Consolidated Financial Statements

# Vancouver Airport Authority

December 31, 2015

# INDEPENDENT AUDITORS' REPORT

To the Directors of
**Vancouver Airport Authority**

We have audited the accompanying consolidated financial statements of **Vancouver Airport Authority** [the "Entity"], which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

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

**Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Vancouver Airport Authority** as at December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Ernst & Young LLP

Vancouver, Canada
April 14, 2016

Chartered Professional Accountants

**Vancouver Airport Authority**

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

[expressed in thousands of dollars]

As at December 31

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | **205,804** | 132,435 |
| Accounts receivable *[note 3[a]]* | **26,987** | 25,119 |
| Other receivables *[note 15]* | **3,581** | 2,881 |
| Current portion of net investment in lease *[note 4]* | **1,196** | 1,028 |
| Inventory *[note 5]* | **7,288** | 7,195 |
| Prepaid expenses | **3,777** | 3,010 |
| **Total current assets** | **248,633** | 171,668 |
| Net investment in lease *[note 4]* | **4,299** | 5,495 |
| Investment in Vantage Airport Group *[note 6]* | **—** | 51,175 |
| Partnership interests *[note 7]* | **21,778** | 21,485 |
| Capital assets, net *[note 8]* | **1,925,381** | 1,834,445 |
| Other long-term assets, net *[note 9]* | **38,571** | 35,203 |
| | **2,238,662** | 2,119,471 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current** | | |
| Accounts payable and accrued liabilities *[notes 11, 13, 15, 17[c] and 18[a]]* | **108,992** | 97,364 |
| Current portion of deferred revenue *[note 15]* | **11,502** | 7,265 |
| Current portion of deferred ground lease payments *[note 12]* | **—** | 2,052 |
| Current portion of debentures *[note 13[c]]* | **—** | 199,876 |
| **Total current liabilities** | **120,494** | 306,557 |
| Deferred revenue *[note 15]* | **15,063** | — |
| Other long-term liabilities *[note 17[b] and [c]]* | **14,571** | 13,665 |
| Deferred capital contributions *[note 14[a]]* | **48,860** | 50,957 |
| Debentures *[note 13]* | **543,848** | 348,336 |
| Deferred gain on deemed disposition of shares *[note 6[c]]* | **—** | 39,268 |
| **Total liabilities** | **742,836** | 758,783 |
| Commitments, contingencies and guarantee *[note 18]* | | |
| **Net assets** *[notes 2 and 17]* | **1,495,826** | 1,360,688 |
| | **2,238,662** | 2,119,471 |

*See accompanying notes*

On behalf of the Board:

Director

Director

## Vancouver Airport Authority

# CONSOLIDATED STATEMENT OF OPERATIONS

[expressed in thousands of dollars]

Year ended December 31

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| **REVENUE** | | |
| Landing fees | **36,556** | 36,485 |
| Terminal fees | **91,741** | 89,107 |
| Concessions | **102,477** | 90,035 |
| Airport improvement fees *[note 16]* | **136,916** | 129,330 |
| Car parking | **31,430** | 29,856 |
| Rentals | **36,782** | 38,438 |
| Fees and miscellaneous | **37,524** | 38,995 |
| Contributions *[note 14[b]]* | **12,078** | 13,370 |
| | **485,504** | 465,616 |
| **EXPENSES** | | |
| Salaries, wages and benefits | **49,058** | 46,026 |
| Materials, supplies and services | **98,070** | 92,430 |
| Payments in lieu of taxes, insurance and other | **39,761** | 35,571 |
| Amortization of capital assets | **128,524** | 119,625 |
| | **315,413** | 293,652 |
| **Other expenses** | | |
| Ground lease | **49,267** | 46,635 |
| Interest and financing charges | **31,510** | 31,467 |
| | **80,777** | 78,102 |
| Excess of revenue over expenses before undernoted items | **89,314** | 93,862 |
| Gain on disposal of capital assets | **75** | 5 |
| Foreign exchange gain | **940** | 679 |
| Write-down of capital assets | **(3,058)** | (48) |
| Equity earnings of Vantage Airport Group *[note 6[a]]* | **8,209** | 1,260 |
| Dividend income from Vantage Airport Group *[note 6[c]]* | **—** | 7,725 |
| Amortization of deferred gain on deemed disposition of shares | **1,720** | 1,923 |
| Gain on disposition of investment in Vantage Airport Group *[note 6[c]]* | **33,981** | — |
| Equity loss of DOC Partnership *[note 7[a]]* | **(1,960)** | (208) |
| Partnership income of VAPH *[note 7[b]]* | **2,253** | 414 |
| **Excess of revenue over expenses for the year** | **131,474** | 105,612 |

