Island. VAPH holds the other 99.9% interest in VAPM.

Partnership interest

The Airport Authority accounts for its partnership interest using the equity method. The Airport Authority’s share of partnership income is recorded in the non-consolidated statement of operations.

Borrowing costs

Interest on debt is recognized as an expense in the period in which it is incurred.

Capital assets

Capital assets are recorded at cost less accumulated amortization. The cost includes the purchase price and other acquisition and construction costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation, transportation charges, labour, insurance and duties. Software that is an integral part of the related hardware is capitalized to the cost of computer equipment and systems and included in capital assets. The costs included in construction-in-progress are capitalized during the construction phase and are not amortized. Upon completion of the project, the assets will be allocated to the respective capital asset classes and amortized at the rates provided in the table below. The art collection is considered to have a permanent value and is not amortized.

Amortization is provided at cost less estimated salvage value on a straight-line basis over the estimated useful lives as follows:

Buildings and other structures	5 to 40 years
Runways and other paved surfaces	3 to 30 years
Rapid transit infrastructure	50 years
Machinery and equipment	5 to 15 years
Furniture and fixtures	5 to 15 years
Computer equipment and software	3 to 10 years

Notes to unaudited non-consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2017

Deferred revenue

Deferred revenue represents payments received in advance from tenants and operators, which are deferred and recognized over the terms of the related agreements.

Revenue recognition

Revenue is recognized when the amount to be received is fixed or can be reasonably estimated, delivery has occurred, and collection is reasonably assured as follows:

[i] Aeronautical charges, which consist of landing and terminal fees, are generally recognized as revenue when airport facilities are utilized.

[ii] Concession revenue is recognized based on a percentage of reported concessionaire sales and/or specified minimum annual guarantees. Specified minimum annual guarantee amounts and incentives for lessees to enter into lease agreements are recognized on a straight-line basis over the lease term.

[iii] Revenue from the Airport Improvement Fee [“AIF”], which is collected from passengers by air carriers, is recognized based on monthly passenger numbers submitted by individual air carriers.

[iv] Car parking revenue is recognized when airport facilities are utilized.

[v] Rental revenue is recognized on a straight-line basis over the term of the respective agreements. Revenue from rental arrangements classified as direct finance leases is recognized over the term of the lease in order to reflect a constant periodic return to the Airport Authority’s net investment in the finance lease.

[vi] Contributions are accounted for using the deferral method as follows:

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions received to offset specific operating costs are deferred and recorded as revenue when the related costs are incurred.

Contributions received and designated by third parties for specific capital purposes are deferred and recorded as revenue on a basis consistent with the amortization of the related capital assets.

Ground lease expense

The ground lease expense is based on a progressive scale of percentages of the Airport Authority’s revenue as defined in the Ground Lease and is charged to operations.

The Airport Authority does not receive title to the underlying parcels of land; therefore, the Ground Lease has been accounted for as an operating lease.

Dividend income

Dividend income is recorded when the dividend is declared and collection is reasonably assured.

Taxes

Income arising from the operation of the Airport Authority is exempt from federal and provincial income taxes under the *Airport Transfer (Miscellaneous Matters) Act*.

A payment in lieu of taxes is made for municipal services and is based on the municipality's rates applied to the assessment of property values. Payments are recognized as an expense over the assessment term.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the term of the lease.

Employee future benefits

The Airport Authority has a contributory defined benefit pension plan that covers employees of the Airport Authority who, immediately prior to joining the Airport Authority, were employees of the Federal Public Service; a defined contribution plan that covers new employees who have joined the Airport Authority since June 1992; and unfunded supplemental plans that cover its senior executives.

Defined benefit pension plans

The Airport Authority accrues its obligations under defined benefit pension plans as the employees render the service necessary to earn the employment benefits.

The Airport Authority measures its accrued benefit obligations and the fair value of plan assets as at December 31 of each year, using the most recent funding valuation for the defined benefit pension plan, adjusted to remove the margin for adverse deviation from the discount rate. The most recent actuarial valuation of the defined benefit pension plan for funding purposes was as of December 31, 2016. The next valuation for funding purposes will be as of December 31, 2017, the results of which are expected to be available during 2018.

