Consolidated Financial Statements of

VANCOUVER AIRPORT AUTHORITY

Year ended December 31, 2007

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AUDITORS' REPORT TO THE DIRECTORS

We have audited the consolidated statement of financial position of Vancouver Airport Authority (the "Airport Authority") as at December 31, 2007 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Airport Authority as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied, except for the change in method of accounting for financial instruments as explained in note 2(b) to the financial statements, on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Vancouver, Canada
March 14, 2008

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Financial Position
(In thousands of dollars)

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash and short-term investments	$ 64,678	$ 184,172
Accounts receivable	32,859	29,234
Other receivables	4,352	6,426
Current portion of net investment in lease (note 3)	307	248
Other current assets	6,828	5,570
	109,024	225,650
Contract procurement costs	2,780	2,856
Deferred financing costs (note 2(b))	-	2,728
Net investment in lease (note 3)	10,160	10,467
Long-term receivables (note 4)	913	1,203
Investments in airport concessions (note 5)	2,404	2,545
Due from and investments in MBJ Airports Ltd. (note 6)	17,324	5,614
Capital assets (note 7)	1,434,262	1,210,380
Future income taxes (note 8)	1,683	1,091
Intangible interest in airport lease (note 9)	17,818	18,189
Prepaid ground lease (note 23(a))	17,310	11,128
Other long-term investments (note 27(d))	26,425	-
Other long-term assets	4,274	1,694
	$ 1,644,377	$ 1,493,545
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	77,815	82,349
Notes payable (note 11)	-	150,000
Current portion of long-term debt (note 12)	2,198	1,927
Current portion of deferred ground lease (note 14)	2,053	2,053
Current portion of capital lease obligations (note 15)	171	161
Current portion of other long-term liabilities (note 16)	1,000	-
	83,237	236,490
Deferred revenue	5,820	6,713
Long-term debt (note 12)	21,054	7,424
Debentures (note 13)	546,441	350,000
Deferred ground lease (note 14)	14,370	16,423
Capital lease obligations (note 15)	731	903
Other long-term liabilities (note 16)	25,771	26,593
Deferred capital contributions (note 17)	89,771	66,960
	787,195	711,506
Non-controlling interest (note 18)	42	8,818
Net assets:		
Invested in capital assets (note 19)	773,896	633,005
Unrestricted net assets	83,244	140,216
	857,140	773,221
	$ 1,644,377	$ 1,493,545

Commitments and contingencies (note 23)
Guarantees (note 24)
Subsequent event (note 29)
See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

______________________ Director ______________________ Director

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Operations
(In thousands of dollars)

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Revenue:		
Landing fees	$ 44,356	$ 50,960
Terminal fees	94,738	91,331
Concessions	64,307	63,587
Airport improvement fees	101,672	92,604
Car parking	33,197	31,556
Rentals, fees and miscellaneous	53,905	48,419
Grant revenue	13,718	14,450
	405,893	392,907
Expenses:		
Salaries, wages and benefits	45,002	41,132
Materials, supplies and services	84,622	74,210
Payment in lieu of taxes, insurance and other	16,976	17,365
Amortization	70,760	60,404
	217,360	193,111
	188,533	199,796
Other expenses:		
Ground lease (note 23(a))	65,619	65,660
Interest and financing charges	30,431	22,198
	96,050	87,858
Excess of revenue over expenses before undernoted items and income taxes	92,483	111,938
Foreign exchange gain (loss) on long-term liabilities	2,091	(124)
Non controlling interest	(51)	(913)
Loss on fair value of other long-term investments	(7,345)	-
Excess of revenue over expenses before income taxes	87,178	110,901
Income taxes	1,121	(484)
Excess of revenue over expenses	$ 86,057	$ 111,385

See accompanying notes to consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Changes in Net Assets
(in thousands of dollars)

Year ended December 31, 2007, with comparative figures for 2006

	Invested in capital assets (note 19)	Unrestricted	2007	2006
Balance, beginning of year	$ 633,005	$ 140,216	$ 773,221	$ 661,836
Transitional adjustment on adoption of financial instrument standards (note 2(b))	3,922	(4,267)	(345)	-
Unrealized currency translation adjustment directly recorded to net assets	-	(1,793)	(1,793)	-
Excess (deficiency) of revenue				-
over expenses	(63,361)	149,418	86,057	111,385
Net change in invested in capital assets (net)	200,330	(200,330)	-	-
Balance, end of year	$ 773,896	$ 83,244	$ 857,140	$ 773,221

See accompanying notes to consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used for):		
Operations:		
Excess of revenue over expenses	$ 86,057	$ 111,385
Items not involving cash:		
Amortization of capital assets	70,076	59,629
Amortization of other intangibles	1,773	1,046
Amortization of deferred capital contributions	(6,715)	(6,499)
Non-controlling interest	51	913
Loss on fair value of other long-term investments (note 27(d))	7,345	-
Future income tax	(673)	(1,486)
Loss on disposal of capital assets	20	27
Equity earnings, net of amortization	(78)	-
Long-term receivable interest	(1,050)	-
Interest on other long-term liabilities	1,149	-
Unrealized foreign exchange (gain) loss	(2,565)	123
Changes in non-cash operating working capital (note 28)	(13,086)	16,672
	142,304	181,810
Financing:		
Increase in long-term receivables	290	1,652
Decrease in bank indebtedness	-	(1,900)
Repayment of demand note	-	(438)
Issuance (repayment) of notes payable	(150,000)	150,000
Decrease in deferred revenue	(893)	(897)
Increase in deferred financing charges and other assets	(1,434)	(3,105)
Repayment of long-term debt	(2,169)	(1,119)
Issuance of long-term debt	16,630	6,000
Increase in debentures	200,000	200,000
Repayment of debentures	-	(150,000)
Repayment of deferred ground lease	(2,053)	(2,053)
Repayment of capital lease obligations	(162)	(152)
Increase in other long-term liabilities	2,950	759
Increase in deferred capital contributions	29,526	10,943
Distribution to non-controlling interest	(94)	-
	92,591	209,690
Investments:		
Decrease in marketable securities	-	59,937
Increase in other long-term investments (note 27(d))	(33,770)	-
Decrease in net investment in lease	248	197
Increase in contract procurement costs	(115)	(124)
Increase in investments	(9,151)	(1,793)
Increase in due from MBJ Airports Ltd.	(4,624)	-
Additions of capital assets	(293,989)	(322,295)
Proceeds on disposal of capital assets	12	8
Acquisition of non-controlling interest in YVRAS	-	(11,598)
Acquisition of non-controlling interest in TradePort (note 9(a))	(13,000)	-
	(354,389)	(275,668)
Increase (decrease) in cash	(119,494)	115,832
Cash, beginning of year	184,172	68,340
Cash, end of year	$ 64,678	$ 184,172

Cash is defined as cash and short-term investments.
Supplementary cash flow information (note 28)

See accompanying notes to consolidated financial statements.

