Consolidated Financial Statements

Vancouver Airport Authority

December 31, 2013

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, 2013, and the consolidated statement 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, 2013, 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.

Ernst & Young LLP

Vancouver, Canada,
April 10, 2014.

Chartered Accountants

Vancouver Airport Authority

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[expressed in thousands of dollars]

As at December 31

	2013	2012
	$	$
ASSETS		
Current		
Cash	**193,078**	173,002
Accounts receivable *[note 3]*	**20,240**	17,970
Other receivables	**2,773**	1,073
Current portion of net investment in lease *[note 4]*	**881**	752
Supplies inventory *[note 5]*	**6,151**	5,198
Prepaid expenses	**2,031**	2,432
Total current assets	**225,154**	200,427
Net investment in lease *[note 4]*	**6,523**	7,404
Investment in Vantage Airport Group *[note 6]*	**63,409**	101,006
Investment in DOC Partnership *[note 7]*	**9,871**	—
Capital assets, net *[note 8]*	**1,666,512**	1,590,632
Other long-term assets, net *[note 9]*	**19,945**	23,744
	1,991,414	1,923,213
LIABILITIES AND NET ASSETS		
Current		
Notes payable to Vantage Airport Group *[note 6[a]]*	**16,072**	16,072
Accounts payable and accrued liabilities *[note 11]*	**63,867**	46,822
Current portion of deferred revenue	**10,188**	6,188
Current portion of deferred ground lease payments *[note 12]*	**2,053**	2,053
Total current liabilities	**92,180**	71,135
Deferred revenue	**—**	835
Other long-term liabilities *[note 17[b]]*	**13,432**	12,081
Deferred ground lease payments *[note 12]*	**2,052**	4,105
Deferred capital contributions *[note 13[a]]*	**51,814**	62,660
Debentures *[note 14]*	**547,922**	547,649
Deferred gain on deemed disposition of shares *[note 6[e]]*	**41,191**	43,114
Total liabilities	**748,591**	741,579
Commitments and contingencies *[note 18]*		
Subsequent event *[note 6[d]]*		
Net assets	**1,242,823**	1,181,634
	1,991,414	1,923,213

See accompanying notes

On behalf of the Board:

Director

Director

Vancouver Airport Authority

CONSOLIDATED STATEMENT OF OPERATIONS

[expressed in thousands of dollars]

Year ended December 31

	2013	2012
	$	$
REVENUE		
Landing fees	**35,269**	34,932
Terminal fees	**86,234**	85,321
Concessions	**80,780**	74,919
Airport improvement fees	**122,275**	107,139
Car parking	**27,823**	27,679
Rentals	**38,972**	37,559
Fees and miscellaneous	**27,247**	22,518
Contributions *[note 13[b]]*	**15,583**	13,865
	434,183	403,932
EXPENSES		
Salaries, wages and benefits	**44,866**	44,362
Materials, supplies and services	**83,444**	74,146
Payments in lieu of taxes, insurance and other	**22,588**	22,662
Amortization of capital assets	**110,707**	108,024
	261,605	249,194
Other expenses		
Ground lease	**42,272**	39,076
Interest and financing charges	**31,499**	31,458
	73,771	70,534
Excess of revenue over expenses before undernoted items	**98,807**	84,204
Write-down of capital assets	**(2,259)**	(1,024)
Gain on disposal of capital assets	**76**	34
Unrealized foreign exchange gain (loss)	**297**	(82)
Equity loss of Vantage Airport Group *[note 6]*	**(49,708)**	(10,176)
Dividend income from Vantage Airport Group *[note 6[c]]*	**7,725**	7,683
Amortization of deferred gain on deemed disposition of shares *[note 6[e]]*	**1,923**	1,873
Equity loss of DOC Partnership *[note 7]*	**(58)**	—
Excess of revenue over expenses for the year	**56,803**	82,512

