

Consolidated Financial Statements

Vancouver Airport Authority
December 31, 2012

INDEPENDENT AUDITORS' REPORT

To the Directors of
Vancouver Airport Authority

We have audited the accompanying consolidated financial statements of **Vancouver Airport Authority** [the "Entity"], which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of operations, changes in 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Vancouver Airport Authority** as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other matter

The consolidated financial statements of **Vancouver Airport Authority** as at December 31, 2011 and for the year then ended, and the consolidated financial statements of **Vancouver Airport Authority** as at December 31, 2010, prior to the transitional adjustments required on the adoption of Canadian accounting standards for not-for-profit organizations disclosed in note 21, were audited by other auditors who expressed an opinion without reservation on those financial statements in their reports dated April 12, 2012 and April 14, 2011, respectively. We have audited the transitional adjustments required on the adoption of Canadian accounting standards for not-for-profit organizations to the December 31, 2011 and January 1, 2011 financial statements as disclosed in note 21 and, in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

Vancouver, Canada,
April 11, 2013.

Ernst & Young LLP

Chartered Accountants

Vancouver Airport Authority

**CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

[expressed in thousands of dollars]

As at December 31

			As at January 1, 2011
	2012	2011	
	\$	\$	\$
ASSETS			
Current			
Cash and cash equivalents <i>[note 2]</i>	173,002	66,759	267
Accounts receivable <i>[note 3]</i>	17,970	13,113	21,358
Other receivables <i>[note 5[d]]</i>	1,073	16,295	6,777
Current portion of net investment in lease <i>[note 4]</i>	752	639	539
Supplies inventory	5,198	5,534	5,555
Prepaid expenses	2,432	1,781	1,594
Total current assets	200,427	104,121	36,090
Net investment in lease <i>[note 4]</i>	7,404	8,156	8,795
Investment in Vantage Airport Group <i>[note 5]</i>	101,006	104,074	120,084
Capital assets, net <i>[note 6]</i>	1,590,632	1,589,915	1,637,670
Other long-term assets, net <i>[note 7]</i>	23,744	19,382	17,602
	1,923,213	1,825,648	1,820,241
LIABILITIES AND NET ASSETS			
Current			
Bank indebtedness <i>[note 8]</i>	—	—	49,900
Notes payable to Vantage Airport Group <i>[note 5]</i>	16,072	—	—
Accounts payable and accrued liabilities <i>[note 9]</i>	50,161	39,922	35,440
Current portion of deferred revenue	6,188	4,943	2,279
Current portion of deferred ground lease payments <i>[note 10]</i>	2,053	2,053	2,053
Total current liabilities	74,474	46,918	89,672
Deferred revenue	835	1,670	2,505
Other long-term liabilities <i>[note 15[b]]</i>	8,742	7,965	7,284
Deferred ground lease payments <i>[note 10]</i>	4,105	6,158	8,211
Deferred capital contributions <i>[note 11[a]]</i>	62,660	72,364	80,247
Debentures <i>[note 12]</i>	547,649	547,389	547,143
Deferred gain on deemed disposition of shares <i>[note 5[e]]</i>	43,114	44,987	57,607
Total liabilities	741,579	727,451	792,669
Commitments and contingencies <i>[note 16]</i>			
Net assets	1,181,634	1,098,197	1,027,572
	1,923,213	1,825,648	1,820,241

See accompanying notes

On behalf of the Board:



Director



Director

Vancouver Airport Authority

CONSOLIDATED STATEMENTS OF OPERATIONS

[expressed in thousands of dollars]

Years ended December 31

	2012	2011
	\$	\$
REVENUE		
Landing fees	34,932	35,221
Terminal fees	85,321	86,376
Concessions	74,919	68,462
Airport improvement fees	107,139	89,738
Car parking	27,679	27,641
Rentals	37,559	32,316
Fees and miscellaneous	22,518	15,778
Contributions <i>[note 11[b]]</i>	13,865	13,910
	403,932	369,442
EXPENSES		
Salaries, wages and benefits	44,362	42,234
Materials, supplies and services	74,146	74,474
Payments in lieu of taxes, insurance and other	22,662	19,707
Amortization of capital assets	108,024	108,115
	249,194	244,530
Other expenses		
Ground lease	39,076	34,767
Interest and financing charges	31,458	31,606
	70,534	66,373
Excess of revenue over expenses before undernoted items	84,204	58,539
Write-down of capital assets	(1,024)	—
Gain on disposal of capital assets	34	156
Unrealized foreign exchange gain (loss)	(82)	24
Equity loss of Vantage Airport Group <i>[note 5]</i>	(10,176)	(2,006)
Dividend income from Vantage Airport Group <i>[note 5[d]]</i>	7,683	—
Amortization of deferred gain on deemed disposition of shares <i>[notes 5[a] and [e]]</i>	1,873	12,620
Excess of revenue over expenses for the year	82,512	69,333

