

Unaudited Non-consolidated Financial Statements

Vancouver Airport Authority
December 31, 2014

Vancouver Airport Authority

**UNAUDITED NON-CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**

[expressed in thousands of dollars]

As at December 31

	2014	2013
	\$	\$
	<i>[restated]</i>	
ASSETS		
Current		
Cash	100,108	162,259
Accounts receivable <i>[note 3[a] and 15]</i>	25,634	20,201
Other receivables <i>[note 15]</i>	6,562	4,075
Current portion of net investment in lease <i>[note 4]</i>	1,028	881
Inventory <i>[note 5]</i>	7,195	6,151
Prepaid expenses	2,946	1,998
Total current assets	143,473	195,565
Net investment in lease <i>[note 4]</i>	5,495	6,523
Investment in subsidiaries <i>[note 6]</i>	73,907	62,499
Partnership interest <i>[note 7]</i>	1,606	—
Capital assets, net <i>[note 8]</i>	1,834,379	1,666,510
Other long-term assets, net <i>[note 9]</i>	35,203	33,133
	2,094,063	1,964,230
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities <i>[notes 11, 13, 15, 17[c] and 18[a]]</i>	94,166	63,763
Deferred revenue	7,237	10,171
Current portion of deferred ground lease payments <i>[note 12]</i>	2,052	2,053
Current portion of debentures <i>[note 13]</i>	199,876	—
Total current liabilities	303,331	75,987
Other long-term liabilities <i>[note 17[b] and [c]]</i>	13,665	12,839
Deferred ground lease payments <i>[note 12]</i>	—	2,052
Deferred capital contributions <i>[note 14[a]]</i>	50,957	51,814
Debentures <i>[note 13]</i>	348,336	547,922
Total liabilities	716,289	690,614
Commitments, contingencies and guarantee <i>[note 18]</i>		
Subsequent event <i>[note 23]</i>		
Net assets <i>[notes 2 and 17]</i>	1,377,774	1,273,616
	2,094,063	1,964,230

See accompanying notes to unaudited non-consolidated financial statements

Vancouver Airport Authority

**UNAUDITED NON-CONSOLIDATED
STATEMENT OF OPERATIONS**

[expressed in thousands of dollars]

Year ended December 31

	2014	2013
	\$	\$
		<i>[restated]</i>
REVENUE		
Landing fees	36,485	35,269
Terminal fees	89,107	86,234
Concessions	90,035	80,780
Airport improvement fees <i>[note 16]</i>	129,330	122,275
Car parking	29,856	27,823
Rentals	38,438	38,972
Fees and miscellaneous	38,261	26,372
Contributions <i>[note 14[b]]</i>	13,370	15,583
	464,882	433,308
EXPENSES		
Salaries, wages and benefits	45,177	43,175
Materials, supplies and services	91,608	83,226
Payments in lieu of taxes, insurance and other	32,481	22,543
Amortization of capital assets	119,625	110,706
	288,891	259,650
Other expenses		
Ground lease	46,635	42,272
Interest and financing charges	31,467	31,498
	78,102	73,770
Excess of revenue over expenses before undernoted items	97,889	99,888
Dividend income <i>[note 15]</i>	1,576	284
Write-down of capital assets	(48)	(2,259)
Gain on disposal of capital assets	5	76
Foreign exchange gain	673	294
Partnership income of VAPH <i>[note 7]</i>	1,606	—
Excess of revenue over expenses for the year	101,701	98,283

See accompanying notes to unaudited non-consolidated financial statements

Vancouver Airport Authority

**UNAUDITED NON-CONSOLIDATED STATEMENT OF
CHANGES IN NET ASSETS**

[expressed in thousands of dollars]

Year ended December 31

	2014	2013
	\$	\$
Balance, beginning of year	1,273,616	1,162,801
Transitional adjustment on adoption of employee future benefits standard <i>[notes 2 and 17]</i>	—	6,636
Restated balance, beginning of year	1,273,616	1,169,437
Excess of revenue over expenses for the year	101,701	98,283
Employee future benefit plan measurements <i>[note 17]</i>	2,457	5,896
Balance, end of year	1,377,774	1,273,616