1. Operations:

The Vancouver Airport Authority (the "Airport Authority") is incorporated under Part II of the Canada Corporations Act as a not-for-profit corporation. The Airport Authority is governed by a Board of Directors of whom nine members are appointed by the Government of Canada and various government and professional bodies, up to five directors are appointed by the Board from the community at large, and one seat on the Board is held by the President and CEO of the Airport Authority.

The Airport Authority operates the Vancouver Airport (the “Airport”) pursuant to a lease of most of Sea Island, Richmond, British Columbia, from the Government of Canada (the “ground lease”). The subsidiaries of the Airport Authority include Vancouver Airport Enterprises Ltd. (“VAEL”), a holding company for the investment in YVR Airport Services Ltd. (“YVRAS”), which invests in and manages a number of airports in Canada and around the world, and YVR Project Management Ltd. (“YVRPM”), which provides capital project management services. CDC Airport Investments (Canada) Ltd. (“CAIC”), a holding company that held the minority interest in YVRAS, was a subsidiary of the Airport Authority from March 15, 2006 to December 31, 2006.

On January 1, 2007, YVRAS and CAIC completed a short form amalgamation and continued as YVRAS. The issued and outstanding common and preference shares of YVRAS were cancelled effective January 1, 2007. CAIC share capital structure continued with a total of 13,631,000 issued and outstanding common shares owned by VAEL. YVRAS became a wholly owned subsidiary of VAEL. Prior to the completion of the 2006 fiscal year, both CAIC and YVRAS had to effect temporary name changes to facilitate the short form amalgamation.

2. Significant accounting policies:

(a) Presentation and basis of accounting:

The Airport Authority’s consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

(b) Financial instruments:

On January 1, 2007, the Airport Authority adopted Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855, *Financial Instruments - Recognition and Measurement,* Section 3861*, Financial Instruments – Disclosure and Presentation,* and *Section 3865 - Hedges*. These standards have been retroactively applied, but prospectively presented (through a transitional adjustment to opening net assets) and, as such, comparative amounts for prior periods have not been restated.

2. Significant accounting policies (continued):

(b) Financial instruments (continued):

Under these standards, financial assets are classified as one of the following: held for trading, available-for-sale, loans and receivables or held-to-maturity. Financial liabilities are classified as held for trading or other liabilities. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in the statement of operations. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost. Financial assets available-for-sale are measured at fair value with changes in fair value recognized in the statement of changes in net assets until realized. All derivatives, including embedded derivatives are generally classified as held for trading.

The new standards permit designation of any financial instrument as held for trading upon initial recognition. This designation requires that the fair value of the financial instrument be reliably measured.

Contracts denominated in U.S. dollars are accounted for as single service contracts denominated in a commonly used currency, as permitted by Canadian generally accepted accounting principles.

The impact of applying the new standards is described below:

Financial liabilities

The USD $22,000,000 promissory note on acquisition of CAIC included in other long-term liabilities (note 16(a)) has been measured at fair value upon adoption of these standards. This resulted in a reduction to opening net assets of $943,000, a reduction in the promissory note of $3,395,000, and a reduction to intangible asset of $4,338,000.

Investments

All of the Airport Authority's short and other long-term investments held on January 1, 2007 or acquired subsequently are designated as held for trading investments under the new standards. Purchases and sales of investments are recorded on a trade date basis. Held for trading investments are measured at fair value with realized and unrealized gains and losses included on the statement of operations. Further information with regard to the Airport Authority's holdings of non-bank sponsored Asset Backed Commercial Paper ("ABCP") is set out in note 27(d).

2. Significant accounting policies (continued):

(b) Financial instruments (continued):

Financing costs and the effective interest rate method

The new standards require the Airport Authority to recognize all transaction costs relating to the acquisition of financing in the statement of operations or to be included in the debt balances and recognized as an adjustment to interest expense over the life of the debt. The Airport Authority capitalizes transaction costs. The Airport Authority is also required to use the effective interest rate method to recognize debenture interest expense meaning the expense amount to be recognized varies over the life of the debt based on the principal outstanding. Previously, deferred financing costs were amortized on a straight-line basis and recorded as an interest expense.

As at January 1, 2007, the Airport Authority reclassified deferred financing costs of $3,242,000 to notes payable, long-term debt and debentures. As a result of reflecting the effective interest method, opening net assets increased by $598,000, with a corresponding decrease in notes payable of $1,000, long-term debt of $299,000, future income taxes of $82,000 and debentures of $380,000.

Derivatives

Upon adoption of the new standards, the Airport Authority reviewed all its outstanding contracts subsequent to the elected transition date of January 1, 2003 in accordance with Section 3855 to determine if any were derivatives or contained embedded derivatives. As at December 31, 2007, the Airport Authority had no such embedded derivatives.

Hedges

Section 3865 addresses the accounting treatment for qualifying hedging relationships and the necessary disclosures and also requires all derivatives to be recorded at fair value. As at December 31, 2007, the Airport Authority had no financial derivative contracts outstanding.

(c) Accounting changes:

Effective January 1, 2007, the Airport Authority adopted CICA Handbook Section 1506, *Accounting Changes.* Under this section, voluntary changes in accounting policy are allowed only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The Airport Authority was not affected by the adoption of this new section.

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(b) Financial instruments (continued):

Effective January 1, 2008, the Airport Authority will be adopting the following new sections of the CICA Handbook that were issued but not yet effective as of December 31, 2007:

(i) Section 3031, *Inventories*, provides more guidance on the measurement and disclosure requirements for inventories; the new standard allows the reversals of previous write-downs to the net realizable value when there is a subsequent increase in the value of inventories. This accounting standard will be applied retrospectively and is anticipated to have no material impact on the financial statements of the Airport Authority.

(ii) Sections 3862 and 3863, *Financial Instruments – Disclosures and Presentation*, respectively, establish standards for the presentation of financial instruments and non-financial derivatives, and require additional disclosure of the nature and extent of an entity's exposure to risks arising from financial instruments and how the entity manages those risks.

(d) Cash and short-term investments:

Cash and short-term investments include securities that, on acquisition are designated as held for trading, have an initial term to maturity of three months or less.

(e) Inventory:

Inventory, which is included in other current assets, is valued at the lower of cost and replacement value.

(f) Investments in airport concessions:

Investments in companies that own rights to airport concessions are recorded at cost and are amortized over the term of the related concession or management agreement. Provisions for impairment are made, where necessary, to recognize other than temporary declines in value.

(g) Capital assets:

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the assets at the following annual rates:

Buildings and other structures	2.5% to 10%
Runways and other paved surfaces	3.3% to 33%
Machinery and equipment	6.7% to 33%
Furniture and fixtures	6.7% to 20%
Computer equipment and software	10% to 100%

The art collection is recorded at cost with no amortization.