See accompanying notes

Vancouver Airport Authority

**CONSOLIDATED STATEMENTS OF
CHANGES IN NET ASSETS**

[expressed in thousands of dollars]

Years ended December 31

	2012	2011
	\$	\$
Balance, beginning of year	1,098,197	1,027,572
Excess of revenue over expenses for the year	82,512	69,333
Other comprehensive income from investment in Vantage	925	1,292
Balance, end of year	1,181,634	1,098,197

See accompanying notes

Vancouver Airport Authority

CONSOLIDATED STATEMENTS OF CASH FLOWS

[expressed in thousands of dollars]

Years ended December 31

	2012	2011
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	82,512	69,333
Add (deduct) items not involving cash		
Amortization of capital assets	108,024	108,115
Amortization of deferred capital contributions	(9,779)	(9,739)
Amortization of prepaid interest on bankers' acceptances	—	271
Amortization of deferred financing costs	260	246
Amortization of other long-term assets	2,169	2,007
Write-down of capital assets	1,024	—
Gain on disposal of capital assets	(34)	(156)
Unrealized foreign exchange (gain) loss	82	(24)
Amortization of deferred gain on deemed disposition of shares [note 5]	(1,873)	(12,620)
Equity loss of Vantage Airport Group [note 5]	10,176	2,006
Unpaid dividends from Vantage [note 5]	(6,183)	—
Changes in non-cash operating working capital [note 20[a]]	16,888	2,727
Cash provided by operating activities	203,266	162,166
FINANCING ACTIVITIES		
Decrease in bank operating line	—	(14,558)
Issuance of bankers' acceptances	—	10,887
Repayment of bankers' acceptances	—	(46,500)
Increase in notes payable	16,072	—
Deferred capital contributions	75	3,502
Increase in other long-term liabilities	777	681
Deferred ground lease payments	(2,053)	(2,053)
Cash provided by (used in) financing activities	14,871	(48,041)
INVESTING ACTIVITIES		
Additions of capital assets	(105,954)	(59,873)
Proceeds on disposal of capital assets	34	168
Decrease in net investment in lease	639	539
Increase in other long-term assets	(6,531)	(3,787)
Return of capital from Vantage [note 5]	—	15,296
Cash used in investing activities	(111,812)	(47,657)
Effect of exchange rates on cash	(82)	24
Net increase in cash and cash equivalents	106,243	66,492
Cash and cash equivalents, beginning of year	66,759	267
Cash and cash equivalents, end of year	173,002	66,759

See accompanying notes

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

1. OPERATIONS

The Vancouver Airport Authority [the “Airport Authority”] is incorporated under Part II of the Canada Corporations Act as a not-for-profit corporation. The Airport Authority is governed by a Board of Directors, of whom nine members are appointed by the Government of Canada and various government and professional bodies, up to five directors are appointed by the Board from the community at large, and one seat on the Board is 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”].

The Airport Authority has two wholly owned subsidiaries [note 5]:

- Vancouver Airport Enterprises Ltd. [“VAEL”] holds investments in the following companies:
 - YVR Project Management Ltd. [“YVRPM”] - 100% owned subsidiary of VAEL, which provides capital project management and consulting services to affiliated and non-affiliated entities.
 - Vantage Airport Group [“Vantage”] [formerly YVR Airport Services Ltd.] - 50% equity interest held by VAEL, which invests in and manages a number of airports across Canada and around the world.
- Vancouver Airport Authority (Hong Kong) Ltd. [“YVRHK”], which provides various marketing and support services to promote the Airport Authority as a premier passenger and air cargo hub for Asian customers.

2. SIGNIFICANT ACCOUNTING POLICIES

Presentation and basis of accounting

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the results of its wholly owned subsidiaries VAEL, YVRHK and YVRPM and the equity earnings of the 50% investment in Vantage. All intercompany transactions and balances have been eliminated on consolidation.

On January 1, 2012, the Airport Authority adopted Canadian Institute of Chartered Accountants Handbook Part III – *Accounting Standards for Not-for-Profit Organizations* [“ASNPO”].

Vancouver Airport Authority

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[tabular amounts in thousands of dollars]

December 31, 2012

In accordance with the transitional provisions in ASNPO, the Airport Authority has applied the change retrospectively to the January 1, 2011 opening statement of financial position, subject to certain exemptions and elections allowed under these standards. All comparative information provided in these consolidated financial statements has been prepared in accordance with ASNPO, except for the accounting difference noted above.

A summary of the transitional adjustments is provided in note 21.

Future changes in accounting policies

In January, 2012, the Accounting Standards Board ["AcSB"] issued an Exposure Draft, pertaining to Employee Future Benefits, which proposes to replace Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3461 with new CICA Handbook Section 3462. The proposal is intended to improve the understandability, comparability, and transparency of financial reporting for defined benefit plans by eliminating the deferral and amortization approach for actuarial gains and losses and requiring plan assets and obligations to be measured at the reporting date.