See accompanying notes to unaudited non-consolidated financial statements

Vancouver Airport Authority

**UNAUDITED NON-CONSOLIDATED
STATEMENT OF CASH FLOWS**

[expressed in thousands of dollars]

Year ended December 31

	2014	2013
	\$	\$
		<i>[restated]</i>
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	101,701	98,283
Add (deduct) items not involving cash		
Amortization of capital assets	119,625	110,706
Amortization of deferred capital contributions	(9,240)	(11,748)
Amortization of deferred financing costs	290	273
Amortization of other long-term assets	2,453	2,517
Write-down of capital assets	48	2,259
Gain on disposal of capital assets	(5)	(76)
Foreign exchange gain	(673)	(294)
Partnership income of VAPH <i>[note 7]</i>	(1,606)	—
Changes in non-cash operating working capital <i>[note 22[a]]</i>	8,445	12,641
Cash provided by operating activities	221,038	214,561
INVESTING ACTIVITIES		
Additions of capital assets	(277,623)	(185,996)
Investment in VAEL Templeton	(11,408)	(6,528)
Proceeds on disposal of capital assets	158	98
Decrease in net investment in lease	881	752
Increase in other long-term assets	(2,066)	(2,775)
Cash used in investing activities	(290,058)	(194,449)
FINANCING ACTIVITIES		
Increase in other long-term liabilities	826	758
Deferred capital contributions received	7,423	902
Repayment of deferred ground lease payments	(2,053)	(2,053)
Cash provided by (used in) financing activities	6,196	(393)
Effect of exchange rates on cash	673	294
Net increase (decrease) in cash	(62,151)	20,013
Cash, beginning of year	162,259	142,246
Cash, end of year	100,108	162,259

See accompanying notes to unaudited non-consolidated financial statements

Vancouver Airport Authority

NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2014

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”].

2. SIGNIFICANT ACCOUNTING POLICIES

Presentation and basis of accounting

These non-consolidated financial statements have been prepared in accordance with the significant accounting policies described herein pursuant to the Trust Indenture Agreement [the “Trust Indenture”] dated December 6, 1996, one Supplemental Indenture dated November 14, 2006, two dated December 7, 2006 and one dated November 14, 2007.

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

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

Adoption of CPA Canada Handbook Section 3463 – Reporting Employee Future Benefits by Not-for-Profit Organizations

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 and some of its senior management.

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NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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Defined Benefit Pensions

On January 1, 2014, the Airport Authority adopted CPA Canada Handbook Section 3463 – *Reporting Employee Future Benefits by Not-for-Profit Organizations*, with a transition date of January 1, 2013. The main impacts of adopting this new standard include:

- The immediate recognition of actuarial gains and losses in net assets, replacing the deferral and amortization approach.
- The permitted use of an actuarial funding valuation for funded defined benefit plans to measure the defined benefit obligation.
- The requirement to measure plan assets and obligations at the reporting date instead of permitting the use of a date within three months prior to the reporting date.

This standard has been applied retrospectively, in accordance with the transitional provisions contained within the new standard. An adjustment has been recorded in opening net assets to account for the retrospective application, which results in an increase to net assets at January 1, 2013 of \$6,636,000.

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

The Airport Authority measures its accrued benefit obligations and the fair value of plan assets as at December 31 of each year, using the most recent funding valuation for the defined benefit pension plan, adjusted to remove the margin for adverse deviation from the discount rate. The most recent actuarial valuation of the defined benefit pension plan for funding purposes was as of December 31, 2013. The next valuation for funding purposes will be as of December 31, 2014, the results of which are expected to be available during 2015.

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

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

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

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

Defined Contribution Plans

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

Inventory

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.