2. Significant accounting policies (continued):

(h) Assets under capital leases:

Leases that transfer substantially all of the benefits and risks of ownership of the property to the Airport Authority are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation. Assets under capital leases are amortized over their estimated useful lives at the same rates used for related capital assets.

(i) Deferred financing costs:

Deferred financing costs, offset against notes payable, long-term debt and debentures issued, represent the unamortized cost of the issue of the related debt, including the related discount. Amortization is provided using the effective interest method over the term of the related debenture.

(j) Other long-term assets:

Included in other long-term assets is a land-use restriction payment which is being amortized over a period of 30 years.

(k) Deferred revenue:

Deferred revenue represents premiums received from tenants of preferential locations, prepaid rents and licenses received from tenants and operators in advance, which is deferred and amortized over the terms of the related agreements. The current portion of deferred revenue is included in accounts payable and accrued liabilities.

(l) Intangible interest in airport leases:

The intangible interest in airport lease is recorded at cost and amortized over the term of the underlying lease plus one renewal period and is tested for impairment when events or changes in circumstance indicate that the assets might be impaired. When the carrying amount of an intangible asset exceeds the fair value of the intangible asset, an impairment loss is recognized in an amount equal to the excess and is presented separately in the statement of operations.

(m) Contract procurement costs:

The Airport Authority capitalizes contract procurement costs incurred in connection with the process of bidding for the rights to operate airports and related assets for a defined period, referred to as a "concession." Capitalization commences when material conditions have been negotiated and there is a reasonable assurance that the Airport Authority will commence operations in the future. Capitalized costs, net of recoveries, are amortized over the term of the concession, commencing with the date the concessions become operational. Management periodically reviews contract procurement costs to ensure amounts will be recovered from expected net future cash flows.

2. Significant accounting policies (continued):

(n) Revenue recognition:

The Airport Authority follows the deferral method of accounting for contributions whereby 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. The Airport Authority does not receive endowment contributions. Grants received to offset specific operating costs are recorded as revenue. Grants towards capital are deferred and brought into income on a basis consistent with the amortization of the related capital assets.

Revenue is recognized as follows:

- Aeronautical charges, which consist of landing and terminal fees, are recognized as revenue when airport facilities are utilized.
- Concession revenue is recognized based on the greater of agreed percentages of reported concessionaire sales and specified minimum rentals over the terms of the respective leases.
- Revenue from Airport Improvement Fee (“AIF”), which is collected from passengers by air carriers, is recognized based on monthly remittances from air carriers.
- Car parking revenue is recognized when airport facilities are utilized.
- Rental revenue is recognized over the terms of the respective leases.
- Airport management and operation revenue is recognized upon delivery of services.
- Revenue from contracts for consulting and project management (included in rentals, fees and miscellaneous) is recognized based on the percentage-of-completion method if the contract is for a fixed fee. Otherwise consulting revenue is recognized upon delivery of services.

(o) Ground lease expenses:

Ground lease expenses are charged to operations on an accrual basis. The ground lease has been accounted for as an operating lease.

(p) Taxes:

Income arising from the operation of the Airport is exempt from federal and provincial income taxes.

A payment, in lieu of taxes, is paid for municipal services.

Operations of each subsidiary are subject to taxes in the jurisdictions in which the subsidiary operates.

2. Significant accounting policies (continued):

(p) Taxes (continued):

The subsidiaries use the liability method of accounting for future income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(q) Translation of foreign currencies:

The accounts of the Airport Authority's integrated foreign subsidiaries, included in the consolidated financial statements, are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Other balance sheet items and revenue and expenses are translated at the rates prevailing on the respective transaction dates. Transaction gains and losses are included in income.

Beginning in 2007, when the equity basis of accounting was first applied, unrealized foreign exchange gains or losses for the long-term amount due from and investment in MBJ Airport Ltd., a self-sustaining foreign business, are reported as direct increases and decreases to unrestricted net assets.

(r) 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 an unfunded defined contribution plan which covers its senior executives.

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

The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected accrued benefit cost method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors).

2. Significant accounting policies (continued):

(r) Employee future benefits (continued):

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

Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the defined pension plan is 9 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Certain employees of a subsidiary of the Airport Authority are eligible for a deferred share unit plan (“DSU”). The DSU plan, approved in 2006, will recognize the compensation expense throughout the deferral provided to the extent that the fair value of YVRAS at the end of each year warrants such recognition as adjusted for a notional cost.

(s) 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, carrying value of investments and intangible interest in airport lease, net recoverable value of assets, useful lives for amortization, accrued liabilities, valuation of ABCP and provisions for contingencies. Actual results could differ from those estimates.

(tabular amounts in thousands of dollars)

3. 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:

	2007	2006
Minimum lease payments receivable	$ 20,667	$ 22,265
Unearned income	(10,200)	(11,550)
	10,467	10,715
Less current portion	307	248
	$ 10,160	$ 10,467

At December 31, 2007, the future minimum lease payments receivable under the direct financing lease are as follows:

2008	$ 1,621
2009	1,646
2010	1,670
2011	1,696
2012	1,721
Thereafter	12,313
	$ 20,667

4. Long-term receivables:

	2007	2006
(a) Tenant receivables	$ 1,163	$ 1,394
(b) Other	-	40
	1,163	1,434
Less current portion (included in accounts receivable)	250	231
	$ 913	$ 1,203

(a) The Airport Authority has long-term repayment schedules over 3 to 4 years with tenants for repayments of leasehold improvements. The Airport Authority receives interest calculated at approximately 8.5% annually.

(b) The long-term receivable was due from a shareholder of TradePort International Corporation ("TradePort"), a subsidiary of YVRAS. The receivable was non-interest bearing and fully repaid in the year ended December 31, 2007.

(tabular amounts in thousands of dollars)

5. Investments in airport concessions:

	2007	2006
(a) Aeropuertos Dominicanos SIGLIO XXI, S.A. ("AERODOM") (net of accumulated amortization of $1,071 (2006 - $930))	$ 2,401	$ 2,542
(b) Hermes Airports Limited ('Hermes") (net of accumulated amortization of $0.183 (2006 - $0.064)	3	3
(c) SCL Terminal Aereo Santiago S.A. ("SCL") (net of accumulated amortization of $5,116	-	-
	$ 2,404	$ 2,545

(a) AERODOM is a single-purpose corporation incorporated under the laws of the Dominican Republic for the purpose of operating, renovating and expanding facilities at six airports in the Dominican Republic pursuant to a thirty-year term of concession.

Vancouver Airport Services S.A., a subsidiary of YVRAS, has been contracted by AERODOM to provide management and operation services to the airports.