The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected accrued benefit cost method prorated on service. Obligations for the pension plans are calculated using the assumptions from the actuarial funding valuation including an estimate of future salary levels, pension indexing, retirement ages of employees, and other actuarial factors. Obligations for the non-pension benefit plan are calculated using assumptions that incorporate management's best estimate of cost escalation, retirement ages of employees, and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value at the reporting date.

Remeasurements, which include settlement and actuarial gains and losses, arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, differences in demographic and economic experience compared to expectations, or from changes in actuarial assumptions used to determine the accrued benefit obligation. These remeasurements are recognized directly in net assets and presented separately.

Past service costs arising from plan amendments are recognized immediately on the non-consolidated statement of operations.

Defined contribution benefit plans

The Airport Authority records contributions to defined contribution benefit plans as an expense, which is included in salaries, wages and benefits expense as services are rendered.

Financial instruments

Recognition and measurement

The Airport Authority recognizes a financial asset or financial liability when the entity becomes a party to the contractual provisions of the financial instrument.

At initial acquisition, financial assets or financial liabilities acquired or assumed in an arm's length transaction are measured at fair value, adjusted for directly attributable financing fees and transaction costs if the instrument is subsequently measured at cost or amortized cost.

The following is a summary of the Airport Authority's financial instruments that are subsequently measured at cost or amortized cost: cash, accounts receivable, other receivables, accounts payable and debentures.

Financing costs

The Airport Authority capitalizes all transaction costs relating to the acquisition of financing as an offset to the related debt and amortizes the costs to interest expense using the effective interest rate method over the term of the underlying debt.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the non-consolidated statement of financial position date. Revenue and expenses are translated at the exchange rates prevailing on the transaction date.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the non-consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of accrued revenue, allowance for doubtful accounts, percentage of completion for construction-in-progress, useful lives for

Notes to unaudited non-consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2017

amortization of capital assets, accrued liabilities, assumptions with respect to defined benefit plans, and provisions for contingencies. Actual results could differ materially from those estimates.

3. Accounts receivable

[a]	**2017**	**2016**
	$	$
Current	**36,942**	31,438
31 – 60 days past due	**2,685**	3,372
61 – 90 days past due	**2,770**	871
90+ days past due	**3,190**	2,204
Allowance for doubtful accounts	**(590)**	(552)
	44,997	37,333

[b]	**2017**	**2016**
	$	$
Allowance for doubtful accounts, beginning of year	**552**	545
Increase in allowance for doubtful accounts	**231**	7
Write-off of specific accounts	**(193)**	—
Allowance for doubtful accounts, end of year	**590**	552

4. Net investment in lease

During 2002, the Airport Authority acquired a cargo facility for cash consideration of $11,254,000, which was then leased back to the vendor under an agreement expiring September 30, 2019. The Airport Authority's net investment in the direct financing lease consists of the following:

	2017	**2016**
	$	$
Minimum lease payments receivable	**3,313**	5,167
Unearned income	**(400)**	(868)
	2,913	4,299
Less current portion	**1,602**	1,386
	1,311	2,913

Notes to unaudited non-consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2017

As at December 31, 2017, the future minimum lease payments receivable under the direct financing lease are as follows:

	$
2018	1,882
2019	1,431
	3,313

5. Inventory

At December 31, 2017, the Airport Authority has a $12,000 [2016 – $754,000] valuation allowance on its inventory. The cost of inventory recognized as materials, supplies and services expense and payments in lieu of taxes, insurance and other during the year ended December 31, 2017 was $8,917,000 [2016 – $6,907,000].

6. Investment in subsidiaries

	2017	**2016**
	$	$
VAEL *[a]*	**50,891**	52,570
VAEL Templeton *[b]*	**24,237**	22,558
	75,128	75,128

[a] On May 5 and July 12, 2017, the Airport Authority received dividends of $1,139,000 and $540,000, respectively, from VAEL, as a repayment of its initial investment in VAEL. The dividends were recorded as a decrease in the investment in subsidiaries.

