

Unaudited Non-consolidated Financial Statements

**Vancouver Airport Authority**  
December 31, 2013

**Vancouver Airport Authority**

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

[expressed in thousands of dollars]

As at December 31

	2013	2012
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	162,259	142,246
Accounts receivable [note 3]	20,201	17,970
Other receivables [notes 6 and 14]	4,075	2,196
Current portion of net investment in lease [note 4]	881	752
Supplies inventory [note 5]	6,151	5,198
Prepaid expenses	1,998	2,407
<b>Total current assets</b>	<b>195,565</b>	<b>170,769</b>
Net investment in lease [note 4]	6,523	7,404
Investment in subsidiaries [note 6]	62,499	52,570
Capital assets, net [note 7]	1,666,510	1,590,629
Other long-term assets, net [note 8]	19,945	23,744
	<b>1,951,042</b>	<b>1,845,116</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current</b>		
Accounts payable and accrued liabilities [notes 10, 13, 16[c] and 17[a]]	63,675	46,758
Current portion of deferred revenue	10,171	6,174
Current portion of deferred ground lease payments [note 11]	2,053	2,053
<b>Total current liabilities</b>	<b>75,899</b>	<b>54,985</b>
Deferred revenue	—	835
Other long-term liabilities [note 16]	13,432	12,081
Deferred ground lease payments [note 11]	2,052	4,105
Deferred capital contributions [note 12[a]]	51,814	62,660
Debentures [note 13]	547,922	547,649
<b>Total liabilities</b>	<b>691,119</b>	<b>682,315</b>
Commitments and contingencies [note 17]		
<b>Net assets</b>	<b>1,259,923</b>	<b>1,162,801</b>
	<b>1,951,042</b>	<b>1,845,116</b>

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

	2013	2012
	\$	\$
<b>REVENUE</b>		
Landing fees	35,269	34,932
Terminal fees	86,234	85,321
Concessions	80,780	74,919
Airport improvement fees <i>[note 15]</i>	122,275	107,139
Car parking	27,823	27,679
Rentals	38,972	37,559
Fees and miscellaneous	26,372	22,148
Contributions <i>[note 12[b]]</i>	15,583	13,865
	<u>433,308</u>	<u>403,562</u>
<b>EXPENSES</b>		
Salaries, wages and benefits	44,336	44,043
Materials, supplies and services	83,226	74,103
Payments in lieu of taxes, insurance and other	22,543	22,617
Amortization of capital assets	110,706	108,023
	<u>260,811</u>	<u>248,786</u>
<b>Other expenses</b>		
Ground lease	42,272	39,076
Interest and financing charges	31,498	31,457
	<u>73,770</u>	<u>70,533</u>
Excess of revenue over expenses before undernoted items	98,727	84,243
Dividend income <i>[note 6]</i>	284	1,687
Write-down of capital assets	(2,259)	(1,024)
Gain on disposal of capital assets	76	34
Unrealized foreign exchange gain (loss)	294	(36)
<b>Excess of revenue over expenses for the year</b>	<u>97,122</u>	<u>84,904</u>

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

	<b>2013</b>	<b>2012</b>
	\$	\$
<b>Balance, beginning of year</b>	<b>1,162,801</b>	1,077,897
Excess of revenue over expenses for the year	<b>97,122</b>	84,904
<b>Balance, end of year</b>	<b>1,259,923</b>	1,162,801

*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

	2013	2012
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses for the year	97,122	84,904
Add (deduct) items not involving cash		
Amortization of capital assets	110,706	108,023
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	(294)	36
Changes in non-cash operating working capital <i>[note 21[a]]</i>	12,553	(1,277)
<b>Cash provided by operating activities</b>	<b>213,312</b>	<b>185,326</b>
<b>INVESTING ACTIVITIES</b>		
Additions of capital assets	(185,996)	(105,950)
Investment in subsidiaries	(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)
<b>Cash used in investing activities</b>	<b>(193,793)</b>	<b>(111,808)</b>
<b>FINANCING ACTIVITIES</b>		
Increase in other long-term liabilities	1,351	4,116
Deferred capital contributions received	902	75
Repayment of deferred ground lease payments	(2,053)	(2,053)
<b>Cash provided by financing activities</b>	<b>200</b>	<b>2,138</b>
Effect of exchange rates on cash	294	(36)
<b>Net increase in cash</b>	<b>20,013</b>	<b>75,620</b>
Cash, beginning of year	142,246	66,626
<b>Cash, end of year</b>	<b>162,259</b>	<b>142,246</b>

*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, 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”].