See accompanying notes

Vancouver Airport Authority

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

[expressed in thousands of dollars]

Year ended December 31

	2013	2012
	$	$
Balance, beginning of year	**1,181,634**	1,098,197
Excess of revenue over expenses for the year	**56,803**	82,512
Other comprehensive income from investment in Vantage	**4,386**	925
Balance, end of year	**1,242,823**	1,181,634

See accompanying notes

Vancouver Airport Authority

CONSOLIDATED STATEMENT OF CASH FLOWS

[expressed in thousands of dollars]

Year ended December 31

	2013	2012
	$	$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	**56,803**	82,512
Add (deduct) items not involving cash		
Amortization of capital assets	**110,707**	108,024
Amortization of deferred capital contributions	**(11,748)**	(9,779)
Amortization of deferred financing costs	**273**	260
Amortization of other long-term assets	**2,517**	2,169
Write-down of capital assets	**2,259**	1,024
Gain on disposal of capital assets	**(76)**	(34)
Unrealized foreign exchange (gain) loss	**(77)**	82
Equity loss of Vantage Airport Group *[note 6]*	**49,708**	10,176
Unpaid dividends from Vantage *[note 6[c]]*	**(7,725)**	(6,183)
Amortization of deferred gain on deemed disposition of shares *[note 6[e]]*	**(1,923)**	(1,873)
Equity loss of DOC Partnership *[note 7]*	**58**	—
Changes in non-cash operating working capital *[note 22[a]]*	**12,816**	13,549
Cash provided by operating activities	**213,592**	199,927
INVESTING ACTIVITIES		
Additions of capital assets	**(185,996)**	(105,954)
Investments in DOC Partnership	**(6,528)**	—
Proceeds on disposal of capital assets	**98**	34
Decrease in net investment in lease	**752**	639
Increase in other long-term assets	**(2,119)**	(6,531)
Cash used in investing activities	**(193,793)**	(111,812)
FINANCING ACTIVITIES		
Increase in notes payable	**—**	16,072
Increase in other long-term liabilities	**1,351**	4,116
Deferred capital contributions	**902**	75
Deferred ground lease payments	**(2,053)**	(2,053)
Cash provided by financing activities	**200**	18,210
Effect of exchange rates on cash	**77**	(82)
Net increase in cash	**20,076**	106,243
Cash, beginning of year	**173,002**	66,759
Cash, end of year	**193,078**	173,002

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2013

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, 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"].

The Airport Authority has three wholly owned subsidiaries *[notes 6 and 7]*:

- 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"] - 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"] 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"] which holds the Airport Authority's 50% investment in the Templeton DOC Limited Partnership ["DOC Partnership"], which is developing a retail designer outlet centre on Sea Island.

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 and the equity earnings of the 50% investment in Vantage and 50% investment in the DOC Partnership. All intercompany transactions and balances have been eliminated on consolidation.

The Airport Authority prepares its financial statements in accordance with the Chartered Professional Accountants ["CPA"] Handbook Part III – *Accounting Standards for Not-for-Profit Organizations* ["ASNPO"].

Future changes in accounting policies

[a] In 2013 the Accounting Standards Board ["AcSB"] issued CPA Handbook Section 3463 – *Reporting Employee Future Benefits by Not-for-Profit Organizations*. This standard is effective January 1, 2014 and will 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 instead requiring immediate recognition in net assets, as well as measuring plan assets and obligations at the reporting date.

The Airport Authority will adopt the new standard effective January 1, 2014 with a transition date of January 1, 2013. This will involve the Airport Authority recognizing all accumulated actuarial gains and losses for all defined benefit plans in opening net assets at the date of transition. Management is currently evaluating the impact of this change in standard on the consolidated financial statements.