*See accompanying notes*

**Vancouver Airport Authority**

# CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

[expressed in thousands of dollars]

Year ended December 31

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| **Balance, beginning of year** | **1,360,688** | 1,256,516 |
| Excess of revenue over expenses for the year | **131,474** | 105,612 |
| Employee future benefit plan measurements *[note 17]* | **581** | 2,457 |
| Other comprehensive income (loss) from investment in Vantage Airport Group | **3,083** | (3,897) |
| **Balance, end of year** | **1,495,826** | 1,360,688 |

*See accompanying notes*

**Vancouver Airport Authority**

# CONSOLIDATED STATEMENT OF CASH FLOWS

[expressed in thousands of dollars]

Year ended December 31

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| Excess of revenue over expenses for the year | **131,474** | 105,612 |
| Add (deduct) items not involving cash | | |
| Amortization of capital assets | **128,524** | 119,625 |
| Amortization of deferred capital contributions *[note 14[b]]* | **(8,963)** | (9,240) |
| Amortization of deferred financing costs | **459** | 290 |
| Amortization of other long-term assets | **2,249** | 2,453 |
| Write-down of capital assets | **3,058** | 48 |
| Gain on disposal of capital assets | **(75)** | (5) |
| Foreign exchange gain | **(940)** | (679) |
| Equity earnings of Vantage Airport Group | **(8,209)** | (1,260) |
| Unpaid dividends from Vantage *[note 6[c]]* | **—** | (7,725) |
| Amortization of deferred gain on deemed disposition of shares | **(1,720)** | (1,923) |
| Gain on disposition of shares *[note 6[c]]* | **(33,981)** | — |
| Equity loss of DOC Partnership *[note 7[a]]* | **1,960** | 208 |
| Partnership income of VAPH *[note 7[b]]* | **(2,253)** | (414) |
| Changes in non-cash operating working capital *[note 21[a]]* | **10,925** | 14,364 |
| **Cash provided by operating activities** | **222,508** | 221,354 |
| **INVESTING ACTIVITIES** | | |
| Additions of capital assets | **(205,026)** | (277,687) |
| Redemption of Class A preferred shares *[note 6[b]]* | **—** | 16,072 |
| Proceeds on disposition of shares in Vantage Airport Group *[note 6[c]]* | **38,517** | — |
| Dividends received from Vantage Airport Group *[note 6[c]]* | **20,383** | 1,250 |
| Investments in DOC Partnership | **—** | (11,408) |
| Proceeds on disposal of capital assets | **75** | 158 |
| Decrease in net investment in lease | **1,028** | 881 |
| Increase in other long-term assets | **(5,036)** | (2,066) |
| **Cash used in investing activities** | **(150,059)** | (272,800) |
| **FINANCING ACTIVITIES** | | |
| Repayment of notes payable *[note 6[b]]* | **—** | (16,072) |
| Increase in other long-term liabilities | **906** | 826 |
| Deferred capital contributions received | **5,949** | 7,423 |
| Repayment of deferred ground lease | **(2,052)** | (2,053) |
| Increase in deferred financing fees *[note 13]* | **(4,823)** | — |
| Issuance of Series F debentures | **200,000** | — |
| Repayment of Series E debentures | **(200,000)** | — |
| **Cash used in financing activities** | **(20)** | (9,876) |
| Effect of exchange rates on cash | **940** | 679 |
| **Net increase (decrease) in cash** | **73,369** | (60,643) |
| Cash, beginning of year | **132,435** | 193,078 |
| **Cash, end of year** | **205,804** | 132,435 |

*See accompanying notes*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2015

## 1. OPERATIONS

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

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

The Airport Authority has four wholly owned subsidiaries:

- Vancouver Airport Enterprises Ltd. [“VAEL”] holds a 100% investment in YVR Project Management Ltd. [“YVRPM”], which provides capital project management and consulting services to affiliated and non-affiliated entities. VAEL previously held a 50% equity interest in Vantage Airport Group Ltd. [“Vantage”], which invests in and manages a number of airports across Canada and around the world *[note 6]*.

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Presentation and basis of accounting

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the results of its wholly owned subsidiaries and partnership interests. All intercompany transactions and balances have been eliminated on consolidation.

The Airport Authority prepares its consolidated financial statements in accordance with the CPA Canada Handbook Part III – *Accounting Standards for Not-for-Profit Organizations* [“ASNPO”].