Investments in subsidiaries

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

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

Vancouver Airport Authority

NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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

Partnership interest

The Airport Authority accounts for its partnership interest using the equity method. The Airport Authority's share of its partnership net income is recorded in the statement of operations. See note 7 for additional details.

Borrowing costs

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

Vancouver Airport Authority

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[tabular amounts in thousands of dollars]

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Deferred revenue

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

Revenue recognition

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

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

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

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

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

- [v] Rental revenue is recognized 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.

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December 31, 2014

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.

Dividend income

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

Taxes

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

A payment in lieu of taxes is made for municipal services and is based on the municipality's rates applied to the assessment of property values.

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.

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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, accounts payable and debentures.

Financing costs

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

Foreign currencies

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

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, fair values of identified assets and liabilities acquired in business combinations, and provisions for contingencies. Actual results could differ materially from those estimates.

Vancouver Airport Authority

NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2014

3. ACCOUNTS RECEIVABLE

[a]	2014 \$	2013 \$
Current	25,218	19,423
31-60 days past due	278	573
61-90 days past due	288	38
90+ days past due	335	677
Less allowance for doubtful accounts	(485)	(510)
	<u>25,634</u>	<u>20,201</u>

[b]	2014 \$	2013 \$
Allowance for doubtful accounts, beginning of year	510	785
Increase (decrease) in allowance for doubtful accounts	26	(213)
Write-off of specific accounts	(51)	(62)
Allowance for doubtful accounts, end of year	<u>485</u>	<u>510</u>

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:

	2014 \$	2013 \$
Minimum lease payments receivable	8,793	10,566
Unearned income	(2,270)	(3,162)
	<u>6,523</u>	<u>7,404</u>
Less current portion	1,028	881
	<u>5,495</u>	<u>6,523</u>

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NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2014

As at December 31, 2014, the future minimum lease payments receivable under the direct financing lease are as follows:

	\$
2015	1,800
2016	1,826
2017	1,854
2018	1,882
2019	1,431
	<u>8,793</u>

5. INVENTORY

At December 31, 2014, the Airport Authority has a \$644,000 [2013 – \$595,000] valuation allowance on its inventory, of which the increase to the provision of \$49,000 [2013 – \$111,000] was recorded in payments in lieu of taxes, insurance and other. There were no reversals of previous write-downs during the year [2013 – nil]. The cost of inventory recognized as a materials, supplies and services expense and PILT during the year ended December 31, 2014 was \$8,142,000 [2013 – \$3,896,000].

6. INVESTMENT IN SUBSIDIARIES

	2014 \$	2013 \$
[a] VAEL	52,570	52,570
[b] VAEL Templeton [note 18[c]]	21,337	9,929
[c] YVRHK	—	—
[d] VAPL	—	—
	<u>73,907</u>	<u>62,499</u>

[a] This amount comprises investments in VAEL which holds investments in YVRPM and Vantage.

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**NOTES TO UNAUDITED NON-CONSOLIDATED
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[tabular amounts in thousands of dollars]

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[b] VAEL Templeton's purpose is to hold the Airport Authority's 50% investment in the DOC Partnership, which is developing a retail designer outlet centre on Sea Island.

To date, the Airport Authority through VAEL Templeton has contributed \$21,337,000 [2013 – \$9,929,000] in equity to the DOC Partnership. Cost incurred to date related to the construction of the retail designer outlet centre, as well as associated leasing and marketing expenditures.

[c] The share value of YVRHK is \$1 Hong Kong dollar.

[d] The initial investment made by the Airport Authority in VAPL is \$1.

