# Vancouver Airport Authority

Consolidated Financial Statements

December 31, 2022

# Independent auditor's report

To the Directors of
**Vancouver Airport Authority**

## Opinion

We have audited the consolidated financial statements of the **Vancouver Airport Authority** [the "Airport Authority"], which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of operations, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Airport Authority as at December 31, 2022, and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Airport Authority in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Airport Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Airport Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Airport Authority's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Airport Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Airport Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Airport Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Vancouver, Canada
March 30, 2023

Chartered Professional Accountants

Vancouver Airport Authority

## Consolidated Statement of Financial Position

[expressed in thousands of dollars]

As at December 31

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **404,063** | 359,152 |
| Accounts receivable *[notes 3 and 22]* | **53,063** | 31,490 |
| Other receivables *[note 13[a]]* | **15,783** | 14,167 |
| Inventory *[note 4]* | **10,952** | 10,071 |
| Prepaid expenses | **5,954** | 5,773 |
| Assets held for sale *[note 6]* | **5,235** | - |
| Current portion of other long-term assets *[notes 8 and 22]* | **2,539** | 2,375 |
| **Total current assets** | **497,589** | 423,028 |
| Partnership interests *[notes 5 and 15]* | **41,633** | 61,938 |
| Capital assets, net *[note 6]* | **2,431,780** | 2,485,403 |
| Implementation cost - software services *[notes 7 and 22]* | **680** | 131 |
| Other long-term assets, net *[notes 8]* | **40,875** | 44,466 |
| | **3,012,557** | 3,014,966 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current** | | |
| Accounts payable and accrued liabilities *[notes 10, 12, 17[c], 18[a] and 22]* | **131,232** | 87,162 |
| Loan payable to VAPH *[note 5[b]]* | - | 22,470 |
| Current portion of deferred revenue *[note 22]* | **7,459** | 5,493 |
| **Total current liabilities** | **138,691** | 115,125 |
| Deferred ground lease payments *[note 11 and 18[a]]* | **20,227** | 19,874 |
| Deferred revenue | **16,730** | 17,075 |
| Other long-term liabilities *[notes 17[b], 17[c] and 22]* | **22,730** | 25,406 |
| Deferred capital contributions *[note 13[a]]* | **91,143** | 83,786 |
| Debentures *[note 12]* | **1,490,913** | 1,489,882 |
| **Total liabilities** | **1,780,434** | 1,751,148 |
| Commitments, contingencies and guarantees *[notes 9 and 18]* | | |
| Subsequent event *[note 9]* | | |
| **Net assets** | **1,232,123** | 1,263,818 |
| | **3,012,557** | 3,014,966 |

*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

| | 2022 | 2021 |
|---|---|---|
| | **$** | **$** |
| **REVENUE** | | |
| Landing fees *[note 19]* | **46,072** | 22,767 |
| Terminal fees *[note 19]* | **87,696** | 29,355 |
| Concessions *[notes 8[a], 14, and 19]* | **64,262** | 40,630 |
| Airport improvement fees *[note 16]* | **156,918** | 56,170 |
| Car parking and ground transportation | **66,842** | 36,354 |
| Rentals *[notes 8[a], 14 and 19]* | **49,378** | 42,987 |
| Fees and miscellaneous *[note 22]* | **6,707** | 6,063 |
| Contributions *[note 13]* | **14,418** | 36,449 |
| | **492,293** | 270,775 |
| **OPERATING EXPENSES** | | |
| Goods and services *[note 4]* | **143,940** | 130,892 |
| Salaries, wages and benefits *[note 17]* | **72,305** | 60,287 |
| Payments in lieu of taxes, insurance and other *[note 4]* | **22,186** | 17,641 |
| Ground lease *[note 18[a]]* | **50,794** | 21,395 |
| Revenue sharing *[note 18[b][iii]]* | **4,916** | 2,460 |
| Amortization of capital assets *[note 6]* | **188,664** | 179,629 |
| | **482,805** | 412,304 |
| **Excess (deficiency) of revenue over operating expenses** | **9,488** | (141,529) |
| **OTHER INCOME (EXPENSES)** | | |
| DOC partnership income *[note 5[a]]* | **1,188** | 979 |
| VAPH partnership income *[note 5[b]]* | **11,649** | 9,976 |
| Interest income *[note 22]* | **9,873** | 2,618 |
| Foreign exchange gain | **143** | 91 |
| Interest and financing charges *[note 11]* | **(53,788)** | (52,984) |
| | **(30,935)** | (39,320) |
| **Excess (deficiency) of revenue over expenses before undernoted items** | **(21,447)** | (180,849) |
| Write-down of capital assets *[note 6]* | **(4,762)** | (15,015) |
| Gain (loss) on disposal of capital assets | **214** | (20) |
| **Excess (deficiency) of revenue over expenses for the year** | **(25,995)** | (195,884) |