### Inventory

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

### Investment in Vantage

The Airport Authority accounts for its 50% investment in Vantage using the equity method. The Airport Authority’s share of Vantage’s net income is recorded as equity earnings and any change in other comprehensive income is recorded in net asset. The Airport Authority disposed of its investment in Vantage in 2015 *[note 6]*.

### Partnership interests

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 consolidated statement of operations *[note 7]*.

### Borrowing cost

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

[tabular amounts in thousands of dollars]

## 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 software | 3 to 10 years |
| Art collection | Not amortized |

## 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 five 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 a percentage of reported concessionaire sales and/or specified minimum rentals. Specified minimum annual guarantee amounts and incentives for lessees to enter into lease agreements are spread evenly over the lease term, even if the payments are not made on such a basis.

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

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

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

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

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

Contributions received to offset specific operating costs are 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.

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

## Leases

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

## Employee future benefits

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

### Defined Benefit Pension Plans

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

The Airport Authority measures its accrued benefit obligations and the fair value of plan assets as at December 31 of each year, using the most recent funding valuation for the defined benefit pension plan, adjusted to remove the margin for adverse deviation from the discount rate. The most recent actuarial valuation of the defined benefit pension plan for funding purposes was as of December 31, 2014. The next valuation for funding purposes will be as of December 31, 2015, the results of which are expected to be available during 2016.

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

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

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

**Defined Contribution Benefit Plans**

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

## Financial instruments

**Recognition and measurement**

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

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

The following is a summary of the Airport Authority's financial instruments 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.

## Translation of foreign currencies

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

The assets and liabilities of the self-sustaining foreign investees of Vantage *[note 6]* are translated to Canadian dollars using the exchange rate prevailing at year end. Revenue and expenses are translated at average rates of exchange during the period and retained earnings (deficit) are translated at historical rates. Exchange gains and losses arising from the translation of the financial statements of the self-sustaining foreign operations are included as an adjustment to the investment in Vantage and as an adjustment to net assets.

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

## Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of accrued revenue, allowance for doubtful accounts, percentage of completion for construction-in-progress, useful lives for amortization of capital assets, accrued liabilities, assumptions with respect to defined benefit plans, fair values of identified assets and liabilities acquired in business combinations, and provisions for contingencies. Actual results could differ materially from those estimates.

[tabular amounts in thousands of dollars]

## 3. ACCOUNTS RECEIVABLE

[a]

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Current | **24,763** | 24,603 |
| 31-60 days past due | **1,691** | 278 |
| 61-90 days past due | **502** | 388 |
| 90+ days past due | **576** | 335 |
| Less allowance for doubtful accounts | **(545)** | (485) |
| | **26,987** | 25,119 |

[b]

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Allowance for doubtful accounts, beginning of year | **485** | 510 |
| Increase in allowance for doubtful accounts | **149** | 26 |
| Write-off of specific accounts | **(89)** | (51) |
| Allowance for doubtful accounts, end of year | **545** | 485 |

## 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:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Minimum lease payments receivable | **6,994** | 8,793 |
| Unearned income | **(1,499)** | (2,270) |
| | **5,495** | 6,523 |
| Less current portion | **1,196** | 1,028 |
| | **4,299** | 5,495 |

[tabular amounts in thousands of dollars]

As at December 31, 2015, the future minimum lease payments receivable under the direct financing lease are as follows:

| | $ |
|---|---|
| 2016 | 1,827 |
| 2017 | 1,854 |
| 2018 | 1,882 |
| 2019 | 1,431 |
| | 6,994 |

## 5. INVENTORY

At December 31, 2015, the Airport Authority has a $644,000 [2014 – $644,000] valuation allowance on its inventory. The cost of inventory recognized as materials, supplies and services expense and payments in lieu of taxes, insurance and other during the year ended December 31, 2015 was $6,888,000 [2014 – $8,142,000].

