

Unaudited Non-consolidated Financial Statements

Vancouver Airport Authority
December 31, 2015

Vancouver Airport Authority

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

[expressed in thousands of dollars]

As at December 31

	2015	2014
	\$	\$
ASSETS		
Current		
Cash	120,787	100,108
Accounts receivable [note 3[a]]	26,930	25,072
Other receivables [note 15]	5,538	7,124
Current portion of net investment in lease [note 4]	1,196	1,028
Inventory [note 5]	7,288	7,195
Prepaid expenses	3,690	2,946
Total current assets	165,429	143,473
Net investment in lease [note 4]	4,299	5,495
Investment in subsidiaries [note 6]	73,907	73,907
Partnership interest [note 7]	5,666	1,606
Capital assets, net [note 8]	1,925,340	1,834,379
Other long-term assets, net [note 9]	38,571	35,203
	2,213,212	2,094,063
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities [notes 11, 13, 15[d], 17[c] and 18[a]]	101,012	94,166
Current portion of deferred revenue [note 15[c]]	11,469	7,237
Deferred ground lease payments [note 12]	—	2,052
Current portion of debentures [note 13[c]]	—	199,876
Total current liabilities	112,481	303,331
Deferred revenue [note 15[c]]	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
Total liabilities	734,823	716,289
Commitments, contingencies and guarantees [note 18]		
Net assets	1,478,389	1,377,774
	2,213,212	2,094,063

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

	2015	2014
	\$	\$
REVENUE		
Landing fees	36,556	36,485
Terminal fees	91,741	89,107
Concession	102,477	90,035
Airport improvement fees <i>[note 16]</i>	136,916	129,330
Car parking	31,430	29,856
Rentals	36,782	38,438
Fees and miscellaneous	36,732	38,261
Contributions <i>[note 14[b]]</i>	12,078	13,370
	484,712	464,882
EXPENSES		
Salaries, wages and benefits	47,801	45,177
Materials, supplies and services	97,955	91,608
Payments in lieu of taxes, insurance and other	31,934	32,481
Amortization of capital assets	128,489	119,625
	306,179	288,891
Other expenses		
Ground lease	49,267	46,635
Interest and financing charges	31,508	31,467
	80,775	78,102
Excess of revenue over expenses before undernoted items	97,758	97,889
Dividend income <i>[note 15[a]]</i>	301	1,576
Write-down of capital assets	(3,058)	(48)
Gain on disposal of capital assets	75	5
Foreign exchange gain	898	673
Partnership income of VAPH <i>[note 7]</i>	4,060	1,606
Excess of revenue over expenses for the year	100,034	101,701

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

	2015	2014
	\$	\$
Balance, beginning of year	1,377,774	1,273,616
Excess of revenue over expenses for the year	100,034	101,701
Employee future benefit plan measurements <i>[note 17]</i>	581	2,457
Balance, end of year	1,478,389	1,377,774

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

	2015	2014
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	100,034	101,701
Add (deduct) items not involving cash		
Amortization of capital assets	128,489	119,625
Amortization of deferred capital contributions <i>[note 14[b]]</i>	(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	(898)	(673)
Partnership income of VAPH	(4,060)	(1,606)
Changes in non-cash operating working capital <i>[note 21[a]]</i>	8,457	8,445
Cash provided by operating activities	228,750	221,038
INVESTING ACTIVITIES		
Additions to capital assets	(205,016)	(277,623)
Investment in VAEL Templeton	—	(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	(208,949)	(290,058)
FINANCING ACTIVITIES		
Increase in other long-term liabilities	906	826
Deferred capital contributions received	5,949	7,423
Repayment of deferred ground lease payments	(2,052)	(2,053)
Increase in deferred financing fees <i>[note 13[a] and [b]]</i>	(4,823)	—
Issuance of Series F debentures <i>[note 13[b]]</i>	200,000	—
Repayment of Series E debentures <i>[note 13[c]]</i>	(200,000)	—
Cash provided by (used in) financing activities	(20)	6,196
Effect of foreign exchange on cash	898	673
Net increase (decrease) in cash	20,679	(62,151)
Cash, beginning of year	100,108	162,259
Cash, end of year	120,787	100,108

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, 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”].

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, one dated November 14, 2007, one dated October 5, 2015, and one dated November 10, 2015.

The Airport Authority prepares its financial statements in accordance with Part III of the CPA Canada Handbook – *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.

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.

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NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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Investments in subsidiaries

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

- Vancouver Airport Enterprises Ltd. ["VAEL"] holds a 100% investment in YVR Project Management Ltd. ["YVRPM"] which provides capital project management and consulting services to affiliated and non-affiliated entities.
- 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 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.

Partnership interest

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

Borrowing costs

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

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

[tabular amounts in thousands of dollars]

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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 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.

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[tabular amounts in thousands of dollars]

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- [ii] Concession revenue is recognized based on a percentage of reported concessionaire sales and/or specified minimum annual guarantees. Specified minimum annual guarantee amounts and incentives for lessees to enter into lease agreements are recognized evenly over the lease term, even if the payments are not made on such a basis.
- [iii] Revenue from the Airport Improvement Fee ["AIF"], which is collected from passengers by air carriers, is recognized based on monthly passenger numbers submitted by individual air carriers.
- [iv] Car parking revenue is recognized when airport facilities are utilized.
- [v] Rental revenue is recognized 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.

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NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

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Taxes

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

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

Leases

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

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

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[tabular amounts in thousands of dollars]

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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 in net assets and presented separately.

Past service costs arising from plan amendments are recognized immediately on the 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.