*See accompanying notes*

Vancouver Airport Authority

## Consolidated Statement of Changes in Net Assets

[expressed in thousands of dollars]

Year ended December 31

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **Balance, beginning of year** | 1,263,818 | 1,458,269 |
| Transitional adjustment per amendment of employee future benefits standard *[notes 2 and 17]* | (1,438) | - |
| Employee future benefits plan remeasurement *[note 17]* | (4,262) | 1,433 |
| Deficiency of revenue over expenses for the year | (25,995) | (195,884) |
| **Balance, end of year** | 1,232,123 | 1,263,818 |

*See accompanying notes*

Vancouver Airport Authority

## Consolidated Statement of Cash Flows

[expressed in thousands of dollars]

Year ended December 31

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Deficiency of revenue over expenses for the year | **(25,995)** | (195,884) |
| Add (deduct) items not involving cash | | |
| Amortization of capital assets | **188,664** | 179,629 |
| Amortization of deferred capital contributions *[note 13[a]]* | **(7,518)** | (7,285) |
| Amortization of deferred financing costs | **1,031** | 1,005 |
| Amortization of other long-term assets | **810** | 844 |
| Net increase due to straight-line rent adjustments | **(4,096)** | (1,461) |
| Write-down of capital assets *[note 6]* | **4,762** | 15,015 |
| (Gain) loss on disposal of capital assets | **(214)** | 20 |
| DOC partnership income *[note 5[a]]* | **(1,188)** | (979) |
| VAPH partnership income *[note 5[b]]* | **(11,649)** | (9,976) |
| Net change in non-cash working capital balances related to operations *[note 21[a]]* | **19,207** | (19,053) |
| **Cash provided by operating activities** | **163,814** | (38,125) |
| **INVESTING ACTIVITIES** | | |
| Additions to capital assets | **(140,608)** | (126,260) |
| Proceeds on disposal of capital assets | **595** | 2,513 |
| Distribution from DOC Partnership *[note 5[a]]* | **9,180** | - |
| Partnership distributions from VAPH *[note 5[b]]* | **1,492** | 1,626 |
| (Increase) decrease in other long-term assets *[notes 8]* | **(1,892)** | 169 |
| **Cash used in investing activities** | **(131,233)** | (121,952) |
| **FINANCING ACTIVITIES** | | |
| Increase (decrease) in other long-term liabilities | **(3,860)** | 1,559 |
| Increase in deferred ground lease payments *[note 11]* | **353** | 19,874 |
| Deferred capital contributions received | **15,837** | 6,306 |
| **Cash provided by financing activities** | **12,330** | 27,739 |
| **Net increase (decrease) in cash during the year** | **44,911** | (132,338) |
| Cash and cash equivalents, beginning of year | **359,152** | 491,490 |
| **Cash and cash equivalents, end of year** | **404,063** | 359,152 |

*See accompanying notes*

## Notes to Consolidated Financial Statements

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

December 31, 2022

## 1. Operations

The Vancouver Airport Authority [the "Airport Authority"] is incorporated under the Canada Not-for-profit Corporations Act as a private non-share capital corporation. The Airport Authority is governed by a Board of Directors [the "Board"] who are appointed via a series of nominations from professional and other bodies reflecting the skills and expertise needed to govern the Airport Authority. The President and CEO of the Airport Authority is also a member of the Board of Directors.

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

The Airport Authority has three wholly owned subsidiaries:

[i] 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.

[ii] Vancouver Airport Enterprises (Templeton) Ltd. ["VAEL Templeton"] holds the Airport Authority's 50% investment in Templeton DOC General Partner Ltd. and Templeton DOC Limited Partnership [collectively referred to as "DOC Partnership"], which has developed a retail designer outlet centre ["DOC"] on Sea Island.

[iii] 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.

The Airport Authority, along with much of the aviation industry, suffered a significant decline in passenger traffic due to the impacts of COVID-19 which was declared a global pandemic by the World Health Organization on March 11, 2020. In 2022, as the Government of Canada and government agencies around the world gradually lifted various travel restrictions, the passenger traffic has increased in comparison to 2021. Management has continued to make adjustments to operations and contractual arrangements to ensure the Airport Authority's liquidity as obligations come due. Management expects the Airport Authority to continue as a going concern.

## 2. Significant accounting policies

### Presentation and basis of accounting

These consolidated financial statements are prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Organizations," and include the results of the Airport Authority's wholly owned subsidiaries and partnership interests. All intercompany transactions and balances have been eliminated on consolidation.

### Accounting standards adopted during the period

Effective January 1, 2022, the Airport Authority measures its defined benefit obligation for the unfunded supplemental pension plans and non-pension benefit plans using an accounting valuation as a result of the amendment made to ASNPO Section 3462 – Employee Future Benefits ("Section 3462"). The change in accounting policy from measuring the defined benefit obligation using a funding valuation has been made in accordance with the transitional provisions of Section 3462 [notes 8 and 17[a]].