[b] On May 5 and July 12, 2017, the Airport Authority contributed $1,139,000 and $540,000 [2016 – $1,100,000], respectively, in equity to VAEL Templeton, which was recorded as an increase in the investment in subsidiaries. This funding was used by VAEL Templeton to invest in the DOC Partnership to fund work related to phase 2A of the DOC.

To date, the Airport Authority has contributed $24,237,000 [2016 – $22,558,000] in equity to the DOC Partnership. Costs incurred to date relate to the construction of the DOC, as well as associated leasing and marketing expenditures.

7. Partnership interest

For the year ended December 31, 2017, the Airport Authority recorded $4,788,000 [2016 – $4,848,000] of partnership income in the non-consolidated statement of operations based on its partnership interest in VAPH.

[tabular amounts in thousands of dollars]

VAPH did not record any of the income generated by VAPM of $2,211,000 [2016 – loss of $345,000], as VAPM had accumulated losses which first had to be offset. At December 31, 2017, VAPH has accumulated $1,137,000 [2016 – $3,349,000] in unrecorded losses from VAPM, which will first be fully offset before any equity earnings are recognized.

During the year, the Airport Authority received total partnership distributions from VAPH of $1,157,000 [2016 – $485,000]. The distribution was recorded as a reduction in the partnership interests.

Summarized non-consolidated statements of financial position, operations and cash flows of the Airport Authority's share of VAPH [99.9%] as at and for the years ended December 31, 2017 and 2016 are presented below:

	2017	2016
	$	$
Assets	**13,669**	10,039
Liabilities	**(9)**	(10)
Net assets	**13,660**	10,029

	2017	2016
	$	$
Revenue	**4,796**	4,860
Expenses	**8**	12
Net income	**4,788**	4,848

	2017	2016
	$	$
Cash flows provided by (used in)		
Operating activities	**4,788**	4,848
Financing activities	**(1,201)**	(577)
Investing activities	**—**	—

Notes to unaudited non-consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2017

8. Capital assets

	2017		
	Cost	Accumulated amortization	Net book value
	$	$	$
Buildings and other structures	**2,065,961**	**872,372**	**1,193,589**
Runways and other paved surfaces	**542,098**	**277,104**	**264,994**
Rapid transit infrastructure	**298,948**	**50,283**	**248,665**
Machinery and equipment	**134,864**	**96,788**	**38,076**
Furniture and fixtures	**34,067**	**28,751**	**5,316**
Computer equipment and software	**195,610**	**150,669**	**44,941**
Art collection	**9,804**	**—**	**9,804**
Construction-in-progress	**146,582**	**—**	**146,582**
	3,427,934	**1,475,967**	**1,951,967**

	2016		
	Cost	Accumulated amortization	Net book value
	$	$	$
Buildings and other structures	1,940,733	791,903	1,148,830
Runways and other paved surfaces	523,566	258,582	264,984
Rapid transit infrastructure	298,948	44,303	254,645
Machinery and equipment	127,187	89,379	37,808
Furniture and fixtures	32,871	27,569	5,302
Computer equipment and software	180,506	136,798	43,708
Art collection	9,804	—	9,804
Construction-in-progress	158,683	—	158,683
	3,272,298	1,348,534	1,923,764

Notes to unaudited non-consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2017

9. Other long-term assets

	2017		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Operating lease receivables *[a]*	**32,636**	**15,625**	**17,011**
Leasehold interest *[b]*	**4,640**	**752**	**3,888**
Development costs	**961**	**—**	**961**
Intangible asset	**1,400**	**1,400**	**—**
Accrued benefit asset *[note 16[a]]*	**20,788**	**—**	**20,788**
	60,425	**17,777**	**42,648**