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[tabular amounts in thousands of dollars]

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Foreign currency translation

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

Use of estimates

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

3. ACCOUNTS RECEIVABLE

[a]	2015	2014
	\$	\$
	<hr/>	
Current	24,706	24,656
31-60 days past due	1,691	278
61-90 days past due	502	288
90+ days past due	576	335
Less allowance for doubtful accounts	(545)	(485)
	<hr/>	
	26,930	25,072
	<hr/>	
[b]	2015	2014
	\$	\$
	<hr/>	
Allowance for doubtful accounts, beginning of year	485	510
Increase in allowance for doubtful accounts	149	26
Write-off of specific accounts	(89)	(51)
	<hr/>	
Allowance for doubtful accounts, end of year	545	485
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NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

[tabular amounts in thousands of dollars]

December 31, 2015

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	2014
	\$	\$
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

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].

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[tabular amounts in thousands of dollars]

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6. INVESTMENT IN SUBSIDIARIES

	2015	2014
	\$	\$
Vael [note 15[a]]	52,570	52,570
Vael Templeton [notes 15[c] and 18[c]]	21,337	21,337
	<u>73,907</u>	<u>73,907</u>

7. PARTNERSHIP INTEREST

On June 27, 2014, VAPM acquired the leasehold interests and six buildings from a third party real estate investment trust for consideration of \$6,506,000. 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 statement of operations 99.9% of \$4,064,000 [2014 – \$1,607,000] in partnership income of VAPH. VAPH did not record any of the \$1,811,000 [2014 – \$1,193,000] loss generated by VAPM, as VAPH does not have an obligation to fund losses of its investment in VAPM. As at December 31, 2015, VAPH has accumulated \$3,004,000 [2014 – \$1,193,000] in unrecorded losses from VAPM, which will first be offset before any equity earnings are recognized.

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

	2015	2014
	\$	\$
Assets	5,679	4,076
Liabilities	(13)	(2,470)
Net assets	<u>5,666</u>	<u>1,606</u>

	2015	2014
	\$	\$
Revenue	4,068	1,617
Expenses	8	11
Net income	<u>4,060</u>	<u>1,606</u>

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

[tabular amounts in thousands of dollars]

December 31, 2015

	2015	2014
	\$	\$
Cash flows provided by (used in)		
Operating activities	3,988	1,687
Financing activities	(720)	722
Investing activities	—	—

8. CAPITAL ASSETS

	2015		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Buildings and other structures	1,879,395	709,317	1,170,078
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	31,054	26,388	4,666
Computer equipment and software	163,177	123,819	39,358
Art collection	9,613	—	9,613
Construction-in-progress	129,348	—	129,348
	3,141,664	1,216,324	1,925,340

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

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

[tabular amounts in thousands of dollars]

December 31, 2015

9. OTHER LONG-TERM ASSETS

	2015		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
[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 <i>[note 17]</i>	18,383	—	18,383
	53,588	15,017	38,571

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

[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].

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[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].

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	2014
	\$	\$
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

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11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	2015	2014
	\$	\$
Transport Canada <i>[note 18[a]]</i>	2,633	4,363
TransLink	536	510
Canada Revenue Agency	243	138
British Columbia Ministry of Finance	—	36
U.S. government	1	66
	<u>3,413</u>	<u>5,113</u>

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.

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.

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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 statement of operations over the remaining term of the respective debentures.

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[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 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 is 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.

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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 consistent with the amortization of the related capital assets.

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

[b] Contributions

	2015	2014
	\$	\$
Amortization of deferred capital contributions	8,963	9,240
Operating contributions	3,115	4,130
	<u>12,078</u>	<u>13,370</u>

15. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, key management personnel, subsidiaries and affiliates. The Airport Authority has not engaged in any significant related party transactions with directors and key management personnel for 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.

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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.

	2015	2014
	\$	\$
Due from VAEL [a]	349	2,767
Due from YVRPM [b]	1,576	1,441
Due from YVRHK	167	167
Due from VAEL Templeton [c]	68	3
Due from VAPL	3	—
Due from (to) VAPH [d]	3	(1,668)
Due from (to) VAPM	94	(31)
	<u>2,260</u>	<u>2,679</u>

[a] For the year ended December 31, 2015, the Airport Authority recognized dividend income of \$301,000 [2014 – \$1,576,000] from VAEL, all of which is recorded in other receivables at December 31, 2015 [2014 – \$1,576,000].

[b] For the year ended December 31, 2015, YVRPM provided capital project management services to the Airport Authority totalling \$508,000 [2014 – \$606,000] which is included in the cost of capital assets.

[c] 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.

For the year ended December 31, 2015, the Airport Authority recognized \$434,000 [2014 – \$560,000] of rental revenue from VAEL Templeton and \$660,000 [2014 – \$945,000] of DOC management fees in fees and miscellaneous revenue.

[d] During the year ended December 31, 2014, the Airport Authority collected rent on VAPH's behalf. The amount was included in accounts payable and accrued liabilities.

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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].

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].

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Defined benefit plan

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

	2015	2014
	\$	\$
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].

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

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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 the years 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].

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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.

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.

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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:

	\$
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.

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[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.

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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' acceptances 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.

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21. SUPPLEMENTARY CASH FLOW INFORMATION

[a] Changes in non-cash operating working capital

	2015	2014
	\$	\$
Accounts receivable	(1,858)	(4,871)
Other receivables	2,503	(2,089)
Inventory	(93)	(1,044)
Prepaid expenses	(744)	(948)
Accounts payable and accrued liabilities	(10,646)	20,331
Deferred revenue	19,295	(2,934)
	<u>8,457</u>	<u>8,445</u>

[b] Other supplementary information

	2015	2014
	\$	\$
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 financial statement presentation adopted for the year ended December 31, 2015.