As at December 31, 2007, YVRAS' investment represents a 7.75% interest (503,750 common shares) in AERODOM.

(b) Hermes is a single-purpose corporation incorporated under the laws of Cyprus for the purpose of development and operation of Larnaka and Pafos International Airports in Cyprus. CAOG Airport Operations (Cyprus) Limited ("CAOG") has been contracted by Hermes to provide management, operation and project management services to the Airports.

The investment represents an 11% ownership (1,100 ordinary shares) of Hermes. YVRAS also has a 64% ownership in CAOG. Together with Egis Projects S.A. and Nice Air-Ports Engineering S.A.S., YVRAS provides expertise and support to CAOG in order for CAOG to be able to meet its service obligations to Hermes.

(c) SCL is a single-purpose corporation incorporated under the laws of Chile for the purpose of operating, renovating and expanding certain facilities at the Arturo Merino Benitez International Airport in Santiago, Chile for a concession which expires July 6, 2013. In prior years, SCL negotiated an extension to this concession term of up to 78 months to allow SCL to earn a return on invested capital and to repay further financing placed during 2004. SCL has a term of existence of 22 years, from July 16, 1998, expiring in 2020.

YVRAS holds a 10% equity interest (100 common shares) in SCL and is restricted in its ability to dispose of its investment in SCL. YVRAS' original investment of $5,116,000 was written off in previous years as significant uncertainty existed as to the likelihood of YVRAS recovering the cost of the investment either through management fees or dividends.

YVR Airport Services (Chile) S.A. has been contracted by SCL to provide management services for the development and operation of the Airport.

(tabular amounts in thousands of dollars)

6. Due from and investment in MBJ Airports Ltd. ("MBJ"):

	2007	2006
(a) Due from MBJ	$ 5,377	$ 3,567
(b) Accrued interest receivable (net of current portion of $491; 2006 - nil)	2,754	1,426
(c) Investment	9,193	621
	$ 17,324	$ 5,614

MBJ is a single purpose corporation incorporated under the laws of Jamaica for the purpose of renovating, expanding, developing, operating and maintaining the airport in Montego Bay pursuant to a concession agreement for a thirty-year term. YVR Airport Services (Jamaica) Limited was contracted by MBJ commencing on April 12, 2003 for a twelve-year term to provide project management and operation services to the Airport.

On June 8, 2007, YVRAS, pursuant to a Shareholders Agreement dated December 21, 2006, increased its ownership of MBJ, from 15% to 25.5% by acquiring an additional 10.5% of MBJ's common shares held by Agencias Universales S.A. ("Agunsa"). YVRAS also assumed subordinated debt (previously held by Agunsa) on completion of the transaction, including the assumption of subordinated debt, the total purchase price for this acquisition was USD $11,100,000. As at December 31, 2007, YVRAS holds 153,000 (2006 - 75,000) common shares of MBJ. The increased ownership provides YVRAS with significant influence over MBJ. YVRAS has accounted for the investment using the equity method, whereby YVRAS' proportionate share of MBJ's income since June 8, 2007 has been included in the Airport Authority's consolidated statement of operations

Included in the investment of $9,193,000 is the difference between MBJ's net book value and the cost of YVRAS' investment in MBJ, which as at the date of acquisition was $2,861,000. The difference for purposes of equity accounting is accordingly being amortized over the term of the concession. An amortization amount of $60,000 has been recorded for the current year.

(tabular amounts in thousands of dollars)

7. Capital assets:

	Cost	Accumulated amortization	2007 Net book value	2006 Net book value
Buildings and other structures	$ 911,937	$ 226,513	$ 685,424	$ 522,195
Runways and other paved surfaces	370,117	103,867	266,250	259,303
Machinery and equipment	38,375	18,103	20,272	15,417
Furniture and fixtures	21,338	12,956	8,382	5,868
Computer equipment and software	62,841	36,131	26,710	21,489
Construction-in-progress	417,464	-	417,464	377,474
Art collection	4,823	-	4,823	4,120
Equipment under capital lease	1,450	-	1,450	1,027
Land	3,487	-	3,487	3,487
	$ 1,831,832	$ 397,570	$ 1,434,262	$ 1,210,380

8. Income taxes:

As at December 31, 2007, the Airport Authority's subsidiaries have $4,026,000 (2006 - $1,400,000) of non-capital losses and $511,000 (2006 - $713,000) of net deductible temporary differences available for carry forward to reduce future years' income for tax purposes resulting in a future income tax asset of $1,244,000.

The future income tax asset as at December 31, 2007 of $1,683,000 (2006 - $1,091,000) includes $439,000 (2006 - $415,000) of anticipated benefits of TradePort temporary differences.

A previously recognized future income tax liability of approximately $2,000,000 was reversed during the year ended December 31, 2006 recognizing that no taxes would arise on January 1, 2007 during the amalgamation (note 1).

(tabular amounts in thousands of dollars)

9. Intangible interest in airport lease:

	2007	2006
(a) Intangible interests in Hamilton airport leases (net of accumulated amortization of $1,158; 2006 - $994)	$ 16,843	$ 17,180
(b) Lease acquisition costs in Hamilton (net of accumulated amortization of $71; 2006 - $37)	975	1,009
	$ 17,818	$ 18,189

(a) During the year ended December 31, 2006, YVRAS received an additional 5% interest in TradePort as a result of a contingent clause of the original share purchase agreement entered into 2002 not being met. This brought YVRAS' ownership of TradePort up from 57.33% to 62.33% (note 18). As a result, there was no consideration payable. YVRAS has decreased the intangible interest in the Hamilton Airport lease and decreased the non-controlling interest by the amount of $1,107,000.

On March 8, 2007, the Airport Authority, through its subsidiary YVRAS increased its ownership of TradePort International Corporation and 2113522 Ontario Inc. from 62.33% to 100% for cash consideration of $13,000,000. This resulted in an increase in intangible interest in airport lease of $4,267,000 and a decrease in non-controlling interest of $8,733,000.

(b) On June 28, 2005, the City of Hamilton ("City") acquired land adjacent to the Hamilton airport from a tenant. Subsequently TradePort's lease agreement with the City was amended to incorporate the acquired land into the airport lease. As partial consideration for this transaction, TradePort agreed to waive and discharge the tenant from any obligation or requirement to pay rent or other airport charges in respect of its premises until March 2036. The present value of this waiver in the amount of $1,000,000 has been recorded as deferred revenue and will be realized over the remaining term of the lease in an amount equal to $68,000 per annum, offset by interest expense relating to amortization of the discount. The unrealized deferred revenue balance remaining at December 31, 2007 is $868,000 (2006 - $930,000), of which $62,000 (2006 - $61,000) net revenue was recognized in 2007. A value of $1,000,000 was also assigned to the lease amending agreement between the City and TradePort. This amount was added to lease acquisition costs and is being amortized over the remaining term of the initial airport lease.