	2016		
	Cost	**Accumulated amortization**	**Net book value**
	$	$	$
Operating lease receivables *[a]*	29,893	13,740	16,153
Leasehold interest *[b]*	4,640	681	3,959
Development costs	961	—	961
Intangible asset	1,400	1,400	—
Accrued benefit asset *[note 16[a]]*	17,737	—	17,737
	54,631	15,821	38,810

[a] In certain circumstances, the Airport Authority provides lease inducements to tenants. These lease inducements are recorded as long-term assets and recognized, on a straight-line basis, as a reduction of revenue over the term of the lease. During the year ended December 31, 2017, the Airport Authority provided lease inducements of $1,107,000 [2016 – $31,000] to tenants and recognized $1,885,000 [2016 – $1,776,000] as a reduction of concession and rental revenue.

In October 2011, the Airport Authority entered into a sublease with a tenant for a parcel of land on Sea Island. The initial term of the sublease is 40 years with two subsequent renewal options of 10 years each at the option of the tenant. The sublease has been classified as an operating lease, with rental revenue being amortized evenly over the initial term of the sub-lease. As at December 31, 2017, the cumulative difference between the rental income recognized and cash lease payments received is $9,319,000 [2016 – $8,546,000].

[b] In June 2008, the Airport Authority acquired a leasehold interest on Sea Island for $4,640,000, which included the estimated cost of decommissioning and demolishing the existing building on the land. Accordingly, the Ground Lease with Transport Canada was amended to include this additional site.

[tabular amounts in thousands of dollars]

The leasehold interest is being amortized over the remaining term of the Ground Lease. For the year ended December 31, 2017, the amortization of the leasehold interest was $71,000 [2016 – $72,000].

10. Line of credit

The Airport Authority has an unsecured bank operating line of $250,000,000 [2016 – $250,000,000] bearing interest at the bank prime rate, which was 3.20% as at December 31, 2017 [2016 – 2.7%], or at prevailing market interest rates if issuing bankers' acceptances. The unsecured bank operating line remained undrawn as at December 31, 2017 [2016 – nil].

	2017	**2016**
	$	$
Unsecured bank operating line	**250,000**	250,000
Outstanding letters of credit, reducing available balance *[note 16[a]]*	**19,128**	14,694
Available unsecured bank operating line	**230,872**	235,306

11. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable, which include amounts payable for sales, parking and payroll related taxes, as well as ground lease payments to Transport Canada.

	2017	**2016**
	$	$
Transport Canada *[note 17[a]]*	**4,672**	1,319
TransLink	**667**	576
Canada Revenue Agency	**289**	355
	5,628	2,250

[tabular amounts in thousands of dollars]

12. Debentures

	2017	2016
	$	$
Debentures	**545,638**	544,719
Current portion		
Series D 4.424%, due December 7, 2018	**200,000**	—
Less unamortized deferred financing costs	**752**	—
	199,248	—
Long-term portion		
Amended Series B 7.425%, due December 7, 2026	**150,000**	150,000
Series D 4.424%, due December 7, 2018	**—**	200,000
Series F 3.857%, due November 10, 2045	**200,000**	200,000
	350,000	550,000
Less unamortized deferred financing costs	**3,610**	5,281
	346,390	544,719

The Amended Series B debentures are issued under the Trust Indenture dated December 6, 1996 and amended under the Supplemental Indentures dated December 7, 2006 and October 5, 2015. The Series D debentures are issued under the Supplemental Indenture dated December 7, 2006 and amended October 5, 2015. The Series F debentures are issued under the Supplemental Indenture dated November 10, 2015.

The effective interest rates on the Series B, D and F debentures are 7.668%, 4.814%, and 3.895%, respectively. As at December 31, 2017, the Airport Authority has accrued debenture interest of $2,440,000 [2016 – $2,440,000], which is recorded in accounts payable and accrued liabilities.