## 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 Chartered Professional Accountants [“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.

### Future changes in accounting policies

[a] In 2013 the Accounting Standards Board [“AcSB”] issued CPA Canada 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.

## Vancouver Airport Authority

# NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

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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 non-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 non-consolidated financial statements are:

- Contributions would be recognized 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.

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# **NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS**

[tabular amounts in thousands of dollars]

December 31, 2013

### **Investment in subsidiaries**

The Airport Authority has three 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 ["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 on Sea Island.

### **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.

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# NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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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.

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

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[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.

**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.

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# **NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS**

[tabular amounts in thousands of dollars]

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### **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 high quality 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.

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# **NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS**

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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
- 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.

#### **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.

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

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**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**

	<b>2013</b>	<b>2012</b>
	\$	\$
Current	<b>19,423</b>	18,610
31 - 60 days past due	<b>573</b>	60
61 - 90 days past due	<b>38</b>	32
90+ days past due	<b>677</b>	53
Less allowance for doubtful accounts	<b>(510)</b>	(785)
	<b>20,201</b>	17,970
	<b>2013</b>	<b>2012</b>
	\$	\$
Allowance for doubtful accounts, beginning of year	<b>785</b>	809
Addition to (decrease in) allowance for doubtful accounts	<b>(213)</b>	50
Write-off of specific accounts	<b>(62)</b>	(74)
Allowance for doubtful accounts, end of year	<b>510</b>	785

## Vancouver Airport Authority

### NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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#### 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	<b>10,566</b>	12,313
Unearned income	<b>(3,162)</b>	(4,157)
	<b>7,404</b>	8,156
Less current portion	<b>881</b>	752
	<b>6,523</b>	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
	<b>10,566</b>

#### 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].

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### NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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#### 6. INVESTMENT IN SUBSIDIARIES

	2013	2012
	\$	\$
VAEL, at cost	52,570	52,570
VAEL Templeton, at cost	9,929	—
	<u>62,499</u>	<u>52,570</u>

In 2012, the Airport Authority incorporated a wholly owned subsidiary, VAEL Templeton. The subsidiary'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.

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. Once the costs expended to date by VAEL Templeton have been finalized, the appropriate number of limited partnership units will be issued.

During the year ended December 31, 2013, the Airport Authority recognized dividend income of \$284,000 [2012 - \$1,687,000] from VAEL, all of which is recorded in other receivables at December 31, 2013 [2012 - \$187,000].

#### 7. CAPITAL ASSETS

	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
	<u>2,643,246</u>	<u>976,736</u>	<u>1,666,510</u>

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	<b>2012</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
	\$	\$	\$
Buildings and other structures	1,384,051	500,290	883,761
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
	<b>2,457,397</b>	<b>866,768</b>	<b>1,590,629</b>

**8. OTHER LONG-TERM ASSETS**

	<b>2013</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
	\$	\$	\$
[a] Operating lease receivable	<b>23,330</b>	<b>9,715</b>	<b>13,615</b>
[b] Leasehold interest	<b>4,640</b>	<b>467</b>	<b>4,173</b>
[c] Development costs	<b>956</b>	—	<b>956</b>
[d] Intangible asset	<b>1,400</b>	<b>583</b>	<b>817</b>
Accrued benefit asset [note 16[a]]	<b>384</b>	—	<b>384</b>
	<b>30,710</b>	<b>10,765</b>	<b>19,945</b>

	<b>2012</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
	\$	\$	\$
[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 16[a]]	594	—	594
	<b>31,992</b>	<b>8,248</b>	<b>23,744</b>

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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 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 sublease. 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 6]. 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].