[b] In April 2013 the AcSB and the Public Sector Accounting Board ["PSAB"] issued a Joint Statement of Principles with respect to improvements to ASNPO. This Joint Statement of Principles contains 15 proposed principles which reflect proposals made by the AcSB and PSAB. It presents key principles that each Board expects to include in future exposure drafts. The main features that would affect the Airport Authority's consolidated financial statements are:

- Contributions would be recognized as an asset, when the Airport Authority has control of the contribution, would exercise that control if necessary, and can reasonably estimate the amount to be received. A contribution would immediately be recorded as revenue, except when the contribution gives rise to an obligation that meets the definition of a liability. The proposals replace the deferral method that the Airport Authority currently uses.

- The accounting for tangible capital assets by the Airport Authority would follow the standards for private enterprises in Part II of the CPA Canada Handbook. The proposals would add guidance on accounting for partial write-downs for both tangible and intangible capital assets.

Financial statement presentation by the Airport Authority would follow the standards in Part II of the CPA Canada Handbook. The proposals would require expenses to be presented by both function and object (nature of expense) rather than on only one of the two bases.

Supplies inventory

Supplies inventory is valued at the lower of weighted average cost and net realizable value. 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.

Investment in Vantage and DOC Partnership

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

Borrowing cost

Borrowing costs are recognized as an expense in the period in which they are 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.

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

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.

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. Incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis.

[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.

[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 and is based on the municipality's rates applied to the assessment of property values.

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.

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, 2012. The next valuation for funding purposes will be as of December 31, 2013, the results of which are expected to be available during the year ending December 31, 2014.

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.

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
Accounts receivable
Other receivables
Notes payable
Accounts payable
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.

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.

[tabular amounts in thousands of dollars]

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

	2013 $	**2012** $
Current	**19,462**	18,610
31 - 60 days past due	**573**	60
61 - 90 days past due	**38**	32
90+ days past due	**677**	53
Less allowance for doubtful accounts	**(510)**	(785)
	20,240	17,970

	2013 $	**2012** $
Allowance for doubtful accounts, beginning of year	**785**	809
Addition to (decrease in) allowance for doubtful accounts	**(213)**	50
Write-off of specific accounts	**(62)**	(74)
Allowance for doubtful accounts, end of year	**510**	785

[tabular amounts in thousands of dollars]

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:

	2013 $	**2012** $
Minimum lease payments receivable	**10,566**	12,313
Unearned income	**(3,162)**	(4,157)
	7,404	8,156
Less current portion	**881**	752
	6,523	7,404

As at December 31, 2013, the future minimum lease payments receivable under the direct financing lease are as follows:

	$
2014	1,773
2015	1,800
2016	1,826
2017	1,854
2018 and thereafter	3,313
	10,566

5. SUPPLIES INVENTORY

At December 31, 2013, the Airport Authority has a $595,000 [2012 - $484,000] valuation allowance on its inventory, of which the increase to the provision of $111,000 [2012 - $484,000] was recorded in payments in lieu of taxes, insurance and other. There were no reversals of previous write-downs during the year [2012 - nil]. The cost of inventory recognized as a materials, supplies and services expense during the year ended December 31, 2013 was $2,777,000 [2012 - $2,012,000].

[tabular amounts in thousands of dollars]

6. INVESTMENT IN VANTAGE AIRPORT GROUP

	Class A preferred shares		Class B preferred shares		
	Number #	Amount $	Number #	Amount $	Subtotal $
January 1, 2012	190	16,072	—	—	16,072
Share exchange *[b]*	—	—	75,000,000	42,582	42,582
December 31, 2012	190	16,072	75,000,000	42,582	58,654
Share exchange *[b]*	—	—	—	—	—
December 31, 2013	**190**	**16,072**	**75,000,000**	**42,582**	**58,654**

	Class A common shares		Class C common shares		
	Number #	Amount $	Number #	Amount $	Subtotal $
January 1, 2012	1,577	88,002	—	—	88,002
Share exchange *[b]*	(1,577)	(88,002)	1,577	45,420	(42,582)
Equity loss	—	—	—	(10,176)	(10,176)
Other comprehensive income	—	—	—	925	925
Unpaid dividends *[c]*	—	—	—	6,183	6,183
December 31, 2012	—	—	1,577	42,352	42,352
Equity loss *[d]*	—	—	—	(49,708)	(49,708)
Other comprehensive income	—	—	—	4,386	4,386
Unpaid dividends *[c]*	—	—	—	7,725	7,725
December 31, 2013	**—**	**—**	**1,577**	**4,755**	**4,755**
Total investment in Vantage Airport Group					63,409

[a] 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.