[tabular amounts in thousands of dollars]

## 6. INVESTMENT IN VANTAGE

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount** | **Number of shares** | **Amount** |
| | # | $ | # | $ |
| **Class A preferred shares** | | | | |
| Beginning balance | **—** | **—** | 190 | 16,072 |
| Share redemption *[b]* | **—** | **—** | (190) | (16,072) |
| **Ending balance** | **—** | **—** | — | — |
| **Class B preferred shares** | | | | |
| Beginning balance | **75,000,000** | **49,057** | 75,000,000 | 42,582 |
| Current period unpaid dividend *[c]* | **—** | **—** | — | 7,725 |
| Payment of prior periods dividends *[c]* | **—** | **(20,383)** | — | (1,250) |
| Proceeds on disposition of shares *[c]* | **(75,000,000)** | **(38,417)** | — | — |
| Gain on disposition of shares *[c]* | **—** | **9,743** | — | — |
| **Ending balance** | **—** | **—** | 75,000,000 | 49,057 |
| **Class C common shares** | | | | |
| Beginning balance | **1,577** | **2,118** | 1,577 | 4,755 |
| Equity earnings *[a]* | **—** | **8,209** | — | 1,260 |
| Other comprehensive income (loss) | **—** | **3,083** | — | (3,897) |
| Proceeds on disposition of shares *[c]* | **(1,577)** | **(100)** | — | — |
| Loss on disposition of shares *[c]* | **—** | **(13,310)** | — | — |
| **Ending balance** | **—** | **—** | 1,577 | 2,118 |
| **Total investment in Vantage** | | **—** | | 51,175 |

[a] On April 16, 2014, Vantage disposed of its 65% interest in the shares of VAUK. Based on the terms of the disposition, all related assets and liabilities were assumed by the purchaser upon completion. The disposal resulted in a gain of $15,521,000, of which $14,709,000 was a non-cash foreign exchange gain on the disposition of the assets and liabilities of VAUK. The Airport Authority's share of the gain was $7,760,000 which was recorded in equity earnings of Vantage for the year ended December 31, 2014.

[b] VAEL redeemed its Class A preferred share investment in Vantage in two tranches on December 18 and 19, 2014 for total proceeds of $16,072,000. These proceeds were then used by VAEL to repay the notes payable to Vantage in the same amount.

[tabular amounts in thousands of dollars]

[c] On November 23, 2015, VAEL sold its 50% equity interest in Vantage for proceeds of $38,517,000, subject to adjustment upon the occurrence of post-closing events which are uncertain. The disposition of VAEL's investment in Vantage resulted in income tax expense of $8,073,000, which is recorded in payments in lieu of taxes, insurance and other on the consolidated statement of operations.

The disposition of VAEL's investment in Vantage also resulted in the full recognition of the remaining deferred gain on the deemed disposition of shares that was initially generated on VAEL's 2008 sale of the other 50% of its interest in Vantage.

The calculation of the gain on disposition of investment in Vantage is presented below:

| | $ |
|---|---|
| Gain on disposition of Class B preferred shares | 9,743 |
| Loss on disposition of Class C common shares | (13,310) |
| Recognition of deferred gain on deemed disposition of shares | 37,548 |
| | 33,981 |

Prior to the transaction closing, VAEL received $20,383,000 [2014 – $1,250,000] in previously declared but unpaid ordinary course dividends on its class B preferred shares. In 2015, there were no additional dividends declared [2014 – $7,725,000].

Summarized consolidated statements of financial position, operations and cash flows of VAEL's 50% [2014 – 50%] share of Vantage as at and for the period ended November 22, 2015, the date of disposition of VAEL's investment in Vantage, and for the year ended December 31, 2014 are presented below:

| | **November 22, 2015** $ | **December 31, 2014** $ |
|---|---|---|
| Assets | **89,823** | 71,124 |
| Liabilities | **(81,013)** | (73,739) |
| Net liabilities | **8,810** | (2,615) |

[tabular amounts in thousands of dollars]

| | **January 1 to November 22, 2015** $ | **Year ended December 31, 2014** $ |
|---|---|---|
| Revenue | **22,115** | 17,731 |
| Expenses | **13,906** | 12,609 |
| Net income | **8,209** | 5,122 |

| | **January 1 to November 22, 2015** $ | **Year ended December 31, 2014** $ |
|---|---|---|
| Cash flows provided by (used in) | | |
| Operating activities | **11,500** | (1,060) |
| Financing activities | **2,650** | 2,405 |
| Investing activities | **1,041** | (7,921) |

## 7. PARTNERSHIP INTERESTS

| | **2015** $ | **2014** $ |
|---|---|---|
| [a] DOC Partnership | **19,111** | 21,071 |
| [b] VAPH | **2,667** | 414 |
| | **21,778** | 21,485 |

[a] DOC Partnership

To date, the Airport Authority has contributed $21,337,000 [2014 – $21,337,000] in equity to the DOC Partnership. Costs incurred to date relate to the construction of the DOC, as well as associated leasing and marketing expenditures.