7. PARTNERSHIP INTEREST

On June 27, 2014, VAPM acquired the leasehold interests and six buildings from a third party real estate investment trust for consideration of \$6,506,000. The acquisition was financed by a non-revolving demand facility ["VAPM Facility"] in the amount of \$7,000,000. The VAPM Facility must be repaid in full within 12 months of the initial advance, with two options to each extend the VAPM Facility for a period of six months. The VAPM Facility bears interest at the Bankers' Acceptances Stamping Fee of 1.50% per year plus the face amount of each Bankers' Acceptance note. As at December 31, 2014, the interest rate on the VAPM Facility was 2.77%, which is secured by mortgages of the leasehold interests of the acquired properties. The VAPM Facility requires VAPM to maintain a debt coverage ratio of not less than 1.60, or the VAPM Facility will be reduced by an amount where the ratio is in compliance.

On August 12, 2014, VAPM acquired the leasehold interests and eleven buildings from two separate third parties, for consideration of \$38,590,000. These acquisitions were financed using the VAPM Facility, by issuing additional debt tranches, increasing the total of the demand loan to \$47,500,000. The remaining balance of the VAPM Facility was used to fund related transaction costs.

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These acquisitions were accounted for as a business combination in accordance with CPA Canada Handbook Section 1582, *Business Combinations*, applying the acquisition method. All identifiable assets and liabilities acquired were measured at fair value on the acquisition date, and all transaction costs have been expensed as incurred. The fair values of the identifiable assets and liabilities acquired in these transactions at the date of acquisition were:

	June 2014	August 2014	Total
	\$	\$	\$
Buildings	4,294	27,035	31,329
Lease intangibles	2,139	12,465	14,604
Working capital items	73	(910)	(837)
Total identified net assets at fair value and purchase consideration transferred	<u>6,506</u>	<u>38,590</u>	<u>45,096</u>

Lease intangibles acquired in these transactions include prepaid lease origination costs, the value of in-place leases and tenant renewal asset and below market rate leases, and are being amortized over their useful lives, ranging from two to eight years.

For the year ended December 31, 2014, the Airport Authority recorded on the statement of operations 99.9% of \$1,607,000 partnership income of VAPH. VAPH did not record any of the \$1,193,000 loss generated by VAPM, as VAPH does not have an obligation to fund losses of its investment in VAPM. As at December 31, 2014, VAPH has accumulated \$1,192,000 in unrecorded losses, which will first be offset before any equity earnings are recognized.

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's share of VAPH [99.9%] as at and for the year ended December 31, 2014 are presented below:

	2014
	\$
Assets	<u>4,076</u>
Liabilities	<u>(2,470)</u>
Net assets	<u><u>1,606</u></u>

Vancouver Airport Authority

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[tabular amounts in thousands of dollars]

December 31, 2014

	2014
	\$
	<hr/>
Revenue	1,617
Expenses	11
Net income	<hr/> 1,606
	<hr/>
	2014
	\$
	<hr/>
Cash flows provided by (used in)	
Operating activities	1,687
Financing activities	722
Investing activities	<hr/> —

8. CAPITAL ASSETS

	2014		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
	<hr/>		
Buildings and other structures	1,536,328	633,848	902,480
Runways and other paved surfaces	488,352	215,653	272,699
Rapid transit infrastructure	298,948	32,433	266,515
Machinery and equipment	109,501	73,582	35,919
Furniture and fixtures	29,957	25,466	4,491
Computer equipment and software	140,713	113,041	27,672
Art collection	7,567	—	7,567
Construction-in-progress	317,036	—	317,036
	<hr/> 2,928,402	<hr/> 1,094,023	<hr/> 1,834,379

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	2013		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Buildings and other structures	1,420,881	564,474	856,407
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
	2,643,246	976,736	1,666,510

9. OTHER LONG-TERM ASSETS

	2014		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
[a] Operating lease receivables	24,450	11,631	12,819
[b] Leasehold interest	4,640	538	4,102
[c] Development costs	961	—	961
[d] Intangible asset	1,400	1,049	351
Accrued benefit asset <i>[note 17]</i>	16,970	—	16,970
	48,421	13,218	35,203

	2013		
	<i>[restated]</i>		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
[a] Operating lease receivables	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 <i>[note 17]</i>	13,572	—	13,572
	43,898	10,765	33,133

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- [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 recognized \$1,916,000 [2013 – \$1,980,000] 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, 2014, the cumulative difference between the rental income recognized and cash lease payments received is \$6,533,000 [2013 – \$5,505,000].