In January 2013, the AcSB met and determined that the exposure draft required modification to present remeasurement and other items for a defined benefit plan as a separate component of changes in net assets.

AcSB intends to reissue an exposure draft in mid-2013 which will incorporate the change noted above. A final standard is expected to be issued in time to be effective for the 2014 fiscal year.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term bankers' acceptances having original maturities of three months or less from the date of purchase, which are readily convertible to cash. As at December 31, 2012, the amount of the short-term bankers' acceptances recorded as cash and cash equivalents was nil [2011 - \$50,000,000; January 1, 2011 - nil].

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

Supplies inventory

Supplies inventory is valued at the lower of weighted average cost and net realizable value. In December 2012, the Airport Authority recorded a \$484,000 [2011 - nil] valuation allowance on its inventory which was recorded in payments in lieu of taxes, insurance and other. There were no reversals of previous write-downs during the year [2011 - nil]. Weighted average cost includes 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. The cost of inventory recognized as a materials, supplies and services expense during the year ended December 31, 2012 was \$2,012,000 [2011 - \$1,286,000].

Investment in Vantage

The Airport Authority accounts for its 50% investment in Vantage using the equity method. The Airport Authority's share of Vantage's net income is recorded as equity earnings and any change in other comprehensive income is recorded in net assets.

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. Borrowing costs are recognized as an expense in the period in which they are incurred. The costs included in construction-in-progress are capitalized during the construction phase. Upon completion of the project, the assets will be allocated to the respective classes and amortized at the rates provided in the table below.

Amortization is provided at cost less estimated salvage value on a straight-line basis over a period not exceeding 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 systems	3 to 10 years
Art collection	Not amortized

Vancouver Airport Authority

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[tabular amounts in thousands of dollars]

December 31, 2012

Deferred revenue

Deferred revenue represents premiums received from tenants at preferential locations, prepaid rents and licenses received from tenants and operators in advance, which are deferred and amortized over the terms of the related agreements.

Deferred gain on deemed disposition of shares

The deferred gain on the deemed disposition of the Airport Authority's investment in Vantage that arose in 2008 is recognized into income over the remaining expected useful life of the underlying assets that existed upon the disposition, which was estimated to be 27 years. Upon redemption or reduction of capital of Class A preferred shares for cash, a pro-rata portion of the deferred gain will be recognized into income. Upon conversion of preferred shares into Class C common shares, or into cash reinvested in Vantage, the deferred gain will continue to be recognized on the basis described above.

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.

Effective January 1, 2011, the Airport Authority introduced the Gateway Incentive Program, which is a program that offers carriers fixed annual aeronautical charges for a period of 5 years beginning in 2011 and ending in 2015 based on the amount of fees paid in 2010. Participating carriers are charged a fixed monthly aeronautical fee regardless of their level of activity.

- [ii] Concession revenue is recognized based on the greater of agreed percentages of reported concessionaire sales and specified minimum rentals. Differences between revenue recognized and actual cash payments are recorded as lease inducement assets or liabilities. The lease inducement asset (liability) is amortized over the lease term, resulting in constant revenue recognized over the term of the lease.
- [iii] Revenue from the Airport Improvement Fees ["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.

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

[v] Rental revenue is recognized straight-line over the duration of the respective agreements. Revenue from rental arrangements classified as direct finance leases are 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 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.

The Airport Authority does not have any endowment contributions.

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.

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.

Operations of each subsidiary are subject to taxes in the jurisdictions in which the subsidiaries operate and recorded in payment in lieu of taxes, insurance and other. Taxes in these entities are measured using the future income taxes method.

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

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 which 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 which covers new employees who have joined the Airport Authority since June 1992; and unfunded supplemental plans which cover its senior executives.

The Airport Authority accrues its obligations under these 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 for accounting purposes as at December 31 of each year, using a measurement date of October 31. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2011. The next valuation for funding purposes will be as of December 31, 2012, the results of which are expected to be available during the year ending December 31, 2013.

The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected accrued benefit cost method prorated on service [which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors]. Obligations are discounted using current interest rates on long-term corporate bonds.

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

Actuarial gains/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 or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gains/losses over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

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 which are subsequently measured at cost or amortized cost:

- Cash and cash equivalents
- Accounts receivable
- Other receivables
- Bank indebtedness
- Accounts payable and accrued liabilities
- 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.

Translation of foreign currencies

The Airport Authority records foreign currency denominated transactions in Canadian dollars at exchange rates in effect at the time of the transactions. Monetary items denominated in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the statement of financial position date. Foreign exchange gains and losses are included in the results of operations in the period in which they occur.