For the year December 31, 2015, the Airport Authority recorded an equity loss of $1,960,000 [2014 – $208,000] from the DOC Partnership. The amount was recorded as a reduction in the partnership interests *[note 18[c]]*.

[tabular amounts in thousands of dollars]

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's 50% [2014 – 50%] share of the DOC Partnership as at and for the years ended December 31, 2015 and 2014 are presented below:

| | **2015**<br>$ | **2014**<br>$ |
|---|---|---|
| Assets | **70,162** | 26,055 |
| Liabilities | **(50,930)** | (4,862) |
| Net assets | **19,232** | 21,193 |

| | **2015**<br>$ | **2014**<br>$ |
|---|---|---|
| Revenue | **2,444** | — |
| Expenses | **4,404** | 208 |
| Net loss | **(1,960)** | (208) |

| | **2015**<br>$ | **2014**<br>$ |
|---|---|---|
| Cash flows provided by (used in) | | |
| Operating activities | **574** | (339) |
| Financing activities | **42,885** | 16,773 |
| Investing activities | **(39,991)** | (17,591) |

[b] VAPH and VAPM

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. Subsequently on August 12, 2014, VAPM acquired the leasehold interests and 11 buildings from two separate third parties, for consideration of $38,590,000.

For the year ended December 31, 2015, the Airport Authority recorded on the consolidated statement of operations 99.9% and 0.1% of $2,253,000 [2014 – $414,000] partnership income from VAPH, based on its partnership interest in VAPH and investment in VAPL, respectively.

[tabular amounts in thousands of dollars]

Summarized consolidated statements of financial position, operations and cash flows of the Airport Authority's share of VAPH [99.9%], which include equity earnings in VAPM as at and for the years ended December 31, 2015 and 2014 are presented below:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Assets | **8,328** | 2,885 |
| Liabilities | **(10)** | (2,471) |
| Net assets | **8,318** | 414 |

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Revenue | **2,259** | 425 |
| Expenses | **8** | 11 |
| Net income | **2,251** | 414 |

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Cash flows provided by (used in) | | |
| Operating activities | **(46)** | 76 |
| Financing activities | **(2,391)** | 2,334 |
| Investing activities | **—** | — |

## 8. CAPITAL ASSETS

| | 2015 | | |
|---|---|---|---|
| | **Cost**<br>$ | **Accumulated amortization**<br>$ | **Net book value**<br>$ |
| Buildings and other structures | **1,879,424** | **709,317** | **1,170,107** |
| Runways and other paved surfaces | **513,836** | **236,569** | **277,267** |
| Rapid transit infrastructure | **298,948** | **38,323** | **260,625** |
| Machinery and equipment | **116,293** | **81,908** | **34,385** |
| Furniture and fixtures | **31,060** | **26,388** | **4,672** |
| Computer equipment and software | **163,183** | **123,819** | **39,364** |
| Art collection | **9,613** | **—** | **9,613** |
| Construction-in-progress | **129,348** | **—** | **129,348** |
| | **3,141,705** | **1,216,324** | **1,925,381** |

[tabular amounts in thousands of dollars]

| | 2014 | | |
|---|---|---|---|
| | **Cost**<br>$ | **Accumulated amortization**<br>$ | **Net book value**<br>$ |
| Buildings and other structures | 1,536,376 | 633,848 | 902,528 |
| 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 | 29,967 | 25,466 | 4,501 |
| Computer equipment and software | 140,721 | 113,041 | 27,680 |
| Art collection | 7,567 | — | 7,567 |
| Construction-in-progress | 317,036 | — | 317,036 |
| | 2,928,468 | 1,094,023 | 1,834,445 |

## 9. OTHER LONG-TERM ASSETS

| | 2015 | | |
|---|---|---|---|
| | **Cost**<br>$ | **Accumulated amortization**<br>$ | **Net book value**<br>$ |
| [a] Operating lease receivables | **28,204** | **13,008** | **15,196** |
| [b] Leasehold interest | **4,640** | **609** | **4,031** |
| [c] Development costs | **961** | **—** | **961** |
| [d] Intangible asset | **1,400** | **1,400** | **—** |
| Accrued benefit asset *[note 17]* | **18,383** | **—** | **18,383** |
| | **53,588** | **15,017** | **38,571** |

| | 2014 | | |
|---|---|---|---|
| | **Cost**<br>$ | **Accumulated amortization**<br>$ | **Net book value**<br>$ |
| [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 *[note 17]* | 16,970 | — | 16,970 |
| | 48,421 | 13,218 | 35,203 |

[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 term of the lease. During the year ended December 31, 2015, the Airport Authority provided lease inducements of $452,000 [2014 – nil] to tenants and recognized $1,827,000 [2014 – $1,916,000] as a reduction of concession and rental revenue.