Effective January 1, 2022, the Airport Authority early adopted the new Accounting Guideline AcG-20, Customer's Accounting for Cloud Computing Arrangements. This new guideline provides guidance on accounting for the Airport Authority's expenditures in cloud computing arrangements. The Airport Authority has also made an accounting policy choice to account for cloud computing arrangements as software services, and capitalize directly attributable expenditures on implementation activities [note 7].

### Summary of significant accounting policies

#### 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.

#### Partnership interests

The Airport Authority accounts for its partnership interests using the equity method. The Airport Authority's share of its partnership net income is recorded in the consolidated statement of operations.

#### Borrowing costs

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

## 2. Significant accounting policies [continued]

### 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 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.

The art collection is considered to have a permanent value and is not amortized.

Amortization is provided at cost less estimated salvage value on a straight-line basis over 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 |

The Airport Authority assesses write-downs when conditions indicate the future economic benefits or service potential associated with the asset is less than the carrying amount. The write-downs are assessed based on the fair value or replacement cost on an asset-by-asset basis. A write-down is not reversed.

## 2. Significant accounting policies [continued]

### Cloud Computing Arrangements

Cloud computing arrangements are analyzed to determine if a software element in the arrangement meets the recognition criteria of an asset. Any such asset is accounted for as a computer software asset. If the software element is not an asset, the Airport Authority accounts for it as a software service and expenses it as incurred. Expenditures on implementation activities that are directly attributable to preparing the software service for its intended use that do not give rise to a separate intangible asset are capitalized under Implementation cost – software services. The asset for implementation of software services is expensed using the straight-line method over the expected period of access to the software service.

### 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.

[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 on a straight-line basis over the term of the lease.

[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.

## 2. Significant accounting policies [continued]

### Revenue recognition [continued]

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

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

Contributions received to offset specific operating costs are initially deferred and recorded as revenue when the related costs are incurred.

Contributions received and designated by third parties for specific capital purposes are initially deferred and recorded as revenue on a basis consistent with the amortization of the related capital assets.

[vii] COVID-19 related tenant relief is assessed on a lease-by-lease basis for the applicability of the COVID Practical Expedient. When applied, the tenant relief is accounted for as follows:

Tenant relief provided for payments due before December 31, 2022 that result in a deferral of lease payments with no change to the total payments required by the original lease contract continue to be recognized in accordance with the terms of the original lease.

Tenant relief provided for payments due before December 31, 2022 that result in reduced payments compared to the amounts required by the original lease are recognized in the period to which the lease payments relate. The lease continues to be recognized in accordance with the terms of the original lease.

### Ground lease

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 the consolidated statement of 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.

## 2. Significant accounting policies [continued]

### 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. Payments are recognized as an expense over the assessment term.

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

### Leases

Leases are classified as capital 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 ["DB Plan"] that 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 that covers new employees who have joined the Airport Authority since June 1992; and unfunded supplemental plans that cover its senior executives.

*Defined benefit pension plans*

The Airport Authority accrues its obligations under DB 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 DB plan, with liabilities adjusted to remove the margin for adverse deviation from the discount rate. The most recent actuarial valuation of the DB plan for funding purposes was as of December 31, 2021. The next valuation for funding purposes will be as of December 31, 2022, the results of which are expected to be available later in 2023.

## 2. Significant accounting policies [continued]

### Employee future benefits [continued]

*Defined benefit pension plans [continued]*

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 DB Plan 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 unfunded supplemental plans and non-pension benefit plans are calculated using assumptions that incorporate management's best estimate of cost escalation, retirement ages of employees, pension indexing and other actuarial factors.

The Airport Authority measures its defined benefit obligation for the unfunded supplemental pension plans and non-pension benefit plans using an accounting valuation.

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 in 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.

## 2. Significant accounting policies [continued]

### Financial instruments [continued]

*Recognition and measurement [continued]*

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 that are subsequently measured at cost or amortized cost: cash, accounts receivable, other receivables, other long-term assets, accounts payable and accrued liabilities, deferred ground lease payments, 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 reporting date. Foreign exchange gains and losses are included in the results of operations in the period in which they occur.

### 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 reporting date, 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, write-down of capital assets, useful lives for amortization of capital assets, accrued liabilities, assumptions with respect to defined benefit plans, and provisions for contingencies. Actual results could differ materially from those estimates.