[tabular amounts in thousands of dollars]

[b] 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.

[c] During the year ended December 31, 2013, Vantage declared dividends of $7,725,000 [2012 - $7,683,000] on its Class B preferred shares of which nil [2012 - $1,500,000] was paid to the Airport Authority.

[d] Subsequent to year-end, on February 26, 2014, Vantage agreed in principle to dispose of its 65% interest in the shares of Vantage Airports UK Limited ["VAUK"]. Based on the terms agreed in principle, all the assets will be transferred and all the liabilities will be assumed by the purchaser upon completion of the sale, which is expected to occur on or around April 15, 2014. The sale is conditional upon the parties entering into legally binding sale and purchase and related agreements and obtaining consent from the lenders.

At December 31, 2013, Vantage wrote down the value of VAUK's property, plant and equipment assets to an amount equal to the fair value less costs to sell based on the subsequent transaction. The impact to the Airport Authority's equity loss as a result of the impairment was $43,844,000 [2012 - nil].

[e] For the year ended December 31, 2013, the deferred gain recognized into income from amortization was $1,923,000 [2012 - $1,873,000], with $41,191,000 [2012 - $43,114,000] 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%, 2012 - 50%] as at and for the years ended December 31, 2013 and 2012 are presented below:

	2013 $	**2012** $
Current assets	**39,127**	39,821
Long-term assets	**114,366**	170,705
Current liabilities	**(81,664)**	(20,167)
Long-term liabilities	**(108,677)**	(151,558)
Net assets	**(36,848)**	38,801

[tabular amounts in thousands of dollars]

	2013 $	2012 $
Revenue	**43,321**	42,873
Expenses	**(89,167)**	(49,207)
Net loss	**(45,846)**	(6,334)

	2013 $	2012 $
Cash flows provided by (used in)		
Operating activities	**688**	7,258
Financing activities	**752**	(9,616)
Investing activities	**(2,764)**	2,854

7. INVESTMENT IN DOC PARTNERSHIP

The DOC Partnership was officially formed on June 28, 2013 when VAEL Templeton along with its other partners executed the limited partnership and shareholder agreements. Subsequent to formation, VAEL Templeton has contributed $9,929,000 in equity to the DOC Partnership, which represents an initial estimate of the funds expended to date by VAEL Templeton on behalf of the DOC Partnership.

Costs incurred to date related to the construction of the retail outlet centre, as well as associated leasing and marketing expenditures. Once the costs expended to date by VAEL Templeton have been finalized, the appropriate number of limited partnership units will be issued.

For the year ended December 31, 2013, VAEL Templeton recorded an equity loss of $58,000 from DOC Partnership. The amount was recorded as a reduction in the investment in DOC Partnership.

Summarized consolidated statements of financial position, operations, and cash flows of the Airport Authority's share of the DOC Partnership [50%] as at and for the year ended December 31, 2013 are presented below:

	2013 $
Current assets	1,898
Long-term assets	8,063
Current liabilities	(2)
Net assets	9,959

[tabular amounts in thousands of dollars]

	2013 $
Revenue	—
Expenses	(58)
Net loss	(58)

	2013 $
Cash flows provided by (used in):	
Operating activities	(72)
Financing activities	5,438
Investing activities	(4,102)