In October 2011, the Airport Authority entered into a sublease with a tenant for a parcel of land on Sea Island. The initial term of the sublease is 40 years with two subsequent renewal options of 10 years each at the option of the tenant. The sublease has been classified as an operating lease, with rental revenue being amortized evenly over the initial term of the sub-lease. As at December 31, 2015, the cumulative difference between the rental income recognized and cash lease payments received is $7,561,000 [2014 – $6,533,000].

[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, 2015, the amortization of the leasehold interest was $71,000 [2014 – $71,000].

[c] Costs in this account relate to a 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. As at December 31, 2015, the intangible asset was fully amortized. For the year ended December 31, 2015, the amortization of the intangible asset was $351,000 [2014 – $466,000].

[tabular amounts in thousands of dollars]

## 10. LINE OF CREDIT

Effective August 31, 2015, the Airport Authority increased its unsecured bank operating line by $50,000,000 to $250,000,000 [2014 – $200,000,000] with an interest rate at prime, which was 2.70% as at December 31, 2015 [2014 – 3.00%], or at prevailing market interest rates if issuing banker' acceptances. The unsecured bank operating line remained undrawn as at December 31, 2015 [2014 – nil].

| | **2015**<br>$ | **2014**<br>$ |
|---|---|---|
| Unsecured bank operating line | **250,000** | 200,000 |
| Outstanding letters of credit, reducing available balance | **14,694** | 13,081 |
| Available unsecured bank operating line | **235,306** | 186,919 |

## 11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | **2015**<br>$ | **2014**<br>$ |
|---|---|---|
| Transport Canada *[note 18[a]]* | **2,633** | 4,363 |
| TransLink | **536** | 510 |
| Canada Revenue Agency | **8,020** | 3,184 |
| British Columbia Ministry of Finance | **—** | 36 |
| U.S. government | **1** | 66 |
| | **11,190** | 8,159 |

## 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.

[tabular amounts in thousands of dollars]

Annual repayments are interest free over a 10-year period, commencing January 1, 2006.

During 2015, the Airport Authority repaid the remaining deferred ground lease payments of $2,052,000.

## 13. DEBENTURES

| | **2015** $ | **2014** $ |
|---|---|---|
| Debentures | **543,848** | 548,212 |
| Less current portion | | |
| Series E 5.020%, due November 13, 2015 *[c]* | **—** | 200,000 |
| Less unamortized deferred financing costs | **—** | (124) |
| | **—** | 199,876 |
| Long-term portion | | |
| Amended Series B 7.425%, due December 7, 2026 *[a]* | **150,000** | 150,000 |
| Series D 4.424%, due December 7, 2018 *[a]* | **200,000** | 200,000 |
| Series F 3.857%, due November 10, 2045 *[b]* | **200,000** | — |
| | **550,000** | 350,000 |
| Less unamortized deferred financing costs | **(6,152)** | (1,664) |
| | **543,848** | 348,336 |

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

[a] On September 28, 2015, the Airport Authority received approval from holders of the Series B and D debentures to make amendments to the certain provisions in the Trust Indenture by way of a Fifth Supplemental Indenture dated October 5, 2015. These amendments include changes to the calculation of the interest coverage ratio, a means and time for resolution of deficiencies in the financial covenant, if required, and amendments to the limitations on investments and guarantees.

As a result of the amendments, voting debenture holders received an approval fee on the Series B and D debentures of $10.00 for each $1,000 principal amount outstanding. This resulted in an approval fee payment of $1,464,000 and $1,864,000, respectively, on the Series B and D debentures. The total approval fee and other financing costs incurred of

$3,500,000 relating to the amendments were deferred and recorded as a reduction to each respective debenture. The deferred financing costs are amortized to interest and financing charges on the consolidated statement of operations over the remaining term of the respective debentures.

[b] On November 10, 2015, the Airport Authority issued $200,000,000 of 30-year Series F debentures through a Sixth Supplemental Trust Indenture dated November 10, 2015 to refinance the $200,000,000 Series E debentures that matured on November 13, 2015. The Sixth Supplemental Trust Indenture incorporates the amendments made to the Trust Indenture by way of the Fifth Supplemental Indenture dated October 5, 2015.

The total financing costs of $1,323,000 relating to the issuance were deferred and recorded as a reduction to the Series F debentures. The deferred financing costs are amortized to interest and financing charges on the consolidated statement of operations over the remaining term of the Series F debentures.