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

The assets and liabilities of the self-sustaining foreign investees of Vantage are translated to Canadian dollars using the exchange rate prevailing at year-end. Revenue and expenses are translated at average rates of exchange during the period and retained earnings (deficit) are translated at historical rates. Exchange gains and losses arising from the translation of the financial statements of the self-sustaining foreign operations are included as an adjustment to the investment in Vantage and as an adjustment to net assets.

Integrated foreign subsidiary YVRHK's monetary assets and liabilities are translated into Canadian dollars at the period-end exchange rate. Revenue and expenses are translated at average exchange rates for the period. Foreign exchange gains or losses are recorded on the consolidated statement of operations.

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 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 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

	2012	2011	As at January 1, 2011
	\$	\$	\$
Current	18,610	13,485	22,009
31 - 60 days past due	60	312	140
61 - 90 days past due	32	45	16
90+ days past due	53	80	118
Less allowance for doubtful accounts	(785)	(809)	(925)
	17,970	13,113	21,358

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

	2012	2011	As at January 1, 2011
	\$	\$	\$
Allowance for doubtful accounts, beginning of year	809	925	725
Addition to (decrease in) allowance for doubtful accounts	50	(285)	975
Recovery of previously written-off accounts	—	367	—
Write-off of specific accounts	(74)	(198)	(775)
Allowance for doubtful accounts, end of year	785	809	925

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 December 31, 2019. The Airport Authority's net investment in the direct financing lease consists of the following:

	2012	2011	As at January 1, 2011
	\$	\$	\$
Minimum lease payments receivable	12,313	14,034	15,730
Unearned income	(4,157)	(5,239)	(6,396)
	8,156	8,795	9,334
Less current portion	752	639	539
	7,404	8,156	8,795

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

As at December 31, 2012, the future minimum lease payments receivable under the direct financing lease are as follows:

	\$
2013	1,747
2014	1,773
2015	1,800
2016	1,826
2017	1,854
2018 and thereafter	3,313
	<u>12,313</u>

5. INVESTMENT IN VANTAGE AIRPORT GROUP

	Class A preferred shares		Class B preferred shares		Subtotal
	Number #	Amount \$	Number #	Amount \$	
January 1, 2011	368	31,128	—	—	31,128
Redemption of preferred shares [a]	(178)	(15,056)	—	—	(15,056)
December 31, 2011	190	16,072	—	—	16,072
Share exchange [c]	—	—	75,000,000	42,582	42,582
December 31, 2012	190	16,072	75,000,000	42,582	58,654

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

	Class A common shares		Class C common shares		Subtotal
	Number	Amount	Number	Amount	
	#	\$	#	\$	\$
January 1, 2011	1,577	88,956	—	—	88,956
Return of capital [b]	—	(240)	—	—	(240)
Equity loss	—	(2,006)	—	—	(2,006)
Other comprehensive income	—	1,292	—	—	1,292
December 31, 2011	1,577	88,002	—	—	88,002
Share exchange [c]	(1,577)	(88,002)	1,577	45,420	(42,582)
Equity loss	—	—	—	(10,176)	(10,176)
Unpaid dividends [d]	—	—	—	6,183	6,183
Other comprehensive income	—	—	—	925	925
December 31, 2012	—	—	1,577	42,352	42,352
Total investment in Vantage Airport Group					101,006

[a] On December 23, 2011, Vantage approved the redemption of 178 Class A preferred shares by VAEL for \$15,056,000 or \$84,586 per share. The proceeds of the redemption were received on January 16, 2012 and included in other receivables as at December 31, 2011.

As a result of the redemption, an additional \$10,219,000 of the unamortized deferred gain was recognized.

Also on December 23, 2011, Vantage approved the issuance of a non-interest bearing loan to VAEL in return for a demand note payable, secured by the total outstanding balance of the Class A preferred shares of Vantage held by VAEL. This demand note payable was issued by Vantage and the loan extended on January 16, 2012, in the amount of \$16,072,000.

[b] During the year ended December 31, 2011, Vantage approved an additional return of capital on the Class A common shares of \$240,000 [2010 - \$170,000]. This return of capital related to the after-tax interest earned on the restricted cash held by Vantage and had been recorded as a reduction in the equity investment in Class A common shares of Vantage.

Vancouver Airport Authority

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[tabular amounts in thousands of dollars]

December 31, 2012

- [c] On January 1, 2012, VAEL, holder of 1,577 Class A common shares in Vantage, agreed to exchange these shares for 1,577 Class C common shares and 75,000,000 Class B preferred shares. The new Class B preferred shares and Class C common shares were recorded at the carrying amount of the former Class A common shares and allocated between the two types of shares based on their relative fair values.
- [d] During 2012, Vantage declared dividends of \$7,683,000 [2011 - nil] on its Class B preferred shares of which \$1,500,000 was paid to the Airport Authority.
- [e] For the year ended December 31, 2012, the deferred gain recognized into income from amortization was \$1,873,000 [2011 - \$12,620,000], with \$43,114,000 [2011 - \$44,987,000; January 1, 2011 - \$57,607,000] remaining in deferred gain on deemed disposition of shares.