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

## 3. Accounts receivable

| | 2022 | 2021 |
|---|---|---|
| | $ | $ |
| Current - 30 days past due | 49,205 | 30,170 |
| 31-60 days past due | 1,261 | 563 |
| 61-90 days past due | 860 | 138 |
| 91 + days past due | 3,250 | 2,341 |
| Allowance for doubtful accounts | (1,513) | (1,722) |
| | 53,063 | 31,490 |

| | 2022 | 2021 |
|---|---|---|
| | $ | $ |
| **Allowance for doubtful accounts, beginning of year** | 1,722 | 5,514 |
| Decrease in allowance for doubtful accounts | (86) | (3,641) |
| Write-off of specific accounts | (123) | (151) |
| **Allowance for doubtful accounts, end of year** | 1,513 | 1,722 |

As a result of COVID-19, in 2021, the Airport Authority negotiated payment deferral terms with eligible tenants and operators. The deferred accounts receivable balances are considered current until the amounts become due. The deferrals program has now ended, and the total carrying amount of accounts receivable that has been deferred as of December 31, 2022 is nil [2021 - $0.9 million].

## 4. Inventory

As at December 31, 2022, the Airport Authority has a $0.03 million [2021 - $0.03 million] valuation allowance on its inventory. The cost of inventory recognized as goods and services and payments in lieu of taxes, insurance and other for the year ended December 31, 2022 was $5.0 million [2021 - $3.2 million].

## 5. Partnership interests

| | 2022 | 2021 |
|---|---|---|
| | $ | $ |
| DOC Partnership *[a]* | 5,534 | 13,526 |
| VAPH *[b]* | 36,099 | 48,412 |
| | 41,633 | 61,938 |

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

## 5. Partnership interests [continued]

### [a] DOC Partnership

For the year ended December 31, 2022, the Airport Authority recorded partnership income of $1.2 million [2021 - $1.0 million] from Templeton DOC Limited Partnership. The amount was recorded in the consolidated statement of operations and as an increase in partnership interests.

For the year ended December 31, 2022, the Airport Authority received a distribution of $9.2 million [2021 – nil] from Templeton DOC Limited Partnership. The amount was recorded as a decrease in partnership interests.

To date, the Airport Authority's net equity contribution to Templeton DOC Limited Partnership is $6.8 million [2021 – $16.0 million] and $0.01 million [2021 - $0.01 million] to Templeton DOC General Partner Ltd.

Summarized consolidated statements of financial position, operations, and cash flows of the Airport Authority's 50% share of the Templeton DOC Limited Partnership as at and for the years ended December 31, 2022 and 2021, are presented below:

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Assets | 89,855 | 95,756 |
| Liabilities | 84,331 | 82,240 |
| **Net assets** | 5,524 | 13,516 |

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Revenue | 12,038 | 9,768 |
| Expense | 3,424 | 8,789 |
| **Net income** | 8,614 | 979 |

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Cash flows provided by (used in) | | |
| Operating activities | 4,837 | 4,976 |
| Financing activities | (7,975) | (124) |
| Investing activities | (1,531) | (458) |

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

## 5. Partnership interests [continued]

### [b] VAPH and VAPM

For the year ended December 31, 2022, the Airport Authority recorded partnership income of $11.6 million [2021 – $10.0 million] in the consolidated statement of operations based on its partnership interest in VAPH. The amount was recorded as an increase in partnership interests.

During the year, the Airport Authority recognized partnership distributions from VAPH of $24.0 million [2021 - $1.3 million]. The distribution was recorded as a reduction in partnership interests. Proceeds of $22.5 million from partnership distributions were applied as repayment of the Airport Authority's indebtedness to VAPH.

Summarized consolidated statements of financial position, operations, and cash flows of the Airport Authority's 99.9% share of VAPH, which include equity earnings in VAPM as at and for the years ended December 31, 2022 and 2021, are presented below:

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Assets | 35,987 | 48,326 |
| Liabilities | 9 | 11 |
| **Net assets** | 35,978 | 48,315 |

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Revenue | 11,636 | 9,967 |
| Expense | 9 | 11 |
| **Net income** | 11,627 | 9,956 |

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Cash flows provided by (used in) | | |
| Operating activities | 76 | (327) |
| Financing activities | (1,492) | (1,278) |
| Investing activities | - | - |

Notes to Consolidated Financial Statements
*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

December 31, 2022

## 6. Capital assets

| | 2022 | | |
|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net book value<br>$ |
| Buildings and other structures | 2,875,305 | 1,381,833 | 1,493,472 |
| Runways and other paved surfaces | 796,968 | 428,494 | 368,474 |
| Rapid transit infrastructure | 298,948 | 80,182 | 218,766 |
| Machinery and equipment | 180,276 | 138,009 | 42,267 |
| Furniture and fixtures | 40,230 | 35,664 | 4,566 |
| Computer equipment and software | 274,716 | 220,159 | 54,557 |
| Art collection | 9,983 | - | 9,983 |
| Construction-in-progress | 239,695 | - | 239,695 |
| | 4,716,121 | 2,284,341 | 2,431,780 |

| | 2021 | | |
|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net book value<br>$ |
| Buildings and other structures | 2,739,657 | 1,267,567 | 1,472,090 |
| Runways and other paved surfaces | 715,298 | 387,683 | 327,615 |
| Rapid transit infrastructure | 298,948 | 74,202 | 224,746 |
| Machinery and equipment | 173,634 | 129,859 | 43,775 |
| Furniture and fixtures | 40,169 | 34,157 | 6,012 |
| Computer equipment and software | 255,701 | 204,000 | 51,701 |
| Art collection | 9,909 | - | 9,909 |
| Construction-in-progress | 349,555 | - | 349,555 |
| | 4,582,871 | 2,097,468 | 2,485,403 |