The debentures are direct, unsecured and subordinated obligations of the Airport Authority. Interest is payable semi-annually in arrears in June and December for Series B and D and in May and November for Series F. The debentures are redeemable at the option of the Airport Authority, in whole or in part, at any time. For the Series B and D debentures, the redemption price is the higher of par and that value which would result in a yield to maturity equivalent to that of a Government of Canada bond of equivalent maturity plus a premium. The premium is 0.15% for the Series B debentures and 0.125% for the Series D debentures. For the Series F debentures, the redemption price prior to May 10, 2045 is the higher of par and that value which would result in a yield to maturity equivalent to that of a Government of Canada bond of equivalent maturity plus a premium. The premium for these debentures is 0.37%. The redemption price on or after May 10, 2045 is par.

While the debentures are outstanding, the Airport Authority is required to maintain an interest coverage ratio of not less than 1.25:1. Any further new issues of debt with a maturity of 12 months or longer are subject to a minimum interest coverage ratio of 1.75:1 on a pro-forma basis. The Trust Indenture also places certain limitations on the Airport Authority in the areas of encumbrances of assets, sales of assets, acquisitions of corporations, investments and guarantees. As at December 31, 2017 and 2016, the Airport Authority was in compliance with its covenants.

[tabular amounts in thousands of dollars]

13. Deferred capital and operating contributions

[a] Deferred capital contributions

The Airport Authority receives funding from Canadian Air Transport Security Authority ["CATSA"] towards specific security infrastructure upgrades. The funds received are deferred and brought into revenue as contributions at a rate consistent with the amortization of the related capital assets.

	2017	2016
	$	$
Capital contributions		
CATSA	**136,444**	134,651
Other	**3,876**	3,647
	140,320	138,298
Less accumulated amortization	**100,865**	94,660
	39,455	43,638

[b] Contributions

	2017	2016
	$	$
Amortization of deferred capital contributions	**6,205**	6,291
Operating contributions	**12**	57
	6,217	6,348

14. Related party transactions

Related parties include the Board of Directors, key management personnel, subsidiaries and affiliates. The Airport Authority has not engaged in any significant related party transactions with directors and key management personnel for the years ended December 31, 2017 and 2016.

The Airport Authority provides certain administrative support services including information technologies, legal, accounting, and human resources to its subsidiaries for no consideration.

[tabular amounts in thousands of dollars]

The Airport Authority pays legal, administrative, and salaries and wages expenses on behalf of its directly or indirectly owned subsidiaries in the normal course of operations, which are included in other receivables and are measured at the agreed upon exchange amount. All receivables from subsidiaries are due and payable upon the Airport Authority's demand.

	2017	**2016**
	$	$
Due from VAEL *[a]*	**76**	1,668
Due from YVRPM *[b]*	**1,662**	1,959
Due from YVRHK	**82**	167
Due from VAEL Templeton *[c]*	**13**	13
Due from VAPM	**50**	40
	1,883	3,847

[a] During the year, the Airport Authority remitted 2017 tax instalments on behalf of VAEL, which are recorded in other receivables.

[b] For the year ended December 31, 2017, YVRPM provided capital project management services to the Airport Authority totalling $819,000 [2016 – $843,000], which are included in the cost of capital assets.

[c] For the year ended December 31, 2017, the Airport Authority recognized $396,000 [2016 – $396,000] of rental revenue from VAEL Templeton, which is included in fees and miscellaneous revenue.

15. AIF – use of funds

The AIF is collected on the airline ticket by air carriers under a Memorandum of Agreement ["MOA"] between several Canadian airport authorities, air carriers and the Air Transport Association of Canada. Under the MOA, all AIF revenue collected is to be used to fund capital and related financing costs of airport infrastructure development as jointly agreed with the air carriers.

During the year ended December 31, 2017, the Airport Authority recorded $158,669,000 [2016 – $149,746,000] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totalled $172,629,000 [2016 – $134,520,000]. The remainder of the AIF revenue is from the south terminal. To December 31, 2017, the cumulative main terminal AIF revenue totalled $2,011,994,000 [2016 – $1,853,325,000], and cumulative AIF eligible expenditures totalled $3,364,109,000 [2016 – $3,191,480,000]. To December 31, 2017, the cumulative AIF revenue has been used to fund AIF eligible capital expenditures in accordance with the MOA.