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's share of Vantage [50%; 2011 - 50%] as at and for the years ended December 31, 2012 and 2011 and January 1, 2011 are presented below:

	2012	2011	As at January 1, 2011
	\$	\$	\$
Current assets	39,813	81,073	50,322
Long-term assets	170,713	168,716	194,897
Current liabilities	(20,167)	(64,290)	(27,844)
Long-term liabilities	(151,558)	(93,998)	(110,306)
Net assets	38,801	91,501	107,069

	2012	2011
	\$	\$
Revenue	42,873	45,434
Expenses	(49,207)	(47,440)
Net loss	(6,334)	(2,006)

Vancouver Airport Authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2012

	2012 \$	2011 \$
Cash flows provided by (used in):		
Operating activities	7,258	1,705
Financing activities	(9,616)	3,710
Investing activities	2,854	(1,131)

Certain 2011 comparative amounts in the above table have been reclassified to conform to the presentation adopted for the current year within the consolidated financial statements of Vantage.

6. CAPITAL ASSETS

	2012			2011			As at January 1, 2011
	Cost \$	Accumulated amortization \$	Net book value \$	Cost \$	Accumulated amortization \$	Net book value \$	Net book value \$
Buildings and other structures	1,384,054	500,290	883,764	1,338,498	438,125	900,373	922,314
Runways and other paved surfaces	457,658	174,317	283,341	432,391	155,968	276,423	287,707
Rapid transit infrastructure	298,948	20,378	278,570	298,934	14,395	284,539	289,868
Machinery and equipment	106,697	57,602	49,095	101,495	47,901	53,594	58,468
Furniture and fixtures	27,035	23,755	3,280	26,851	22,571	4,280	6,127
Computer equipment and systems	113,048	90,426	22,622	104,784	80,274	24,510	31,334
Art collection	7,266	—	7,266	7,266	—	7,266	6,872
Construction-in-progress	62,694	—	62,694	38,930	—	38,930	34,980
	2,457,400	866,768	1,590,632	2,349,149	759,234	1,589,915	1,637,670

Vancouver Airport Authority

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7. OTHER LONG-TERM ASSETS

	2012		2011		As at January 1, 2011
	Cost	Accumulated amortization	Net book value	Net book value	Net book value
	\$	\$	\$	\$	\$
[a] Operating lease receivable	21,045	7,735	13,310	12,659	11,679
[b] Leasehold interest	4,640	396	4,244	4,315	4,793
[c] Development costs	4,313	—	4,313	966	765
[d] Intangible asset	1,400	117	1,283	—	—
[e] Accrued benefit asset [note 15[a]]	594	—	594	1,442	338
Long-term receivables	—	—	—	—	27
	31,992	8,248	23,744	19,382	17,602

- [a] In certain circumstances, the Airport Authority provides lease inducements to tenants. These lease inducements are recorded as long-term assets and recognized evenly as a reduction of revenue over the life of the lease. During the year, the Airport Authority granted lease inducements of \$34,000 [2011 - \$2,913,000] to tenants and recognized \$1,981,000 [2011 - \$1,933,000] 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 forty years with two subsequent renewal options of ten 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 sublease. As at December 31, 2012, the difference between the rental income recognized and cash lease payments received is \$3,253,000 [2011 - \$655,000; January 1, 2011 - nil].

- [b] In June 2008 the Airport Authority acquired a leasehold interest on Sea Island for \$5,043,000, 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.

In 2011 all work required to decommission and demolish the acquired building was completed at a final cost of \$404,000 less than originally estimated, resulting in a reduction of the leasehold interest.

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The leasehold interest is being amortized over the remaining term of the Ground Lease, which has been extended to June 30, 2072 [note 16[a]]. For the year ended December 31, 2012, the amortization of the leasehold interest was \$71,000 [2011 - \$74,000].

- [c] The Airport Authority is currently undertaking two major development projects on Sea Island. In 2012, the Airport Authority incurred significant earthworks, design and development costs related to the proposed designer outlet centre located adjacent to the Templeton Canada Line station. These costs incurred to-date on both projects will form part of the Airport Authority's future investment in a separate company that will own and operate these developments.
- [d] In October 2012 the Airport Authority purchased intellectual property rights from a third party relating to a technology the Airport Authority plans to develop and sell. This intangible asset is being amortized on a straight-line basis over three years, which represents the period over which the asset is expected to generate future economic benefit.

8. BANK INDEBTEDNESS

	2012 \$	2011 \$	As at January 1, 2011 \$
Unsecured bank operating line	200,000	200,000	200,000
Bank indebtedness			
Operating line drawings	—	—	14,558
Bankers' acceptances	—	—	35,342
Total bank indebtedness	—	—	49,900
Outstanding letters of credit, reducing available balance	3,232	1,576	—
Available unsecured bank operating line	196,768	198,424	150,100

Vancouver Airport Authority

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9. 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 adjustments to Transport Canada.