## 6. Capital assets [continued]

For the year ended December 31, 2022, the Airport Authority recorded a total write-down of $4.8 million [2021 - $15.0 million]. The Airport Authority reviewed the capital assets and projects that are measured on their replacement cost for indicators of impairment and identified specific instances of impairment totalling $2.2 million related to cancelled projects, scrapped materials, changes in scope and the removal of assets as a result of other projects. The Airport Authority specifically reviewed the CORE program, which was cancelled in 2020, and identified indicators of impairment related to the machinery and equipment not in use. These assets were measured based on their fair value, which is assessed on an annual basis. Using the fair value approach is choosing a point within a range calculated by management; as such, the amount is considered a significant estimate. As at December 31, 2022, the fair value of these assets was determined to be $8.0 million resulting in a write-down of $2.6 million. No indicators of impairment were identified on the other components of the CORE program.

During the year, specified assets from the CORE machinery and equipment that were no longer in use, met the criteria during the year to be classified as assets held for sale. These assets have a net book value of $5.2 million (2021 - nil).

As the Airport Authority continues to review alternatives for the CORE program assets currently not in use, it is reasonably possible that changes in future conditions could alter the assumptions used and result in a further write-down.

## 7. Implementation cost – software services

For the year ended December 31, 2022, the Airport Authority amortized $0.1 million [2021 – $0.1 million] of capitalized software service implementation cost in goods and services and capitalized $0.8 million [2021 - nil] in directly attributable expenditures on implementation activities related to software service.

The Airport Authority has commitments to make expenditures on cloud computing arrangements; these arrangements are disclosed in note 18[b].

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

## 8. Other long-term assets

| | 2022 | | |
|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net book Value<br>$ |
| Operating lease receivables *[a]* | 24,335 | - | 24,335 |
| Accrued benefit asset *[note 17[a]]* | 11,011 | - | 11,011 |
| Operating lease inducements [b] | 3,082 | 1,975 | 1,107 |
| Long-term prepaid | 3,769 | 338 | 3,431 |
| Leasehold interest *[c]* | 4,640 | 1,110 | 3,530 |
| Total other long-term assets | 46,837 | 3,423 | 43,414 |
| Less: current portion | 2,539 | - | 2,539 |
| | 44,298 | 3,423 | 40,875 |

| | 2021 | | |
|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net book Value<br>$ |
| Operating lease receivables *[a]* | 20,232 | - | 20,232 |
| Accrued benefit asset *[note 17[a]]* | 19,302 | - | 19,302 |
| Operating lease inducements [b] | 4,982 | 3,511 | 1,471 |
| Long-term prepaid | 2,449 | 215 | 2,234 |
| Leasehold interest *[c]* | 4,640 | 1,038 | 3,602 |
| Total other long-term assets | 51,605 | 4,764 | 46,841 |
| Less: current portion | 2,375 | - | 2,375 |
| | 49,230 | 4,764 | 44,466 |

[a] 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 sublease. As at December 31, 2022, the cumulative difference between the rental income recognized and cash lease payments received is $12.8 million [2021 - $12.3 million].

For the year ended December 31, 2022, the Airport Authority recorded a net increase in concession and rental revenue across all leases of $4.1 million [2021 – $1.5 million] as result of straight-lining of rent adjustments.

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

## 8. Other long-term assets [continued]

[b] In certain circumstances, the Airport Authority provides lease inducements to tenants. These lease inducements are recorded as long-term assets and recognized, on a straight-line basis, as a reduction of revenue over the term of the lease. For the year ended December 31, 2022, the Airport Authority recognized $0.4 million [2021 - $0.5 million] as a reduction of concession and rental revenue.

[c] In June 2008, the Airport Authority acquired a leasehold interest on Sea Island for $4.6 million, 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, 2022, the amortization of the leasehold interest was $0.07 million [2021 – $0.07 million].

## 9. Revolving credit facility

The Airport Authority has a revolving credit facility ["credit facility"] of $450.0 million [2021 - $450.0 million] bearing interest at the bank prime rate, which was 6.45% as at December 31, 2022 [2021 – 2.45%], or at prevailing market interest rates if issuing bankers' acceptances. The credit facility was undrawn as at December 31, 2022 and December 31, 2021.