8. CAPITAL ASSETS

	2013		
	Cost $	**Accumulated amortization** $	**Net book value** $
Buildings and other structures	**1,420,883**	**564,474**	**856,409**
Runways and other paved surfaces	**475,294**	**193,283**	**282,011**
Rapid transit infrastructure	**298,948**	**26,361**	**272,587**
Machinery and equipment	**109,704**	**66,353**	**43,351**
Furniture and fixtures	**27,250**	**24,614**	**2,636**
Computer equipment and systems	**131,761**	**101,651**	**30,110**
Art collection	**7,506**	**—**	**7,506**
Construction-in-progress	**171,902**	**—**	**171,902**
	2,643,248	**976,736**	**1,666,512**

[tabular amounts in thousands of dollars]

	2012		
	Cost $	Accumulated amortization $	Net book value $
Buildings and other structures	1,384,054	500,290	883,764
Runways and other paved surfaces	457,658	174,317	283,341
Rapid transit infrastructure	298,948	20,378	278,570
Machinery and equipment	106,697	57,602	49,095
Furniture and fixtures	27,035	23,755	3,280
Computer equipment and systems	113,048	90,426	22,622
Art collection	7,266	—	7,266
Construction-in-progress	62,694	—	62,694
	2,457,400	866,768	1,590,632

9. OTHER LONG-TERM ASSETS

	2013		
	Cost **$**	**Accumulated amortization** **$**	**Net book value** **$**
[a] Operating lease receivable	**23,330**	**9,715**	**13,615**
[b] Leasehold interest	**4,640**	**467**	**4,173**
[c] Development costs	**956**	**—**	**956**
[d] Intangible asset	**1,400**	**583**	**817**
Accrued benefit asset *[note 17[a]]*	**384**	**—**	**384**
	30,710	**10,765**	**19,945**

	2012		
	Cost $	Accumulated amortization $	Net book value $
[a] Operating lease receivable	21,045	7,735	13,310
[b] Leasehold interest	4,640	396	4,244
[c] Development costs	4,313	—	4,313
[d] Intangible asset	1,400	117	1,283
Accrued benefit asset *[note 17[a]]*	594	—	594
	31,992	8,248	23,744

[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 nil [2012 - $34,000] to tenants and recognized $1,980,000 [2012 - $1,981,000] 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 sub-lease. As at December 31, 2013, the cumulative difference between the rental income recognized and cash lease payments received is $5,505,000 [2012 - $3,253,000].

[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.

The leasehold interest is being amortized over the remaining term of the Ground Lease. For the year ended December 31, 2013, the amortization of the leasehold interest was $71,000 [2012 - $71,000].

[c] On June 28, 2013 the DOC Partnership agreement was signed and all costs incurred by the Airport Authority relating to the retail designer outlet centre and previously recorded as other long-term assets were transferred from the Airport Authority to VAEL Templeton as an equity contribution *[note 7]*. Costs remaining in this account relate to a separate potential commercial development on Sea Island and will form part of the Airport Authority's future investment in a separate company that will own and operate the development.

[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. For the year ended December 31, the amortization of the intangible was $466,000 [2012 - $117,000].

[tabular amounts in thousands of dollars]

10. LINE OF CREDIT

	2013 $	2012 $
Unsecured bank operating line	**200,000**	200,000
Outstanding letters of credit, reducing available balance	**11,359**	3,232
Available unsecured bank operating line	**188,641**	196,768

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 adjustments to Transport Canada.

	2013 $	2012 $
Canada Revenue Agency	**162**	830
TransLink	**490**	443
British Columbia Ministry of Finance	**3**	—
Transport Canada	**3,196**	4,309
	3,851	5,582

12. 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.

	2013 $	2012 $
Deferred ground lease payments	**4,105**	6,158
Less current portion	**2,053**	2,053
Long-term portion	**2,052**	4,105

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

[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 or amount consistent with the amortization of the related capital assets.