On December 14, 2006, TradePort paid $1,159,000, plus disbursements, to an adjacent land owner to prohibit, for a period of 30 years, the development or use of that adjacent land for use as a commercial parking lot for the Hamilton Airport passengers or for use by car rental agencies. This amount, net of amortization, is included in other long-term assets.

10. Bank indebtedness:

(a) During the year, the Airport Authority increased its unsecured bank operating line to $200,000,000 (2006 - $75,000,000), $100,000,000 of which is subject to the Landlord's acknowledgement and consent not yet received as at December 31, 2007. Interest is charged at a rate of prime.

(b) As at December 31, 2007, letters of credit with respect to YVRAS are outstanding totaling $3,530,000 (2006 - $5,841,000):

(i) YVRAS' credit facility consists of a facility of $5,000,000, or lesser of 100% hypothecated bank balances and/or hypothecated U.S. dollar fixed deposits, for issuing letters of credit relating to the performance and bid bonds as required to support bid submissions for new contracts. As at December 31, 2007, YVRAS has issued $896,000 (2006 - $2,011,000) of letters of credit from the $5,000,000 credit facility.

(ii) A facility for the lesser of $12,000,000, or, the sum of 100% of specific performance security guarantees ("PSG") issued by Export Development Canada ("EDC") for each individual letter of credit issued under this facility. All letters of credit issued under this facility (providing the said EDC PSG is in place) are to be used to support YVRAS with their proportionate interest in financing of any foreign airport contract.

(c) In 2004, TradePort completed a restructuring of the CIT Financial Ltd. ("CIT") financing with a revised credit facility with a bank resulting in the release of the security and removal and amendment of certain covenants within the CIT loan agreement. As part of the restructuring, the bank provided CIT with a letter of credit to be renewed annually in the amount of $2,536,000 (2006 - $3,751,000), which includes an early repayment penalty if necessary, as security for TradePort's outstanding balance of $2,239,000 (2006 - $3,232,000) with CIT (note 12). At December 31, 2007, no amount has been drawn on the letter of credit as it is TradePort's intention to continue to repay the CIT loan according to the original repayment schedule.

(d) TradePort issued a letter of credit in favour of the Ontario Municipal Employees' Retirement System in the amount of $98,000 (2006 - $80,000). As at December 31, 2007, no amount has been drawn on this letter of credit.

(e) TradePort has a line of credit in the amount of $500,000 (2006 - $500,000) bearing interest at the prime lending rate plus 0.5% per annum with interest payable monthly and principal due on demand.

(f) All credit facilities provided by TradePort's bank are secured by a demand debenture in the amount of $15,000,000 providing for a fixed charge over the leasehold interest in the Hamilton International Airport, a general security agreement over all assets, a general assignment of rents and unlimited guarantees by Hamilton International Airport Limited and TradePort (2016) International Corporation. TradePort is also required to maintain a debt service reserve in the amount of $1,500,000, which is included in cash and cash equivalents.

(tabular amounts in thousands of dollars)

10. Bank indebtedness (continued):

(g) In 2006, YVRAS established a committed facility of USD $15,000,000 for the sole purpose of financing airport investments. The committed facility can be increased to USD $50,000,000 (upon request from YVRAS) subject to being able to identify additional lenders to provide such commitments. The facility can be renewed at YVRAS' request (and with lender(s) consent) three years from the commencement date of the facility. YVRAS also has two years from the commencement date to draw down funds from the facility and this period can be extended upon mutual agreement between YVRAS and the lender(s). YVRAS' obligations under the facility are secured *pari passu* by all assets and equity interests of specific subsidiaries of YVRAS. The interest rate applied to any outstanding balance is equal to three month London Inter-bank Offering Rate ("LIBOR") plus 1.5%; and, on any undrawn commitment a commitment fee will accrue and be payable quarterly in arrears at the rate of 0.5% per annum. As at December 31, 2007, the balance drawn down by YVRAS is USD $11,770,000 (note 12).

11. Notes payable:

Upon maturity on November 14, 2007, the Airport Authority repaid $150,000,000 of unsecured floating rate notes ("FRNs"). Total interest paid on the FRNs was $6,774,000.

12. Long-term debt:

	2007	2006
Citibank – bearing interest at LIBOR plus 1.5% per annum, a revolving credit facility (note 10(g))	$ 11,630	$ -
Scotiabank, bearing interest at prime plus 0.5% per annum, due in blended monthly payments, maturing March 2013, secured by a first charge over land held in 2113522 Ontario Inc.	4,750	-
Scotiabank, bearing interest at prime plus 0.5% per annum, due in blended monthly payments, maturing November 30, 2014, secured by a first charge over land held in 2113522 Ontario Inc.	5,187	6,000
CIT Financial Ltd., bearing interest at 11.11% per annum, due in blended monthly payments, maturing November 29, 2009, secured by a letter of credit (note 10(c))	2,239	3,232
Other	6	119
	23,812	9,351
Less current portion	2,198	1,927
	21,614	7,424
Less unamortized deferred financing costs	560	-
	$ 21,054	$ 7,424

(tabular amounts in thousands of dollars)

12. Long-term debt (continued):

The aggregate amount of principal payments required in each of the next five years is as follows:

2008	2,198
2009	2,214
2010	1,833
2011	2,083
2012	2,083
Thereafter	13,401
	$23,812

13. Debentures:

	2007	2006
Amended Series B 7.425%, due December 7, 2026	150,000	150,000
Series D 4.424%, due December 7, 2018	200,000	200,000
Series E 5.020%, due November 13, 2015	200,000	-
	550,000	350,000
Less unamortized deferred financing costs	3,559	-
	$ 546,441	$ 350,000

The Series B debentures are issued under the Trust Indenture dated December 6, 1996. The Airport Authority received approval from holders of the Series B debentures to make changes to the Trust Indenture by way of a Supplemental Indenture dated December 7, 2006. These changes include increasing the limitation on guarantees and investments, and updating accounting terminology. To permit these changes, the debenture holders required that the Airport Authority increase the coupon on its Series B debentures by 5 basis points to 7.425%.

The Series D and Series E debentures are issued under Supplemental Indentures dated December 7, 2006 and November 14, 2007, respectively. The Series E debentures were issued November 14, 2007 to refinance the $150,000,000 FRN maturity (note 11), with the remaining $50,000,000 being used to finance capital expenditures and to meet general corporate requirements.

The effective interest rates on the Series B, D and E debentures are 7.530%, 4.484% and 5.094%, respectively.