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### NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2013

#### 9. 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	<u>188,641</u>	<u>196,768</u>

#### 10. 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.

	2013	2012
	\$	\$
Canada Revenue Agency	156	785
TransLink	490	443
British Columbia Ministry of Finance	3	—
Transport Canada	3,196	4,309
	<u>3,845</u>	<u>5,537</u>

#### 11. 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	<u>2,052</u>	<u>4,105</u>

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

## Vancouver Airport Authority

### NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2013

#### 12. 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
	<u>121,980</u>	<u>121,078</u>
Accumulated amortization	(70,166)	(58,418)
	<u>51,814</u>	<u>62,660</u>

##### [b] Contributions

	2013	2012
	\$	\$
Amortization of deferred capital contributions	11,748	9,779
Operating contributions	3,835	4,086
	<u>15,583</u>	<u>13,865</u>

#### 13. 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
	<u>550,000</u>	<u>550,000</u>
Less unamortized deferred financing costs	(2,078)	(2,351)
	<u>547,922</u>	<u>547,649</u>

## Vancouver Airport Authority

# NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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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 21[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. 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.

The Airport Authority provides certain administrative support services including IT, legal, accounting, and HR services to its subsidiaries.

YVRPM provides certain capital project management services to the Airport Authority, which for the year ended December 31, 2013 totalled \$613,000 [2012 - \$546,000].

The Airport Authority receives dividend income from VAEL [note 6].

## Vancouver Airport Authority

### NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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Included in other receivables are amounts owing from the following related entities:

	2013	2012
	\$	\$
Due from VAEL	398	202
Due from YVRPM	882	930
Due from YVRHK	56	56
Due from Hamilton Tradeport	46	—
Due from Vantage	22	11
	<b>1,404</b>	<b>1,199</b>

#### 15. AIF - USE OF FUNDS

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

During the year 2013, the Airport Authority recorded \$121,656,000 [2012 - \$106,563,000] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totalled \$185,047,000 [2012 - \$105,875,000]. The remainder of the AIF revenue is from south terminal. To December 31, 2013, the cumulative main terminal AIF revenue totalled \$1,438,492,000 [2012 - \$1,316,836,000], and cumulative AIF eligible expenditures totalled \$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.

#### 16. 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].

## Vancouver Airport Authority

### NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2013

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].

#### Defined benefit plan

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

	2013	2012
	\$	\$
<b>Accrued benefit obligation</b>		
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)
<b>Balance, end of year</b>	<b>57,141</b>	<b>57,671</b>
<b>Fair value of plan assets</b>		
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)
<b>Balance, end of year</b>	<b>59,536</b>	<b>49,158</b>
Surplus (deficiency) of plan assets	2,395	(8,513)
Unamortized net actuarial loss (gain)	(2,011)	9,107
<b>Accrued benefit asset</b>	<b>384</b>	<b>594</b>

The accrued benefit asset is included in other long-term assets [note 8].

**Vancouver Airport Authority**

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

December 31, 2013

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

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

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

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

## Vancouver Airport Authority

### NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2013

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
<b>Pension expense</b>	<b>1,041</b>	<b>1,699</b>

#### **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 9].

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.

## Vancouver Airport Authority

# NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2013

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.

## **17. 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.

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.

**Vancouver Airport Authority**

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

December 31, 2013

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 11] under the amended Ground Lease for the next five years, are estimated as follows:

	<b>Lease expense</b>	<b>Lease payments</b>
	\$	\$
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.

**Vancouver Airport Authority**

**NOTES TO UNAUDITED NON-CONSOLIDATED  
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December 31, 2013

**18. 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.

**19. 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, 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.

## Vancouver Airport Authority

# NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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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 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.

## **20. 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, 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 \$1,259,923,000 [2012 - \$1,162,801,000]. The Airport Authority has established, within its net assets, funds for operational requirements and debt obligations.

## Vancouver Airport Authority

### NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

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#### 21. SUPPLEMENTARY CASH FLOW INFORMATION

##### [a] Changes in non-cash operating working capital

	2013	2012
	\$	\$
Accounts receivable	(2,231)	(4,857)
Other receivables	(1,879)	448
Supplies inventory	(953)	336
Prepaid expenses	409	(627)
Accounts payable and accrued liabilities	14,045	3,027
Deferred revenue	3,162	396
	<u>12,553</u>	<u>(1,277)</u>

##### [b] Other supplementary information

	2013	2012
	\$	\$
Supplementary information		
Interest expense paid	30,384	30,349
Interest income received	1,884	1,142
Non-cash transaction		
Construction-in-progress accrual	16,227	13,355
Prior year costs contributed to VAEL Templeton <i>[note 6]</i>	3,401	—

#### 22. COMPARATIVE FIGURES

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