	2012	2011	As at January 1, 2011
	\$	\$	\$
Canada Revenue Agency	830	2,544	1,761
TransLink	443	488	499
Transport Canada	4,309	1,591	—
	<u>5,582</u>	<u>4,623</u>	<u>2,260</u>

10. DEFERRED GROUND LEASE PAYMENTS

Between July 2003 and June 2005, the Airport Authority deferred a total of \$20,529,000 of ground lease payments due to Transport Canada under an arrangement whereby Transport Canada provided temporary relief to Canadian airports which suffered declines in passenger traffic resulting from international events in 2001 through 2003.

	2012	2011	As at January 1, 2011
	\$	\$	\$
Deferred ground lease payments	6,158	8,211	10,264
Less current portion	2,053	2,053	2,053
Long-term portion	<u>4,105</u>	<u>6,158</u>	<u>8,211</u>

Annual repayments of \$2,053,000 are interest free over a ten-year period, commencing January 1, 2006.

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11. DEFERRED CAPITAL AND OPERATING CONTRIBUTIONS

[a] Deferred capital contributions

	2012 \$	2011 \$	As at January 1, 2011 \$
Capital contributions			
Canadian Air Transport Security Authority [“CATSA”]	118,604	118,529	116,779
Other	2,474	2,474	2,368
	121,078	121,003	119,147
Accumulated amortization	(58,418)	(48,639)	(38,900)
	62,660	72,364	80,247

The Airport Authority receives funding from 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.

[b] Contributions

	2012 \$	2011 \$
Amortization of deferred capital contributions	9,779	9,739
Operating contributions	4,086	4,171
	13,865	13,910

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12. DEBENTURES

	2012	2011	As at January 1, 2011
	\$	\$	\$
Amended Series B 7.425%, due December 7, 2026	150,000	150,000	150,000
Series D 4.424%, due December 7, 2018	200,000	200,000	200,000
Series E 5.020%, due November 13, 2015	200,000	200,000	200,000
	550,000	550,000	550,000
Less unamortized deferred financing costs	(2,351)	(2,611)	(2,857)
	547,649	547,389	547,143

The amended Series B debentures are issued under the Trust Indenture dated December 6, 1996, and amended under the Supplemental Indenture dated December 7, 2006. The Series D and Series E debentures are issued under Supplemental Indentures dated December 7, 2006 and November 14, 2007, respectively.

The effective interest rates on the Series B, D and E debentures are 7.530%, 4.484% and 5.094%, respectively. At December 31, 2012, the Airport Authority has accrued debenture interest and fees of \$2,717,000 [2011 - \$2,717,000] which are recorded in accounts payable and accrued liabilities. See note 20[b] for interest expense paid during the year.

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 E. The debentures are redeemable at the option of the Airport Authority, in whole or in part, at any time. 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, 0.125% for the Series D debentures, and 0.20% for the Series E debentures.

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.

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13. 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 in either 2012 or 2011.

14. 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 2012, the Airport Authority recorded \$106,563,000 [2011 - \$89,093,000] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totalled \$105,875,000 [2011 - \$56,371,000]. To December 31, 2012, the cumulative main terminal AIF revenue totalled \$1,316,836,000 [2011 - \$1,210,273,000], and cumulative AIF eligible expenditures totalled \$2,402,402,000 [2011 - \$2,296,527,000]. To December 31, 2012, the cumulative AIF revenue has been used to fund AIF eligible capital expenditure in accordance with the MOA.

15. EMPLOYEE FUTURE BENEFITS

[a] Funded pension plans

Defined contribution plans

The Airport Authority participates in a Registered Retirement Savings Plan ["RRSP"] which covers employees who have joined the Airport Authority since June 1992. Employees covered by this plan are required to contribute 6%, and the Airport Authority contributes an additional 7% of their earnings. Total contributions included in the pension expense for 2012 were \$2,198,000 [2011 - \$2,127,000].

The Airport Authority participates in a defined contribution plan, which covers some of the senior executives who are also in an unfunded supplementary plan discussed in [b] below. Pension expense for the supplementary plan for year ended December 31, 2012 was \$13,000 [2011 - \$11,000].

Some senior executives are also provided a Retirement Compensation Arrangement ["RCA"]. Contributions to the RCA in 2012 totalled nil [2011 - \$196,000].

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Defined benefit plan

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

	2012 \$	2011 \$
Accrued benefit obligation		
Balance, beginning of year	55,652	45,321
Current service cost	1,368	1,147
Interest cost	2,701	2,637
Benefits paid	(1,479)	(1,215)
Actuarial loss (gain)	(571)	7,762
Balance, end of year	57,671	55,652
Fair value of plan assets		
Balance, beginning of year	45,834	45,660
Actual return on plan assets	3,734	(510)
Employer contributions	851	1,679
Employee contributions	218	220
Benefits paid	(1,479)	(1,215)
Balance, end of year	49,158	45,834
Deficiency of plan assets	(8,513)	(9,818)
Unamortized net actuarial loss	9,107	11,260
Accrued benefit asset	594	1,442

The accrued benefit asset is included in other long-term assets [note 7].