	2013 $	**2012** $
Capital contributions		
CATSA	**119,490**	118,604
Other	**2,490**	2,474
	121,980	121,078
Accumulated amortization	**(70,166)**	(58,418)
	51,814	62,660

[b] Contributions

	2013 $	**2012** $
Amortization of deferred capital contributions	**11,748**	9,779
Operating contributions	**3,835**	4,086
	15,583	13,865

14. DEBENTURES

	2013 $	**2012** $
Amended Series B 7.425%, due December 7, 2026	**150,000**	150,000
Series D 4.424%, due December 7, 2018	**200,000**	200,000
Series E 5.020%, due November 13, 2015	**200,000**	200,000
	550,000	550,000
Less unamortized deferred financing costs	**(2,078)**	(2,351)
	547,922	547,649

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, 2013, the Airport Authority has accrued debenture interest and fees of $2,717,000 [2012 - $2,717,000] which are recorded in accounts payable and accrued liabilities. See note 22[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.

15. 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 2013 or 2012.

16. 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 2013, the Airport Authority recorded $121,656,000 [2012 - $106,563,000] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totaled $185,047,000 [2012 - $105,875,000]. To December 31, 2013, the cumulative main terminal AIF revenue totaled $1,438,492,000 [2012 - $1,316,836,000], and cumulative AIF eligible expenditures totaled $2,587,449,000 [2012 - $2,402,402,000]. To December 31, 2013, the cumulative AIF revenue has been used to fund AIF eligible capital expenditure in accordance with the MOA.

17. 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 2013 were $2,228,000 [2012 - $2,198,000].

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, 2013 was $15,000 [2012 - $13,000].

[tabular amounts in thousands of dollars]

Defined benefit plan

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

	2013 $	2012 $
Accrued benefit obligation		
Balance, beginning of year	**57,671**	55,652
Current service cost	**1,224**	1,368
Interest cost	**2,322**	2,701
Benefits paid	**(1,682)**	(1,479)
Actuarial gain	**(2,394)**	(571)
Balance, end of year	**57,141**	57,671
Fair value of plan assets		
Balance, beginning of year	**49,158**	45,834
Actual return on plan assets	**11,025**	3,734
Employer contributions	**830**	851
Employee contributions	**205**	218
Benefits paid	**(1,682)**	(1,479)
Balance, end of year	**59,536**	49,158
Surplus (deficiency) of plan assets	**2,395**	(8,513)
Unamortized net actuarial loss (gain)	**(2,011)**	9,107
Accrued benefit asset	**384**	594

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

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

	2013 %	2012 %
Asset category		
Equity shares	**68.2**	67.8
Debt securities	**27.5**	28.4
Cash and short-term investments	**4.3**	3.8
	100.0	100.0

[tabular amounts in thousands of dollars]

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

	2013	**2012**
Accrued benefit obligation as of December 31		
Discount rate	**4.50%**	4.00%
Rate of compensation increase	**3.25%**	3.25%
Benefit costs for year ended December 31		
Discount rate	**4.50%**	4.00%
Expected long-term rate of return on plan assets	**6.00%**	6.10%
Rate of compensation increase	**3.25%**	3.25%
Expected average remaining service life	**7.8 years**	7.0 years

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

	2013 $	**2012** $
Current service cost, net of employees' contributions	**1,019**	1,150
Interest cost	**2,322**	2,701
Actual return on plan assets	**(11,025)**	(3,734)
Actuarial gain	**(2,394)**	(571)
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**(10,078)**	(454)
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	**8,046**	768
Difference between actuarial loss recognized for the year and actuarial loss on accrued benefit obligation for year	**3,073**	1,385
Pension expense	**1,041**	1,699

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, 2013, the total amount of the letter of credit was $4,709,000 [2012 - $2,557,000], which reduced the available bank operating line *[note 10]*.