- [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, 2014, the amortization of the leasehold interest was \$71,000 [2013 – \$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 6[b]]. 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, likely in a separate entity 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 is currently developing and selling. 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, 2014, the amortization of the intangible was \$466,000 [2013 – \$466,000].

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10. LINE OF CREDIT

The Airport Authority has available an unsecured bank operating line of \$200,000,000 with an interest rate at prime, which was 3.00% as at December 31, 2014 or by issuing banker's acceptances at prevailing market interest rates. The operating line of credit remained undrawn for the year ending December 31, 2014.

	2014	2013
	\$	\$
Unsecured bank operating line	200,000	200,000
Outstanding letters of credit, reducing available balance	13,081	11,359
Available unsecured bank operating line	186,919	188,641

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2014	2013
	\$	\$
Transport Canada	4,363	3,196
TransLink	510	490
Canada Revenue Agency	138	156
British Columbia Ministry of Finance	36	43
U.S. government	66	—
	5,113	3,885

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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.

	2014	2013
	\$	\$
Deferred ground lease payments	2,052	4,105
Less current portion	2,052	2,053
Long-term portion	—	2,052

Annual repayments are interest free over a ten-year period, commencing January 1, 2006.

13. DEBENTURES

	2014	2013
	\$	\$
Debentures	548,212	547,922
Less current portion		
Series E 5.020%, due November 13, 2015	200,000	—
Less unamortized deferred financing costs	(124)	—
	199,876	—
Long-term portion		
Amended Series B 7.425%, due December 7, 2026	150,000	150,000
Series D 4.424%, due December 7, 2018	200,000	200,000
Series E 5.020%, due November 13, 2015	—	200,000
	350,000	550,000
Less unamortized deferred financing costs	(1,664)	(2,078)
	348,336	547,922

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.

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The effective interest rates on the Series B, D and E debentures are 7.530%, 4.484% and 5.094%, respectively. At December 31, 2014, the Airport Authority has accrued debenture interest and fees of \$2,717,000 [2013 – \$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.

14. 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.

	2014	2013
	\$	\$
Capital contributions		
CATSA	127,384	119,490
Other	2,979	2,490
	130,363	121,980
Accumulated amortization	(79,406)	(70,166)
	<u>50,957</u>	<u>51,814</u>

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[b] Contributions

	2014	2013
	\$	\$
Amortization of deferred capital contributions	9,240	11,748
Operating contributions	4,130	3,835
	<u>13,370</u>	<u>15,583</u>

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 the years ended December 31, 2014 and 2013.

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

The Airport Authority pays legal, administrative, salaries and wages expense on behalf of its subsidiaries in the normal course of operations which is included in other receivables as follows:

	2014	2013
	\$	\$
Due from VAEL	2,767	398
Due from YVRPM	1,441	882
Due from YVRHK	167	56
Due from Vantage and its subsidiary	30	68
Due from VAEL Templeton	3	—
	<u>4,408</u>	<u>1,404</u>

For the year ended December 31, 2014, the Airport Authority recognized dividend income of \$1,576,000 [2013 – \$284,000] from VAEL, all of which is recorded in other receivables at December 31, 2014 [2013 – \$284,000].

For the year ended December 31, 2014, YVRPM provided capital project management services to the Airport Authority totalling \$606,000 [2013 – \$613,000] which is included in the cost of capital assets.

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All receivables from subsidiaries are due and payable upon the Airport Authority's demand, except for Vantage whose payment term is net 30 days.

For the year ended December 31, 2014, the Airport Authority recorded \$560,000 [2013 – nil] of rental revenue from VAEL Templeton relating to a land lease for the DOC and \$945,000 [2013 – nil] of DOC management fees in fees and miscellaneous revenue, of which \$1,010,000 are in accounts receivable as at December 31, 2014 [2013 – nil]. The payment term for these receivables is by installments with the first installment due on the date the first phase of the DOC opens to the public for business.