Plan assets [measured as of the measurement date of October 31 each year] comprise:

	2012 %	2011 %
Asset category		
Equity shares	67.8	65.2
Debt securities	28.4	32.4
Cash and short-term investments	3.8	2.4
	100.0	100.0

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The significant assumptions used are as follows [weighted average]:

	2012	2011
Accrued benefit obligation as of December 31		
Discount rate	4.00%	4.80%
Rate of compensation increase	3.25%	4.00%
Benefit costs for years ended December 31		
Discount rate	4.00%	5.75%
Expected long-term rate of return on plan assets	6.10%	6.50%
Rate of compensation increase	3.25%	4.00%
Expected average remaining service life	7.0 years	7.2 years

The elements of the defined benefit plan costs recognized in the year are as follows:

	2012	2011
	\$	\$
Current service cost, net of employees' contributions	1,150	927
Interest cost	2,701	2,637
Actual return on plan assets	(3,734)	510
Actuarial loss (gain)	(571)	7,762
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	(454)	11,836
Adjustments to recognize the long-term nature of employee future benefit costs		
Difference between expected return and actual return on plan assets for the year	768	(3,498)
Difference between actuarial loss (gain) on accrued benefit obligation for year	1,385	(7,762)
Pension expense	1,699	576

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. At December 31, 2012, the total amount of the letter of credit was \$2,557,000 [2011 - \$584,000], which reduced the available bank operating line [note 8].

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Total cash payments for employee future benefits for the year ended December 31, 2012, consisting of cash contributed by the Airport Authority to its funded pension plans [the defined benefit plan, defined contribution plans and RCA], were \$3,061,000 [2011 - \$4,669,000].

[b] Unfunded pension plans

The Airport Authority participates in supplementary plans for its senior executives, along with some of its senior management.

Pension expense for the year ended December 31, 2012 was \$861,000 [2011 - \$790,000]. Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2012 was \$8,742,000 [2011 - \$7,965,000; January 1, 2011 - \$7,284,000], which has been accrued as long-term liabilities. The total unamortized actuarial losses related to these plans at December 31, 2012 were \$1,494,000 [2011 - \$799,000].

[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 Airport Authority has established a provision for these retiring allowances based on management's best estimates, which is updated each quarter based on the best available information. Changes in the estimated liability are recorded prospectively. As at December 31, 2012, the liability of \$3,551,000 [2011 - \$3,226,000; January 1, 2011 - \$2,954,000] was recorded in accounts payable and accrued liabilities.

16. COMMITMENTS AND CONTINGENCIES

[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 June 30, 2052. The Airport Authority exercised its option to renew the Ground Lease for an additional 20 years, through an amendment dated January 5, 2010, which extends the term to 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.

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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 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.

For the year ended December 31, 2012, the Airport Authority's required ground lease payments were less than its ground lease expense by \$4,309,000 [2011 - \$1,591,000; January 1, 2011 - nil]. This amount is included in accounts payable and accrued liabilities at December 31, 2012.

Projected lease expense and payments, including repayments of deferred ground lease payments [note 10] under the amended Ground Lease for the next five years, are estimated as follows:

	Lease expense \$	Lease payments \$
2013	41,022	43,075
2014	42,273	44,326
2015	42,879	44,932
2016	43,975	43,975
2017	45,108	45,108

[b] Capital and operating commitments

As at December 31, 2012, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately \$60,934,000 [2011 - \$23,685,000]. As at December 31, 2012, in connection with operating the Airport, the Airport Authority has total operating commitments of approximately \$10,097,000 [2011 - \$42,522,000]. These commitments extend for periods of up to five years.

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[c] 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, 2012, there are no material claims pending against the Airport Authority.

17. ECONOMIC DEPENDENCE

The Airport Authority derives approximately \$54,067,000 [2011 - \$46,980,000] in aeronautical charges and rents from one airline and \$24,507,000 [2011 - \$20,801,000] in concession revenue from one concession operator. The Airport Authority believes that the cessation of operations of an 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 recovered by other service providers.

18. FINANCIAL INSTRUMENTS

[a] Fair value of financial instruments

The Airport Authority's financial instruments include cash and cash equivalents, accounts receivable, other receivables, long-term receivables, bank indebtedness and accounts payable and accrued liabilities for which the carrying amounts approximate fair values.

The fair value of the debentures at December 31, 2012 is estimated to be \$651,727,000 [2011 - \$655,625,000]. To determine an estimated fair value of the debentures, the Airport Authority maintains a financial model which uses current market interest rates based upon the applicable Government of Canada bond yield plus a corporate spread based upon the Airport Authority's credit rating.