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Credit facility | **450,000** | 450,000 |
| Less: Outstanding letters of credit | **22,994** | 28,242 |
| **Available credit facility** | **427,006** | 421,758 |

Subsequent to year-end, on January 10, 2023, the credit facility was reduced from $450.0 million to $300.0 million. The term of the credit agreement was extended from August 31, 2023 to August 31, 2028.

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

## 10. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable, which include amounts payable for sales, parking, payroll related taxes, and ground lease payable.

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Transport Canada *[note 20[a]]* | 28,527 | - |
| TransLink | 729 | 492 |
| British Columbia Ministry of Finance | 535 | 297 |
| Canada Revenue Agency | 588 | - |
| | 30,379 | 789 |

## 11. Deferred ground lease payments

In 2020, the Government of Canada provided relief for the ground lease expense to Canadian airports which suffered declines in passenger traffic resulting from COVID-19. The relief allows payments for the 2021 fiscal year to be deferred and repaid over a 10-year term starting on January 1, 2024 and are non-interest bearing. The deferred ground lease payments are initially measured at their fair value and subsequently measured at amortized cost using the effective interest rate of 1.76% which is internally consistent with existing financing activities.

For the year ended December 31, 2022, the Airport Authority recorded interest expense of $0.4 million [2021 - nil], in the consolidated statement of operations. As at December 31, 2022, the amortized cost of the deferred ground lease payments was $20.2 million [2021 – $19.9 million].

## 12. Debentures

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Amended Series B 7.425%, due December 7, 2026 | 150,000 | 150,000 |
| Series F 3.857%, due November 10, 2045 | 200,000 | 200,000 |
| Series G 3.656%, due November 23, 2048 | 250,000 | 250,000 |
| Series H 2.874%, due October 18, 2049 | 300,000 | 300,000 |
| Series I 1.760%, due September 20, 2030 | 250,000 | 250,000 |
| Series J 2.800%, due September 21, 2050 | 350,000 | 350,000 |
| | 1,500,000 | 1,500,000 |
| Less unamortized deferred financing costs | 9,087 | 10,118 |
| | 1,490,913 | 1,489,882 |

## 12. Debentures [continued]

In 2020, the Airport Authority received approval from holders of the Series B, F, G and H debentures to make amendments to certain provisions in the Trust Indenture by way of a Ninth Supplemental Trust Indenture dated September 11, 2020. These amendments included temporarily relieving the Airport Authority of its obligations to meet or satisfy various interest coverage ratio requirements when tested based on fiscal years 2020, 2021, and 2022 under its Trust Indenture, as amended.

The effective interest rates on the Series B, F G, H, I and J debentures are 7.668%, 3.895%, 3.692%, 2.908%, 1.824%, and 2.832% respectively. As at December 31, 2022, the Airport Authority has accrued debenture interest of $8.5 million [2020 – $8.5 million], 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, in May and November for Series F and G, in April and October for Series H, and in March and September for Series I and J. The debentures are redeemable at the option of the Airport Authority, in whole or in part, at any time.

For the Series B debentures, the redemption price at any time 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.

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.

For the Series G debentures, the redemption price prior to May 23, 2048 is the higher of par and that value that 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 0.31%. The redemption price on or after May 23, 2048 is par.

For the Series H debentures, the redemption price prior to April 18, 2049 is the higher of par and that value that 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 0.295%. The redemption price on or after April 18, 2049 is par.

For the Series I debentures, the redemption price prior to June 20, 2030 is the higher of par and that value that 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 0.295%. The redemption price on or after June 20, 2030 is par.

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

## 12. Debentures [continued]

For the Series J debentures, the redemption price prior to March 21, 2050 is the higher of par and that value that 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 0.425%. The redemption price on or after March 21, 2050 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 issuances 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. The interest coverage ratio was not tested in the year as a result of the waiver.

## 13. Deferred capital and operating contributions

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Amortization of deferred capital contributions *[a]* | 7,518 | 7,285 |
| Operating contributions *[b]* | | |
| Mandatory arrival testing recoveries *[i]* | 6,052 | 24,732 |
| Other | 848 | 4,432 |
| | 14,418 | 36,449 |

### [a] Deferred capital contributions

| | 2021<br>$ | Contributions<br>Recorded | Amortization | 2022<br>$ |
|---|---|---|---|---|
| CATSA | 81,814 | 805 | 6,672 | 75,947 |
| Government of Canada | - | 11,410 | 568 | 10,842 |
| Province of British Columbia | 797 | 532 | 196 | 1,133 |
| Municipal and other | 1,175 | 2,128 | 82 | 3,221 |
| | 83,786 | 14,875 | 7,518 | 91,143 |

The Airport Authority receives funding from Canadian Air Transport Security Authority ["CATSA"] and others towards specific infrastructure upgrades. The funds earned but not yet received of $12.4 million [2021 – $13.4 million] are recorded in accounts receivable and other receivables.