The Airport Authority collected rent on VAPH's behalf. The amount is included in accounts payable and accrued liabilities as follows:

	2014	2013
	\$	\$
Due to VAPH	1,668	—
Due to VAPM	31	—
	1,699	—

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 2014, the Airport Authority recorded \$128,695,000 [2013 – \$121,656,000] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totalled \$277,623,000 [2013 – \$185,996,000]. The remainder of the AIF revenue is from the south terminal. To December 31, 2014, the cumulative main terminal AIF revenue totalled \$1,567,178,000 [2013 – \$1,438,492,000], and cumulative AIF eligible expenditures totalled \$2,857,696,000 [2013 – \$2,587,496,000]. To December 31, 2014, the cumulative AIF revenue has been used to fund AIF eligible capital expenditure in accordance with the MOA.

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17. EMPLOYEE FUTURE BENEFITS

[a] Funded pension plans

Defined contribution plans

The Airport Authority participates in a Registered Retirement Savings Plan 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 for 2014 were \$2,182,000 [2013 – \$2,228,000].

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, 2014 was \$16,000 [2013 – \$15,000].

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Defined benefit plan

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

	2014 \$	2013 \$ <i>[restated]</i>
Accrued benefit obligation		
Balance, beginning of year	46,531	42,811
Current service cost	752	642
Employee contribution	226	205
Interest cost	3,250	2,612
Benefits paid	(2,152)	(1,682)
Actuarial gain	451	1,943
Balance, end of year	49,058	46,531
Fair value of plan assets		
Balance, beginning of year	59,536	49,158
Actual return on plan assets	7,130	11,125
Administration cost	(175)	(100)
Employer contributions	1,463	830
Employee contributions	226	205
Benefits paid	(2,152)	(1,682)
Balance, end of year	66,028	59,536
Surplus of plan assets	16,970	13,005
Impact of adoption of new accounting standard <i>[note 2]</i>	—	567
Accrued benefit asset	16,970	13,572

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

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

	2014	2013
	%	%
Asset category		
Equity shares	66.7	68.2
Debt securities	29.4	27.5
Cash and short-term investments	3.9	4.3
	100.0	100.0

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

	2014	2013
	%	%
		<i>[restated]</i>
Accrued benefit obligation as of December 31		
Discount rate	6.00	6.00
Rate of compensation increase	3.25	3.25
Benefit costs for year ended December 31		
Discount rate	6.00	6.00
Expected long-term rate of return on plan assets	6.00	6.00
Rate of compensation increase	3.25	3.25

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

	2014	2013
	\$	\$
		<i>[restated]</i>
Current service cost, net of employees' contributions	751	642
Administration cost	175	100
Interest cost	3,250	2,612
Expected return on plan assets	(4,151)	(2,979)
Employee future benefit costs	25	375
Impact of change in measurement date	(3)	—
Pension expense	22	375

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Total cash payments

In April 2011, amendments were made to the Pension Benefits Standards Regulations which permitted plan sponsors to secure structured letters of credit in lieu of making solvency payments to the pension plan, up to a limit of 15% of plan assets. On August 31, 2011, the Airport Authority issued a letter of credit to fund its required solvency payments to its defined benefit plan. As at December 31, 2014, the total amount of the letter of credit was \$7,177,000 [2013 – \$4,709,000], which reduced the available bank operating line [note 10].

Total cash payments for employee future benefits for the year ended December 31, 2014, consisting of cash contributed by the Airport Authority to its funded pension plans [the defined benefit plan and defined contribution plans] were \$3,662,000 [2013 – \$3,034,000].

[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, 2014 was \$858,000 [2013 – \$1,087,000]. Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2014 was \$10,998,000 [2013 – \$10,182,000], which has been accrued as long-term liabilities.