[b] Risk management

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

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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 \$2,039,000 as at December 31, 2012 [2011 - \$2,060,000; January 1, 2011 - \$1,550,000]. 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 2012 either in the form of bankers' acceptance or drawings on the bank operating line. 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.

19. CAPITAL RISK MANAGEMENT

The Airport Authority is a non-share corporation and, accordingly, is funded through aeronautical and non-aeronautical revenues, AIF revenue, an unsecured bank operating line and debentures. The funds generated by the Airport Authority are used to cover costs within its mandate. There were no changes in the Airport Authority's approach to capital risk management during the year.

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The Trust Indenture dated December 6, 1996 and related supplemental indentures as described in note 12 provide the terms of the debentures issued and require a minimum interest coverage ratio of 1.25:1. As at December 31, 2012, the Airport Authority was in compliance with the required minimum interest coverage ratio.

As at December 31, 2012, net assets amounted to \$1,181,634,000 [2011 - \$1,098,197,000; January 1, 2011 - \$1,027,572,000]. The Airport Authority has established, within its net assets, funds for operational requirements and debt obligations.

20. SUPPLEMENTARY CASH FLOW INFORMATION

[a] Changes in non-cash operating working capital

	2012 \$	2011 \$
Accounts receivable	(4,857)	8,245
Other receivables	15,222	(11,164)
Supplies inventory	336	21
Prepaid expenses	(651)	(187)
Accounts payable and accrued liabilities	6,428	3,983
Deferred revenue	410	1,829
	16,888	2,727

[b] Other supplementary information

	2012 \$	2011 \$
Supplementary information		
Interest expense paid	30,349	30,796
Interest income received	1,439	249
Non-cash transaction		
Construction-in-progress accrual	13,355	9,544
Conversion of 1,577 Vantage Class A common shares to 1,577 Class C common shares and 75,000,000 Class B preferred shares	88,002	—

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21. TRANSITIONAL ADJUSTMENTS

As stated in note 2, the Airport Authority adopted ASNPO on January 1, 2012 with a transition date of January 1, 2011.

CICA Handbook Section 1501 – *First-time Adoption by Not-for-profit Organizations* sets guidance for the initial adoption of ASNPO. Under CICA Handbook Section 1501, the standards are applied retrospectively at the date of transition with all adjustments to assets and liabilities recognized in net assets unless certain exemptions are applied.

The Airport Authority has applied the following exemption to its opening statement of financial position at January 1, 2011:

Employee future benefits

The Airport Authority is continuing to use the deferral and amortization approach for defined benefit plans as outlined in note 2 and permitted under CICA Handbook Section 3461 – *Employee Future Benefits*. However, CICA Handbook Section 1501 provided the option and the Airport Authority is electing to recognize all accumulated actuarial gains and losses for all defined benefit plans in opening net assets at the date of transition.

CICA Handbook Section 1501 also outlines specific guidance that a first-time adopter must adhere to relating to the use of estimates. In accordance with CICA Handbook Section 1501, an entity's estimates under ASNPO at the date of transition must be consistent with the estimates made for the same date as previously reported, unless there is new objective evidence that those estimates were in error. The Airport Authority's estimates as of January 1, 2011 are consistent with its previously reported estimates for the same date.

The accounting policies set out in note 2 have been applied in preparing these consolidated financial statements along with the comparative figures. Adoption of ASNPO has resulted in changes to the Airport Authority's reported financial position, results of operations and cash flows.

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The following table provides a reconciliation of net assets as at January 1, 2011 and excess of revenue over expenses for the year ended December 31, 2011 as presented under the previous not-for-profit accounting standards ["previous GAAP"] with those completed under ASNPO:

	Net assets at January 1, 2011 \$	Excess of revenue over expenses for the year ended December 31, 2011 \$
Net assets and excess of revenue over expenses [previous GAAP]	1,037,913	68,969
Employee future benefits [i]	(10,341)	364
Net assets and excess of revenue over expenses [ASNPO]	1,027,572	69,333

[i] Employee future benefits

The recognition of accumulated actuarial gains and losses in net assets on all defined benefit plans at January 1, 2011 have resulted in a reduction to net assets of \$7,387,000 with corresponding changes to the accrued benefit asset relating to the defined benefit pension plan, and both current and long-term liabilities relating to the unfunded pension plans.

The elimination of the accumulated actuarial gains and losses at January 1, 2011 has resulted in the reduction of salaries, wages, and benefits expense of \$364,000 for the year ended December 31, 2011.

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 Airport Authority has established a provision for these retiring allowances based on management's best estimates, which is updated each year based on the best available information. Changes in the estimated liability are recorded prospectively. The additional liability was identified and recorded at January 1, 2011, resulting in an increase of liabilities and decrease in net assets of \$2,954,000.