(tabular amounts in thousands of dollars)

13. Debentures (continued):

The debentures are direct, unsecured and subordinated obligations of the Airport Authority. Interest is payable semi-annually in arrears in June and December for Series B and D and in May and November for Series E. The debentures are redeemable at the option of the Airport Authority, in whole or in part, at any time. The redemption price is the higher of par and that value which would result in a yield to maturity equivalent to that of a Government of Canada bond plus a premium. The premium is 0.15% for the Series B debentures, 0.125% for the Series D debentures, and 0.20% for the Series E debentures.

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

14. 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.

Repayments are interest free over a ten-year period, commencing January 1, 2006. As at December 31, 2007, the Airport Authority has repaid a total of $4,106,000 (2006 - $2,053,000) of rent deferrals to Transport Canada (note 23(a)).

15. Capital lease obligations:

The aggregate future minimum lease payments under the capital leases of YVRAS are as follows:

2008	220
2009	220
2010	220
2011	365
Total minimum lease payments	1,025
Less imputed interest at 6.09%	123
Balance of obligation	902
Less current portion	171
	$ 731

(tabular amounts in thousands of dollars)

16. Other long-term liabilities:

		2007	2006
(a)	Promissory note on acquisition of CAIC (USD $22,000)	$ 19,918	$ 25,639
(b)	Lease inducement credit	3,000	-
	Deferred share unit ("DSU") plan (note 22(d))	3,539	589
	Other	314	365
Other long-term liabilities		26,771	26,593
Less current portion of other long-term liabilities		1,000	-
Other long-term liabilities		$ 25,771	$ 26,593

(a) Promissory note on acquisition of CAIC:

On March 15, 2006, the Airport Authority, through its subsidiary VAEL, increased its control of YVRAS from 54.8% to 100.0% by acquiring control of CAIC (a subsidiary of CDC Group PLC, ("CDC") a UK public company). The purchase price consists of consideration of USD $13,631,000 and USD $18,369,000 for the preferred and common shares, respectively, with certain additional amounts for the purchase of common shares that are contingent on future specified changes in investments held by YVRAS. The contingent consideration will be accounted for as additional purchase price as the contingencies are resolved and the amounts payable become fixed and/or determinable.

VAEL, through funds received by the Airport Authority, paid $11,598,000 (USD $10,000,000) and $1 (USD $1) of the purchase price for the preferred and common shares, respectively, of YVRAS upon closing. The remaining amounts due from VAEL to CDC in the form of a promissory note is payable in U.S. dollars as follows, subject to adjustments:

	Preferred shares (USD $)	Common shares (USD $)
March 15, 2009	$ 3,631	$ 13,369
March 15, 2011	-	5,000
	$ 3,631	$ 18,369

(tabular amounts in thousands of dollars)

16. Other long-term liabilities:

(a) Promissory note on acquisition of CAIC (cont'd):

To fund the acquisition, the Airport Authority has committed USD $22,000,000 as an additional investment in VAEL to fund the acquisition, with payments of USD $17,000,000 in 2009 and USD $5,000,000 in 2011, subject to adjustments. The promissory note has been recorded at the amortized cost, with an interest accretion cost of $1,149,000 and a foreign exchange gain of $3,475,000, which represents the adjustment necessary to translate this US denominated long-term liability to its fair value as at December 31, 2007.

(b) Lease inducement liability:

On March 1, 2007, the Airport Authority agreed to provide a concession operator a $3,000,000 rent credit, payable at $1,000,000 per year in each of 2008, 2009, and 2010. This lease inducement is recognized against revenue evenly over the life of the lease term of 8 years and 10 months. As at December 31, 2007, the lease inducement asset of $2,717,000 is included in other long-term assets on the statement of financial position, $283,000 has been recognized as an offset to revenue, and a corresponding $3,000,000 rent credit is accrued as part of other long-term liabilities.

17. Deferred capital contributions:

	2007	2006
Capital contributions:		
Canadian Air Transport Security Authority ("CATSA")	$ 97,554	$ 68,039
Airports Capital Assistance Program	9,781	9,781
BC Hydro	707	696
	108,042	78,516
Accumulated amortization	(18,271)	(11,556)
Ending balance	$ 89,771	$ 66,960

The Airport Authority receives funding from CATSA towards certain security infrastructure upgrades. The funds received are deferred and brought into income as grant revenue consistent with the amortization of the related capital assets.

(tabular amounts in thousands of dollars)

18. Non-controlling interest:

On March 8, 2007, the non-controlling interest of TradePort was acquired (note 9(a)). As at December 31, 2007, Westpark Developments Inc. and Laborers' International Union of North America have nil% (2006 - 30.3%) and nil% (2006 - 7.4%) interest in TradePort, respectively, as a result of the aforementioned transaction.

The remaining non-controlling interest balance of $42,000 (2006 - $14,000) represents the 36% (2006 - 36%) interest in CAOG.

19. Invested in capital assets:

(a) Invested in capital assets is determined as follows:

	2007	2006
Capital assets	$ 1,434,262	$ 1,210,380
Amounts financed by:		
Deferred capital contributions	(89,771)	(66,960)
Debentures and FRN's	(546,441)	(500,000)
Long-term debt	(23,252)	(9,351)
Capital lease obligation	(902)	(1,064)
	$ 773,896	$ 633,005

(b) Deficiency of revenue over expenses:

	2007	2006
Amortization of deferred capital contributions	$ 6,715	$ 6,499
Amortization of capital assets	(70,076)	(59,627)
	$ (63,361)	$ (53,128)

(tabular amounts in thousands of dollars)

19. Invested in capital assets (continued):

(c) Net change in invested in capital assets:

	2007	2006
Purchase of capital assets	$ 293,989	$ 322,295
Amounts funded by deferred capital contributions	(29,526)	(10,943)
Principal payments on capital leases	162	152
Proceeds from disposal of capital assets	(12)	(8)
Loss on disposal of capital assets	(20)	(27)
Principal payments on long-term debt	2,169	1,119
Issuance of long-term debt	(16,630)	(6,000)
Issuance of debentures and FRNs	(200,000)	(350,000)
Repayment of debentures	-	150,000
Repayment of FRNs	150,000	-
Increase in deferred financing fees	1,001	-
Amortization of deferred financing fees & discount	(803)	-
	$ 200,330	$ 106,588

20. AIF - use of funds:

The AIF is collected on the airline ticket by air carriers under an agreement between several Canadian airport authorities, air carriers and the Air Transport Association of Canada. Under this agreement, consistent with past practice and policy, the AIF may only be used to pay for the capital and related financing costs of airport infrastructure development as jointly agreed with the air carriers. During the year, the Airport Authority recorded $96,356,000 (2006 - $88,655,000) main terminal AIF revenue, and main terminal AIF eligible capital expenditures totaled $260,193,000 (2006 - $306,547,000). To December 31, 2007, the cumulative AIF revenue totaled $854,765,000 (2006 - $758,575,000), and cumulative AIF eligible expenditures totaled $1,732,882,000 (2006 - $1,472,689,000).