[c] Retiring allowance

The Airport Authority provides a retiring allowance to bargaining unit employees based on their number of years of service and their salary at retirement. In 2014 and 2013 the accrued benefit liability was determined using an actuarial valuation. As at December 31, 2014, the total accrued benefit liability of this plan is \$3,126,000 [2013 – \$3,097,000] of which \$459,000 [2013 – \$440,000] is recorded in accounts payable and accrued liabilities and \$2,667,000 [2013 – \$2,657,000] in other long-term liabilities.

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18. COMMITMENTS, CONTINGENCIES AND GUARANTEE

[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.

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

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

The difference between the Airport Authority’s required ground lease payments based on its estimated 2014 Airport Revenue at the beginning of the year and its expenses is \$4,363,000 [2013 – \$3,196,000]. This amount is included in accounts payable and accrued liabilities at December 31, 2014.

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
	\$	\$
2015	47,712	49,764
2016	49,066	49,066
2017	50,784	50,784
2018	52,743	52,743
2019	54,571	54,571

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[b] Capital and operating commitments

As at December 31, 2014, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately \$69,547,000 [2013 – \$223,533,000].

As at December 31, 2014, in connection with operating the Airport, the Airport Authority has total operating commitments of approximately \$125,553,000 [2013 – \$60,219,000]. These commitments extend for periods of up to five years.

[c] Guarantee

On December 6, 2013, the Airport Authority entered into a payment guarantee agreement as the guarantor for a loan agreement between DOC Partnership and its bank. The maximum amount of the guarantee is \$24,500,000, and will be reduced for any repayment of the principal amount of the loan made with cash capital contributions to the DOC Partnership directly or indirectly from the Airport Authority which are not proceeds of the collateral securing the loan [note 23].

[d] Legal claims

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

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

As at December 31, 2014, there are no material claims pending against the Airport Authority.

19. CUSTOMER CONCENTRATION

The Airport Authority derives approximately \$48,773,000 [2013 – \$51,065,000] in aeronautical charges and rents from one airline and \$35,724,000 [2013 – \$29,722,000] 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.

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20. FINANCIAL INSTRUMENTS

[a] Fair value of financial instruments

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

The fair value of the debentures at December 31, 2014 is estimated to be \$638,514,000 [2013 – \$626,087,000]. 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 \$2,251,000 as at December 31, 2014 [2013 – \$2,056,000]. 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.

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Interest rate risk

The Airport Authority had no bank indebtedness in both 2014 and 2013 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 13] 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.

21. 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.

The Trust Indenture dated December 6, 1996, and related supplemental indentures as described in note 13, provide the terms of the debentures issued and require a minimum interest coverage ratio of 1.25:1. As at December 31, 2014 and 2013, the Airport Authority was in compliance with the required minimum interest coverage ratio.

22. SUPPLEMENTARY CASH FLOW INFORMATION

[a] Changes in non-cash operating working capital

	2014	2013
	\$	\$
		<i>[restated]</i>
Accounts receivable	(5,433)	(2,231)
Other receivables	(1,527)	(1,879)
Inventory	(1,044)	(953)
Prepaid expenses	(948)	409
Accounts payable and accrued liabilities	20,331	14,133
Deferred revenue	(2,934)	3,162
	<u>8,445</u>	<u>12,641</u>

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[b] Other supplementary information

	2014	2013
	\$	\$
Supplementary information		
Interest expense paid	30,274	30,384
Interest income received	1,709	1,884
Non-cash transaction		
Construction-in-progress accrual	26,299	16,227
Deferred capital contribution accrual	960	—
Transitional adjustment on adoption of employee future benefits standard [notes 2 and 17]	—	6,636
Employee future benefit plan remeasurements	2,457	5,896
Prior year costs contributed to VAEL Templeton [notes 2 and 6[b]]	—	3,401

23. SUBSEQUENT EVENT

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

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the year ended December 31, 2014.