[c] The Airport Authority repaid the $200,000,000 outstanding on the Series E debentures when they became due on November 13, 2015.

The effective interest rates on the Series B, D and F debentures are 7.668%, 4.814%, and 3.895% respectively. As at December 31, 2015, the Airport Authority has accrued debenture interest of $2,468,000 [2014 – $2,717,000] which are recorded in accounts payable and accrued liabilities.

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

While the debentures are outstanding, the Airport Authority is required to maintain an interest coverage ratio of not less than 1.25:1. Any further new issues of debt with a maturity of 12 months or longer are subject to a minimum interest coverage ratio of 1.75:1 on a pro-forma basis. The Trust Indenture also places certain limitations on the Airport Authority in the areas of encumbrances of assets, sales of assets, acquisitions of corporations, investments and guarantees. As at December 31, 2015 and 2014, the Airport Authority was in compliance with its covenants.

[tabular amounts in thousands of dollars]

## 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.

| | **2015** $ | **2014** $ |
|---|---|---|
| Capital contributions | | |
| CATSA | **133,582** | 127,383 |
| Other | **3,647** | 2,980 |
| | **137,229** | 130,363 |
| Accumulated amortization | **(88,369)** | (79,406) |
| | **48,860** | 50,957 |

### [b] Contributions

| | **2015** $ | **2014** $ |
|---|---|---|
| Amortization of deferred capital contributions | **8,963** | 9,240 |
| Operating contributions | **3,115** | 4,130 |
| | **12,078** | 13,370 |

## 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, 2015 and 2014.

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 and are measured at the agreed upon exchange amount. All receivables from subsidiaries are due and payable upon the Airport Authority's demand.

During the year ended December 31, 2015, the Airport Authority received $16,274,000 for rental revenue pursuant to a land lease for the DOC. The amounts received have been deferred and are recognized in rental revenue over the term of the lease.

During the year ended December 31, 2015, the Airport Authority recognized $434,000 [2014 – $560,000] of rental revenue, $660,000 [2014 – $945,000] of management fees, $418,000 [2014 – $335,000] of construction project management revenue, all from the DOC Partnership, which are included in fees and miscellaneous revenue.

## 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 ended December 31, 2015, the Airport Authority recorded $136,234,000 [2014 – $128,695,000] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totalled $212,584,000 [2014 – $279,030,000]. The remainder of the AIF revenue is from the south terminal. To December 31, 2015, the cumulative main terminal AIF revenue totalled $1,703,579,000 [2014 – $1,567,344,000], and cumulative AIF eligible expenditures totalled $3,054,572,000 [2014 – $2,851,100,000]. To December 31, 2015, the cumulative AIF revenue has been used to fund AIF eligible capital expenditures in accordance with the MOA.

## 17. EMPLOYEE FUTURE BENEFITS

## [a] Funded pension plans

**Defined contribution plans**

The Airport Authority participates in a Registered Retirement Savings Plan 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 2015 were $2,345,000 [2014 – $2,182,000].

[tabular amounts in thousands of dollars]

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 the year ended December 31, 2015 was $15,000 [2014 – $16,000].

**Defined benefit plan**

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

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Accrued benefit obligation** | | |
| Balance, beginning of year | **49,058** | 46,531 |
| Current service cost | **652** | 752 |
| Employee contribution | **154** | 226 |
| Interest cost | **2,933** | 3,250 |
| Benefits paid | **(1,969)** | (2,152) |
| Actuarial loss (gain) | **(2,114)** | 451 |
| Obligation extinguished on settlement *[i]* | **(2,491)** | — |
| **Balance, end of year** | **46,223** | 49,058 |
| **Fair value of plan assets** | | |
| Balance, beginning of year | **66,028** | 59,536 |
| Actual return on plan assets | **3,651** | 7,130 |
| Administration cost | **(150)** | (175) |
| Employer contributions | **873** | 1,463 |
| Employee contributions | **154** | 226 |
| Benefits paid | **(1,969)** | (2,152) |
| Assets distributed on settlement *[i]* | **(3,981)** | — |
| **Balance, end of year** | **64,606** | 66,028 |
| **Accrued benefit asset** | **18,383** | 16,970 |

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

[tabular amounts in thousands of dollars]

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

| | **2015** % | **2014** % |
|---|---|---|
| Asset category | | |
| Equity shares | **65.3** | 66.7 |
| Debt securities | **28.6** | 29.4 |
| Cash and short-term investments | **6.1** | 3.9 |
| | **100.0** | 100.0 |