## 13. Deferred capital contributions [continued]

### [b] Operating contributions

Mandatory arrival testing recoveries

On January 29, 2021, the Government of Canada announced new mandatory testing requirements at airports for all arriving international travelers effective February 21, 2021. The eligible costs incurred for this program are recoverable from the Public Health Agency of Canada. For the year ended December 31, 2022, the Airport Authority recorded $6.1 million [2021 – $24.7 million] as contributions revenue in the consolidated statement of operations for costs incurred during the year. In September 2022, the Airport Authority completed its responsibilities under the agreement as the Government of Canada moved the mandatory testing program outside of the airports for arriving international passengers.

## 14. Tenant relief

As a result of the impacts of COVID-19, the Airport Authority has provided tenant relief through various programs to its tenants and operators. For the year ended December 31, 2022, the total amount recognized as a reduction to revenue through minimum annual guarantee reductions and abatements as a result of applying the COVID Practical Expedient was $4.0 million [2021 – $17.4 million] in the consolidated statement of operations.

## 15. Related party transactions

Related parties include the Board of Directors, key management personnel, partnerships 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, 2022 and 2021.

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

The Airport Authority pays legal, administrative, and salaries and wages expenses on behalf of its directly or indirectly owned subsidiaries and partnerships in the normal course of operations and are measured at the agreed-upon exchange amount. All receivables and payables from subsidiaries and partnerships are due and payable upon demand.

For the year ended December 31, 2022, the Airport Authority recognized $0.4 million [2021 – $0.4 million] of rental revenue from Templeton DOC Limited Partnership.

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

## 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.

For the year ended December 31, 2022, the Airport Authority recorded $156.5 million [2021 - $55.8 million] main terminal AIF revenue, and main terminal AIF eligible capital expenditures totalled $129.2 million [2021 - $104.7 million]. The remainder of the revenue was from the south terminal passenger facility charge. As at December 31, 2022, the cumulative main terminal AIF revenue totaling $2.6 billion [2021 - $2.5 billion] was used to fund the cumulative main terminal AIF eligible capital expenditures totaling $4.8 billion [2021 - $4.7 billion] in accordance with the MOA.

## 17. Employee future benefits

### [a] Funded pension plans

*Defined benefit plan*

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

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Fair value of plan assets | **73,655** | 83,694 |
| Accrued benefit obligation | **62,644** | 64,392 |
| **Accrued benefit asset** | **11,011** | 19,302 |

The accrued benefit asset is included in other long-term assets [note 7].

*Total cash payments*

In April 2011, amendments were made to the Pension Benefits Standards Regulations, which permitted plan sponsors to secure structured letters of credit in lieu of making solvency payments to the pension plan, up to a limit of 15% of plan assets. On August 31, 2011, the Airport Authority issued a letter of credit to fund its required solvency payments to its defined benefit plan. As at December 31, 2022, the total amount of the letter of credit was $4.0 million [2021 – $8.8 million], which reduced the available credit facility [note 9].

Total cash payments for employee future benefits for the year ended December 31, 2022, consisting of cash contributed by the Airport Authority to its funded pension plans [the defined benefit plan and defined contribution plans], were $3.3 million [2021 – $3.1 million].

## 17. Employee future benefits [continued]

### [b] Unfunded pension plans

The Airport Authority participates in unfunded supplementary pension plans and a non-pension benefit plan for its senior executives. Due to amendments to Section 3462, effective January 1, 2022, the defined benefit obligation for these unfunded supplemental pension plans and non-pension benefit plan must be valued using an accounting valuation unless there is a legislative, regulatory or contractual requirement to prepare a funding valuation. The Airport Authority has no requirement to prepare a funding valuation for these plans and is required to change its accounting policy for valuing the defined benefit obligation for these plans using an accounting valuation.

The Airport Authority has applied the transitional provisions as at January 1, 2022 by recording the cumulative valuation adjustment in the amount of $1.3 million to net assets in the consolidated statement of changes of net assets and impacting accounts payable and accrued liabilities and other long-term liabilities.

Pension expense for the year ended December 31, 2022 was $1.2 million [2021 - $1.4 million] and has been recognized in salaries, wages, and benefits on the consolidated financial statements. Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2022 was $16.9 million [2021 – $18.6 million], which is included in 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. Due to amendments to Section 3462, effective January 1, 2022, the defined benefit obligation for this unfunded retiring allowance must be valued using an accounting valuation unless there is a legislative, regulatory or contractual requirement to prepare a funding valuation. The Airport Authority has no requirement to prepare a funding valuation for these plans and is required to change its accounting policy for valuing the defined benefit obligation for these plans using an accounting valuation.

The Airport Authority has applied the transitional provisions as at January 1, 2022 by recording the cumulative valuation adjustment in the amount of $0.1 million to net assets in the consolidated statement of changes of net assets and impacting accounts payable and accrued liabilities and other long-term liabilities.