[tabular amounts in thousands of dollars]

16. Employee future benefits

[a] Funded pension plans

Defined benefit plan

Information regarding the Airport Authority's defined benefit pension plan is as follows:

	2017	2016
	$	$
Accrued benefit obligation	**52,442**	51,556
Fair value of plan assets	**73,230**	69,293
Accrued benefit asset	**20,788**	17,737

The accrued benefit asset is included in other long-term assets *[note 9]*.

Total cash payments

In April 2011, amendments were made to the Pension Benefits Standards Regulations, which permitted plan sponsors to secure structured letters of credit in lieu of making solvency payments to the pension plan, up to a limit of 15% of plan assets. On August 31, 2011, the Airport Authority issued a letter of credit to fund its required solvency payments to its defined benefit plan. As at December 31, 2017, the total amount of the letter of credit was $8,517,000 [2016 – $8,296,000], which reduced the available bank operating line *[note 10]*.

Total cash payments for employee future benefits for the year ended December 31, 2017, consisting of cash contributed by the Airport Authority to its funded pension plans [the defined benefit plan and defined contribution plans], were $3,287,000 [2016 – $3,130,000].

[b] Unfunded pension plans

The Airport Authority participates in supplementary plans for its senior executives.

Pension expense for the year ended December 31, 2017 was $1,193,000 [2016 – $1,113,000]. Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2017 was $13,574,000 [2016 – $12,906,000], which has been accrued in other long-term liabilities.

[c] Retiring allowance

The Airport Authority provides a retiring allowance to bargaining unit employees based on their number of years of service and their salary at retirement. The accrued benefit liability is determined using an actuarial valuation and as at December 31, 2017, the total accrued benefit liability of this plan is $3,932,000 [2016 – $3,988,000], of which $497,000 [2016 – $528,000] is recorded in accounts payable and accrued liabilities and $3,435,000 [2016 – $3,460,000] in other long-term liabilities.

[tabular amounts in thousands of dollars]

17. Commitments, contingencies and guarantees

[a] Ground Lease

The Ground Lease governs both the economic and day-to-day relations between the Airport Authority and the Government of Canada for a term ending on June 30, 2072.

The Ground Lease requires that the Airport Authority operate the Airport as a “first class international airport” and that, as the operator, the Airport Authority exercise sound business judgment.

Under the Ground Lease, Transport Canada is required to assume all costs associated with environmental remediation of any noxious or hazardous substance when such substance was present prior to the commencement of the Ground Lease on July 1, 1992. Transport Canada has taken the position that payment is contingent upon the actual issue of a direction from a government agency requiring the clean-up. The Airport Authority is of the view that compliance with the law, the Ground Lease and the general duty to the environment are the tests to determine when an obligation exists. These matters are under active discussion.

Effective January 1, 2010, the ground lease expense is based on a progressive scale of percentages of the Airport Authority’s revenue as defined in the Ground Lease. At a minimum, the required monthly payments are based on the immediately preceding year’s actual ground lease expense while the expense is calculated as a percentage of current year revenue.

The difference between the Airport Authority’s required ground lease payments based on its estimated 2017 Airport Revenue at the beginning of the year and its expenses is $4,672,000 [2016 – $1,319,000]. This amount is included in accounts payable and accrued liabilities at December 31, 2017.

Projected lease payments under the amended Ground Lease for the next five years are estimated as follows:

	$
2018	60,181
2019	62,113
2020	66,903
2021	84,395
2022	86,630

[b] Commitments

[i] As at December 31, 2017, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately $65,179,000 [2016 – $16,608,000].

[ii] As at December 31, 2017, in connection with operating the Airport, the Airport Authority has total operating commitments of approximately $165,918,000 [2016 – $114,662,000]. These commitments extend for periods of up to five years.

[iii] On June 21, 2017, the Airport Authority and a third party entered into a 30-year mutually beneficial agreement based on the four pillars of sustainability — economic, social, environmental, and governance. The agreement includes a revenue sharing arrangement whereby the Airport Authority will pay, on an annual basis, to the third party an amount equal to 1% of the Airport Authority's revenue as defined in the agreement.