Total cash payments for employee future benefits for the year ended December 31, 2013, consisting of cash contributed by the Airport Authority to its funded pension plans [the defined benefit plan and defined contribution plans], were $3,034,000 [2012 - $3,061,000].

[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, 2013 was $1,873,000 [2012 - $861,000]. Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2013 was $10,332,000 [2012 - $8,742,000], which has been accrued as long-term liabilities. The total unamortized actuarial losses related to these plans at December 31, 2013 were $1,101,000 [2012 - $1,494,000].

[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. In 2013 the accrued benefit liability was determined using an actuarial valuation whereas in prior years the estimated liability was calculated by management and updated quarterly using the best available information. As at December 31, 2013, the total accrued benefit liability of this plan is $3,512,000 [2012 - $3,551,000] of which $412,000 [2012 - $212,000] is recorded in accounts payable and accrued liabilities and $3,100,000 [2012 - $3,339,000] in other long-term liabilities.

18. 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, 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.

[tabular amounts in thousands of dollars]

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, 2013, the Airport Authority's required ground lease payments were less than its ground lease expense by $3,196,000 [2012 - $4,309,000]. This amount is included in accounts payable and accrued liabilities at December 31, 2013.

Projected lease expense and payments, including repayments of deferred ground lease payments *[note 12]* under the amended Ground Lease for the next five years, are estimated as follows:

	Lease expense $	**Lease payments** $
2014	43,560	45,613
2015	45,102	47,154
2016	45,780	45,780
2017	47,500	47,500
2018	49,170	49,170

[b] Capital and operating commitments

As at December 31, 2013, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately $223,533,000 [2012 - $60,934,000]. As at December 31, 2013, in connection with operating the Airport, the Airport Authority has total operating commitments of approximately $60,219,000 [2012 - $10,097,000]. These commitments extend for periods of up to five years.

[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, 2013, there are no material claims pending against the Airport Authority.

19. CUSTOMER CONCENTRATION

The Airport Authority derives approximately $51,065,000 [2012 - $54,067,000] in aeronautical charges and rents from one airline and $29,722,000 [2012 - $24,507,000] 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.

20. FINANCIAL INSTRUMENTS

[a] Fair value of financial instruments

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

The fair value of the debentures at December 31, 2013 is estimated to be $626,087,000 [2012 - $651,727,000]. 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.

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 $2,056,000 as at December 31, 2013 [2012 - $2,039,000]. 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 2013 and 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 14]* 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.

[tabular amounts in thousands of dollars]

21. CAPITAL RISK MANAGEMENT

The Airport Authority is a non-share corporation and, accordingly, is funded through aeronautical and non-aeronautical revenue, 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.

The Trust Indenture dated December 6, 1996 and related supplemental indentures as described in note 14 provide the terms of the debentures issued and require a minimum interest coverage ratio of 1.25:1. As at December 31, 2013 and 2012, the Airport Authority was in compliance with the required minimum interest coverage ratio.

As at December 31, 2013, net assets amounted to $1,242,823,000 [2012 - $1,181,634,000]. The Airport Authority has established, within its net assets, funds for operational requirements and debt obligations.

22. SUPPLEMENTARY CASH FLOW INFORMATION

[a] Changes in non-cash operating working capital

	2013 $	**2012** $
Accounts receivable	**(2,270)**	(4,857)
Other receivables	**(1,700)**	15,222
Supplies inventory	**(953)**	336
Prepaid expenses	**401**	(651)
Accounts payable and accrued liabilities	**14,173**	3,089
Deferred revenue	**3,165**	410
	12,816	13,549

[tabular amounts in thousands of dollars]

[b] Other supplementary information

	2013 $	**2012** $
Supplementary information		
Interest expense paid	**30,384**	30,349
Interest income received	**2,232**	1,439
Non-cash transaction		
Construction-in-progress accrual	**16,227**	13,355
Prior year costs contributed to investment in DOC Partnership *[note 7]*	**3,401**	—
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

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the year ended December 31, 2013.