The total accrued benefit liability of this plan was $3.6 million [2021 – $4.1 million], of which the current portion of $0.4 million [2021 – $0.4 million] is recorded in accounts payable and accrued liabilities and $3.2 million [2021 – $3.7 million] 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.

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, and as such no obligation is recorded in the consolidated financial statements.

The ground lease expense is based on a progressive scale of percentages of the Airport Authority's revenue as defined 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's revenue.

The difference between the Airport Authority's remitted monthly ground lease installments and total actual ground lease expense for the year ended December 31, 2022 is $28.5 million. This amount is included in the accounts payable and accrued liabilities as at December 31, 2022.

In 2021, $21.4 million in ground lease payments were deferred due to the relief provided by the Government of Canada, and will be repaid over a 10-year term starting on January 1, 2024 [note 11].

### [b] Commitments

(i) As at December 31, 2022, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately $56.5 million [2021 - $68.1 million].

(ii) As at December 31, 2022, in connection with the operation of the Airport, the Airport Authority has total operating commitments of approximately $198.3 million [2021 - $185.2 million]. These commitments extend for periods of up to five years.

## 18. Commitments, contingencies and guarantees [continued]

### [b] Commitments [continued]

(iii) On June 21, 2017, the Airport Authority and a third party entered into a 30-year mutually beneficial agreement based on the four pillars of sustainability – economic, social, environmental, and governance. The agreement includes a revenue sharing arrangement whereby the Airport Authority will pay, on an annual basis, to the third party an amount equal to 1% of the Airport Authority's revenue as defined in the agreement.

### [c] Guarantees

(i) On November 14, 2022, the Templeton DOC Limited Partnership entered into a new loan agreement with a banking consortium (the "Loan Agreement"). The Loan Agreement includes principal repayment guarantees from the partners of the Templeton DOC Limited Partnership to a maximum amount of $50.0 million plus the costs to enforce. The maximum amount of the Airport Authority's guarantee is $25.0 million plus half of the costs to enforce.

(ii) On February 18, 2015, the Airport Authority entered into an agreement to guarantee the payment of the obligations of DOC Partnership to the utility company for electrical services, up to an amount of $1.0 million plus applicable taxes. The initial term of the guarantee was until February 28, 2020 and was automatically extended for a one-year period until February 27, 2021. The term of the guarantee was extended to December 17, 2023 by way of a letter of credit issued on November 1, 2021.

### [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, 2022, there were no material claims pending against the Airport Authority.

## 19. Customer concentration

The Airport Authority derives approximately $74.4 million [2021 – $35.0 million] in landing fees, terminal fees, and rental revenue from one airline and $22.2 million [2021 – $18.1 million] in concessions and rental revenue from one concession operator. The Airport Authority believes that the cessation of operations of the 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 earned from other service providers.

## 20. Financial instruments and 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 risk around collection of outstanding receivables has increased as a result of COVID-19. The Airport Authority has and will continue to mitigate these risks by holding security deposits, providing tenant relief [note 14] and rent deferrals [note 3]. The Airport Authority held security deposits in the amount of $6.5 million as at December 31, 2022 [2021 - $9.2 million]. 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. While international travel has been impacted by COVID-19 restrictions, this is considered temporary and has not resulted in a significant increase in the concentration of credit risk.

### Currency risk

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

### Interest rate risk

The Airport Authority is exposed to interest rate risk on its credit facility which is charged at the bank prime rate. The Airport Authority has no bank indebtedness as at December 31, 2022 [2021 – nil] either in the form of bankers' acceptances or drawings on the credit facility [note 9].  The balance of outstanding debt is by way of debentures [note 12], 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.

*[unless otherwise stated, all amounts are in thousands of Canadian dollars]*

## 20. Financial instruments and risk management [continued]

### 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. As at December 31, 2022, the available liquidity, excluding cash and cash equivalents, is in excess of $100.0 million [2021 - $100.0 million].

## 21. Supplementary cash flow information

### [a] Net change in non-cash working capital balances related to operations

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Accounts receivable | **(20,687)** | (16,836) |
| Other receivables | **(3,464)** | 13,252 |
| Inventory | **(881)** | (242) |
| Prepaid expenses | **(936)** | 352 |
| Accounts payable and accrued liabilities | **43,554** | (19,404) |
| Deferred revenue | **1,621** | 3,825 |
| | **19,207** | (19,053) |

### [b] Other supplementary information

| | 2022<br>$ | 2021<br>$ |
|---|---|---|
| Non-cash transactions: | | |
| Construction-in-progress accrual | **18,678** | 13,867 |
| Deferred capital contribution accrual | **12,446** | 13,408 |
| Employee future benefit plan remeasurements | **(5,700)** | 1,433 |
| Repayment of loan to VAPH | **22,470** | - |

## 22. Comparative figures

Certain comparative figures have been reclassified to conform with the current year’s presentation.