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

| | **2015** % | **2014** % |
|---|---|---|
| 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:

| | **2015** $ | **2014** $ |
|---|---|---|
| Current service cost | **652** | 751 |
| Administration cost | **150** | 175 |
| Interest cost | **2,933** | 3,250 |
| Expected return on plan assets | **(3,944)** | (4,151) |
| Employee future benefit cost (credit) | **(209)** | 25 |
| Impact of change in measurement date | **—** | (3) |
| **Pension expense (credit)** | **(209)** | 22 |

**Total cash payments**

[i] In 2015, an annuity contract with a third party insurance company was purchased using plan funds to fully settle the benefits of members with accrued plan service at Vantage Airport Group Ltd. or its affiliates. The purchase of the annuity contract resulted in a loss on settlement of $1,490,000 which has been recorded directly in net assets.

[ii] 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, 2015, the total amount of the letter of credit was $8,296,000 [2014 – $7,177,000], which reduced the available bank operating line *[note 10]*.

Total cash payments for employee future benefits for the year ended December 31, 2015, consisting of cash contributed by the Airport Authority to its funded pension plans [the defined benefit plan and defined contribution plans] were $3,555,000 [2014 – $3,662,000].

## [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, 2015 was $1,013,000 [2014 – $858,000]. Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2015 was $11,507,000 [2014 – $10,998,000], which has been accrued as other long-term liabilities.

## [c] Retiring allowance

The Airport Authority provides a retiring allowance to bargaining unit employees based on their number of years of service and their salary at retirement. In 2015 and 2014, the accrued benefit liability was determined using an actuarial valuation. As at December 31, 2015, the total accrued benefit liability of this plan is $3,411,000 [2014 – $3,126,000] of which $478,000 [2014 – $459,000] is recorded in accounts payable and accrued liabilities and $2,933,000 [2014 – $2,667,000] in other long-term liabilities.

[tabular amounts in thousands of dollars]

## 18. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### [a] Ground Lease

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

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

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

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

The difference between the Airport Authority's required ground lease payments based on its estimated 2015 Airport Revenue at the beginning of the year and its expenses is $2,633,000 [2014 – $4,363,000]. This amount is included in accounts payable and accrued liabilities at December 31, 2015.

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

| | **Lease payments** $ |
|---|---|
| 2016 | 48,344 |
| 2017 | 49,280 |
| 2018 | 50,625 |
| 2019 | 51,669 |
| 2020 | 53,699 |

## [b] Capital and operating commitments

As at December 31, 2015, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately $14,186,000 [2014 – $69,547,000].

As at December 31, 2015, in connection with operating the Airport, the Airport Authority has total operating commitments of approximately $104,780,000 [2014 – $125,553,000]. These commitments extend for periods of up to five years.

## [c] Guarantees

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

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

## [d] Legal claims

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

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

As at December 31, 2015, there are no material claims pending against the Airport Authority.

## 19. CUSTOMER CONCENTRATION

The Airport Authority derives approximately $46,566,000 [2014 – $48,773,000] in aeronautical charges and rents from one airline and $44,676,000 [2014 – $35,724,000] in concession revenue from one concession operator. The Airport Authority believes that the cessation of operations of an airline or concession operator would not have a material long-term effect on the Airport Authority's revenue or operations as the lost revenue would eventually be recovered by other service providers.

## 20. FINANCIAL INSTRUMENTS - 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 $2,478,000 as at December 31, 2015 [2014 – $2,251,000]. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. The accounts receivable aging and allowance for doubtful accounts reconciliation are detailed in note 3.

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

**Currency risk**

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

**Interest rate risk**

The Airport Authority had no bank indebtedness in both 2015 and 2014 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2015

**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. SUPPLEMENTARY CASH FLOW INFORMATION

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

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Accounts receivable | **(1,868)** | (4,879) |
| Other receivables | **217** | 852 |
| Inventory | **(93)** | (1,044) |
| Prepaid expenses | **(767)** | (979) |
| Accounts payable and accrued liabilities | **(5,864)** | 23,337 |
| Deferred revenue | **19,300** | (2,923) |
| | **10,925** | 14,364 |

**[b] Other supplementary information**

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Non-cash transactions | | |
| Construction-in-progress accrual | **43,791** | 26,299 |
| Deferred capital contribution accrual | **1,877** | 960 |
| Employee future benefit plan remeasurements | **581** | 2,457 |

## 22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted for the year ended December 31, 2015.