21. Operating contributions:

During 2002, the Airport Authority entered into a policing contribution agreement with CATSA. CATSA contributes to the costs of policing incurred by the Airport Authority. Contributions are determined annually by CATSA up to a maximum amount not to exceed the actual allowable costs incurred by the Airport Authority in providing these services. This agreement is to be extended annually as required and recorded as grant revenue.

22. Employee future benefits:

(a) Funded pension plans:

Defined contribution plans:

The Airport Authority participates in a Registered Retirement Savings Plan ("RRSP") which covers employees who have joined the Airport Authority since June 1992. Employees covered by this plan are required to contribute 6% of their earnings and the Airport Authority contributes equal amounts. Total contributions included in the pension expense for 2007 were $1,267,000 (2006 - $1,055,000).

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, 2007 was $10,100 (2006 - $11,600). Some senior executives are also provided a Retirement Compensation Arrangement (RCA). Contributions to the RCA in 2007 totaled $2,300,000 (2006 - $628,000).

Defined benefit plan:

The Airport Authority's and YVRAS' contributory defined benefit pension plan covers employees of the Airport Authority and YVRAS who, immediately prior to joining the Airport Authority or YVRAS, were employees of the Federal Public Service and were accruing pension benefits under the Public Service Superannuation Act. The pension plan provides benefits based on length of service and the best six years' average earnings.

The Airport Authority measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year, using a measurement date of October 31. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2006. The next valuation will be as of December 31, 2007, the results of which are expected to be available during the year ended December 31, 2008.

(tabular amounts in thousands of dollars)

22. Employee future benefits (continued):

(a) Funded pension plans (continued):

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

	2007	2006
Accrued benefit obligation:		
Balance, beginning of year	$ 43,149	$ 38,970
Current service cost	1,380	1,337
Interest cost	2,303	2,197
Benefits paid	(1,316)	(735)
Actuarial losses	(4,208)	1,380
	41,308	43,149
Fair value of plan assets:		
Balance, beginning of year	37,158	32,638
Actual return on plan assets	1,916	3,629
Employer contributions	982	1,332
Employee contributions	274	294
Benefits paid	(1,316)	(735)
	39,014	37,158
Deficiency of plan assets	(2,294)	(5,991)
Unamortized net actuarial loss	4,354	8,324
Unamortized transitional obligation	(1,108)	(1,477)
Accrued benefit asset	$ 952	$ 856

The accrued benefit asset is included in other current assets.

Plan assets (measured as of the measurement date of October 31 each year) comprise:

	2007	2006
Asset category:		
Equity shares	54.2%	59.5%
Debt securities	30.8%	32.2%
Cash and short-term investments	15.0%	8.3%
Total	100.0%	100.0%

(tabular amounts in thousands of dollars)

22. Employee future benefits (continued):

(a) Funded pension plans (continued):

Defined benefit plan (continued):

The significant assumptions used are as follows (weighted average):

	2007	2006
Accrued benefit obligation as of December 31:		
Discount rate	5.75%	5.25%
Rate of compensation increase	4.00%	4.00%
Benefit costs for years ended December 31:		
Discount rate	5.25%	5.55%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%

The elements of the Airport Authority's and YVRAS' defined benefit plan costs recognized in the year are as follows:

	2007	2006
Current service cost, net of employees' contributions	$ 1,106	$ 1,042
Interest cost	2,303	2,197
Actual return on plan assets	(3,283)	(1,002)
Actuarial losses	(4,208)	1,380
Employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	(4,082)	3,617
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan assets for the year	684	(1,313)
Difference between actuarial gain recognized for year and actual actuarial gain on accrued benefit obligation for year	4,654	(835)
Amortization of the transitional obligation	(369)	(369)
Defined benefit costs recognized	$ 887	$ 1,100

Total cash payments:

Total cash payments for employee future benefits for the year ended December 31, 2007, consisting of cash contributed by the Airport Authority to its funded pension plans (the defined benefit plan, defined contribution plans and RCA) were $4,559,000 (2006 - $3,027,000).

22. Employee future benefits (continued):

(b) Unfunded pension plans:

The Airport Authority participates in supplementary plans for its senior executives, along with some of the senior management and YVRAS executives.

Pension expense for 2007 was $807,000 (2006 - $827,000). Based on an actuarial report prepared as at December 31, 2006, the accrued benefit obligation as at December 31, 2007 was $5,505,000 (2006 - $5,196,000).

(c) TradePort defined benefit plan:

Employees of TradePort contribute a prescribed percentage of their earnings to a multi-employer pension plan administered by the Ontario Municipal Employees' Retirement System.

Employer contributions during the year amounted to $131,000 (2006- $129,000).

(d) YVRAS DSU plan:

On June 1, 2006, YVRAS' Board of Directors adopted a DSU plan for senior management employees ("Executive") of YVRAS. This plan covers the period from 2001 - 2009. Each participating Executive has been allotted a finite number of units. If at any time, YVRAS sells a significant amount of their common shares to an external party on an arm's length basis, YVRAS will have the obligation to purchase the units. If such a sale or other specified conditions have not occurred and the Executive still holds the units at September 30, 2009, YVRAS will purchase their units at market value. YVRAS recognized at December 31, 2007 a compensation expense and related long-term liabilities of $2,950,000 (2006 - $589,000) reflecting both units that had vested due to retirement and pro rata for units to be vested over the deferral period.

(e) YVRAS employee incentive plan:

No expense associated with the employee incentive plan was recognized during 2007 (2006 - $988.000)

23. Commitments and contingencies:

(a) Ground lease:

The ground lease governs both the economic and day-to-day relations between the Airport Authority and the Government of Canada for a term ending June 30, 2052. The lease provides the option to extend the term for a further twenty years.

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.

(tabular amounts in thousands of dollars)

23. Commitments and contingencies (continued):

(a) Ground lease (continued):

Under the ground lease, Transport Canada is required to assume all costs associated with environmental remediation in the event an order is issued by an appropriate government agency requiring the clean-up 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. These matters are under active discussion.

On May 9, 2005, the Government of Canada announced the adoption of a new rent policy that resulted in reduced rent for Canadian airport authorities, including the Airport Authority. This reduced rent formula is being phased in over a period of four years, beginning in 2006, during which the rent is fixed. Subsequent to 2009, the rent will be based on percentages of gross revenue on a progressive scale.

During the four year period, rent expense will be recorded on a straight-line basis. As a result, the ground lease payments made in excess of the ground lease expense during the year have been recorded as a prepaid ground lease expense. The amount of prepaid ground lease to-date is $17,310,000 (2006 - $11,128,000).