[c] Guarantees

[i] On December 6, 2013, the Airport Authority entered into a payment guarantee agreement as the guarantor for a loan agreement between DOC Partnership and its bank [the "Loan Agreement"]. The Loan Agreement was amended and restated February 26, 2018. The maximum amount of the guarantee is $24,500,000, and will be reduced for any repayment of the principal amount of the loan made with cash capital contributions to the DOC Partnership directly or indirectly from the Airport Authority which are not proceeds of the collateral securing the loan.

[ii] On February 18, 2015, the Airport Authority entered into an agreement to irrevocably and unconditionally guarantee the timely payment of the obligations of DOC Partnership to the utility company for electrical services, up to an amount of $974,800. The agreement remains valid until February 28, 2020 and may be automatically extended without notice for a one-year period, unless the utility company provides notice at least 90 days prior to the expiry that the guarantee is not extended.

[d] Legal claims

In the normal course of operations, the Airport Authority becomes involved in various claims and legal proceedings.

While the final outcome with respect to these claims and legal proceedings cannot be predicted with certainty, management believes that the resolution of these proceedings will not have a material adverse effect on the Airport Authority's financial position or the results of its operations.

As at December 31, 2017, there are no material claims pending against the Airport Authority.

18. Customer concentration

The Airport Authority derives approximately $50,839,000 [2016 – $49,433,000] in aeronautical and rental revenue from one airline and $55,708,000 [2016 – $49,884,000] in concession and rental revenue from one concession operator. The Airport Authority believes that the cessation of operations of the airline or concession operator would not have a material long-term effect on the Airport Authority's revenue or operations as the lost revenue would eventually be earned from other service providers.

19. Financial instruments – risk management

The Airport Authority primarily has exposure to credit, currency, interest rate and liquidity risk on its financial instruments.

Credit risk

The Airport Authority is subject to credit risk through its financial assets. Ongoing credit valuations are performed on these accounts and valuation allowances are maintained for potential credit losses. The credit quality of financial assets can be assessed by reference to external credit ratings or historical information about the customer. The Airport Authority held security deposits in the amount of $2,483,000 as at December 31, 2017 [2016 – $2,450,000]. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. The accounts receivable aging and allowance for doubtful accounts reconciliation are detailed in note 3.

The Airport Authority's revenue is dependent on the domestic, transborder and international air transportation industry. Due to this diversification, the concentration of credit risk is considered to be minimal.

Currency risk

The Airport Authority has minimal transactions denominated in foreign currencies, as the majority of revenue, expenses and capital asset purchases are denominated in Canadian dollars.

Interest rate risk

The Airport Authority had no bank indebtedness in both 2017 and 2016 either in the form of bankers' acceptances or drawings on the bank operating line *[note 10].* The balance of outstanding debt is by way of debentures *[note 12],* which have fixed interest rates for their term and, therefore, any changes in market interest rates do not impact the Airport Authority's interest payments.

Liquidity risk

The Airport Authority manages liquidity risk by maintaining adequate cash or available credit facilities. Cash flow projections are continually updated and reviewed by management to ensure a sufficient continuity of funding.

Notes to unaudited non-consolidated financial statements

[tabular amounts in thousands of dollars]

December 31, 2017

20. Supplementary cash flow information

[a] Changes in non-cash operating working capital

	2017	2016
	$	$
Accounts receivable	**(7,664)**	(10,403)
Other receivables	**1,938**	(1,582)
Inventory	**(2,064)**	(1,894)
Prepaid expenses	**(4,040)**	(1,244)
Accounts payable and accrued liabilities	**2,663**	(5,278)
Deferred revenue	**(1,432)**	4,839
	(10,599)	(15,562)

[b] Other supplementary information

	2017	2016
	$	$
Non-cash transactions		
Construction-in-progress accrual	**29,223**	21,373
Deferred capital contribution accrual	**828**	1,719
Employee future benefit plan remeasurements	**2,146**	(2,964)
Prior year costs contributed to VAEL Templeton	**—**	121