Projected lease expense and payments (including repayments of deferred ground lease payments - note 14) under the amended ground lease for the three years, are as follows:

	Lease expense	Lease payments
2008	$ 65,619	$ 66,435
2009	65,619	51,598

(b) Capital and operating commitments:

In connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding as at December 31, 2007 of approximately $52,671,000 (2006 - $120,353,000). In connection with operating the Airport, the Airport Authority has total operating commitments, as at December 31, 2007, of approximately $14,547,000 (2006 - $30,000,000). These commitments extend for periods of up to five years.

23. Commitments and contingencies (continued):

(c) Canada Line Rapid Transit Line Inc. ("CLCO") (formerly Richmond Airport Vancouver Rapid Transit Line):

On January 24, 2005, the Airport Authority entered into an agreement with the South Coast British Columbia Transportation Authority ("SCBC") (formerly Greater Vancouver Transportation Authority) and CLCO, which is a wholly owned subsidiary of the SCBC, with respect to the funding and construction of the Canada Line rapid transit project (the "Project"). The project involves the design, construction, implementation and operation of a rail-based rapid transit line running from central Richmond to the Vancouver International Airport (the "YVR Connector") and downtown Vancouver. As part of the funding agreement, the Airport Authority has committed to fund up to $300,000,000 (in 2003 dollars) towards the YVR Connector and common costs.

The agreement provides for the Airport Authority to develop, design and construct the YVR Connector. The YVR Connector will be owned by the Airport Authority. Upon completion of construction, the Airport Authority will lease the YVR Connector to SCBC, or a private partner, on terms satisfactory to the Airport Authority and SCBC.

The Airport Authority has contributed a total of $218,700,000 (2006 - $124,100,000) to CLCO towards the Project costs, which reduced the remaining contribution obligations of the Airport Authority. The amounts have been capitalized as construction-in-progress.

(d) Legal claims:

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

The Airport Authority has received notice of two claims from a contractor and service provider. Management of the Airport Authority believes that they will successfully defend these claims.

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

(e) Other airport leases:

YVRAS and its subsidiaries lease certain airports under long-term lease agreements. The leases contain specific conditions for compliance with specific requirements, including environmental standards, minimum insurance coverage, specific accounting and reporting requirements and various other matters, that have a significant effect on the day-to-day operations of the airports. The leases are accounted for as operating leases.

The future minimum payments over the next five years in respect of the airport ground leases are not disclosed as the annual charges for these rentals are based on participation in revenues or net income after taxes. The leases expire between 2027 and 2042.

(tabular amounts in thousands of dollars)

23. Commitments and contingencies (continued):

(f) Under the operating lease agreement with the City of Hamilton which terminates in 2036, TradePort is required to pay rent based on a formula of revenue and operating income.

(g) Future cash commitments:

Cash includes amounts designated by management of YVRAS for the following purposes:

	2007	2006
Investment – Jamaica	$ -	$ 649
Consortium financial support - Jamaica	2,016	3,058
TradePort (note 9(b))	98	80
Other	-	5
	$ 2,114	$ 3,792

24. Guarantees:

Shares held by YVRAS as investments (note 5) in the following companies are pledged as collateral for borrowings made by those companies.

Investment	Shares	Term (Years)	Expiry
AERODOM	503,750	10	2014
MBJ	153,000	13	2015
SCL	100	15	2019
Hermes	1,100	20	2025

(a) The terms of the guarantees are co-terminus with the loans.

(b) The guarantees arise in respect of borrowings made by each of the above companies for the following purposes:

(i) The International Finance Corporation ("IFC") and Export Development Canada ("EDC") loaned USD $125,000,000 to finance the completion of construction at airports concessioned to AERODOM in the Dominican Republic. Both lenders required that each shareholder pledge the interest in, rights to and title for the shares to IFC and EDC, respectively.

(ii) The IFC loaned USD $77,000,000 to finance capital works expansion at the Sangster International Airport in Montego Bay, Jamaica. The IFC required each shareholder in MBJ pledge the interest in, rights to and title for the shares to the IFC until expiry date of the loan.

24. Guarantees (continued):

(b) (continued):

(iii) SCL issued fully insured bonds in the amount of Chilean UF 2,960,000. The bonds were insured as part of a remediation financing of SCL following a default on an existing debt obligation.

(iv) Hermes arranged with a syndication of lenders credit facilities for a total of €612,500,000. A condition to the arrangement of these credit facilities was the requirement that YVRAS pledge its interest in, rights to and title for its Hermes shares to Societe Generale in trust for the Secured Finance Creditors of Hermes.

(c) YVRAS has provided guarantees to the concessionaires (MBJ, AERODOM and SCL, and to an affiliate of the Airport Authority of Bahamas) on the performance of its management contracts. The total liability is limited to USD $1,000,000 for Jamaica management contract and twelve months' fees for Dominican Republic and Chile management contracts, respectively.

(d) CAOG (64% interest held therein by YVRAS) has a service contract with Hermes and guarantees with respect there to reference maximum liabilities undernoted:

(i) up to €1,400,000 in respect of one claim, or
(ii) up to €2,800,000 in aggregate until CAOG has been paid €2,800,000 in management fees, or
(iii) thereafter the aggregate amount of all claims increased on a Euro for Euro basis as management fees are paid to CAOG up to an aggregate cap of €4,200,000.

(e) Except for the stated pledge of shares and the performance guarantees, no other financial recourse exists.

(f) The Airport Authority has entered into a securities pledge agreement with CDC Airport Investments (Barbados) Ltd. which provides rights, title and interest in the YVRAS common and preferred shares, and related dividends, interest, or repayment of capital in respect thereof, in the event of default on any of the remaining amounts due in 2009 and 2011 relating to the acquisition of the remaining non-controlling interest of YVRAS by VAEL.

(g) The Airport Authority, through one of its subsidiaries, YVR Airport Services (Cyprus) Limited ("YVRAS Cyprus"), made an investment in Hermes Airports Limited ("Hermes"), which holds the concession to develop and operate two airports in Cyprus (Pafos and Larnaka) over a period of twenty-five years commencing May 13, 2006.

YVRAS Cyprus has an 11.0% interest in Hermes, which was funded by an equity bridge facility established by Hermes. The security for this facility was provided by each shareholder in Hermes. YVRAS Cyprus share is secured by an irrevocable letter of credit guaranteed by the Airport Authority. The amount of this guarantee is €6,655,000 (CAD $10,200,000).

24. Guarantees (continued):

(h) In certain circumstances, the Airport Authority has agreed to provide compensation to the security contractor providing security escorts to construction contractors working at the Airport should the construction contractor default on payments to the security contractor. The Airport Authority would then have the right to recover such compensation from the construction contractor.

25. Related party transactions:

YVRAS earned airport management fees of $10,043,000 (2006 - $7,258,000) from certain investees (note 5). Accounts receivable from these investees as at December 31, 2007 are $2,238,000 (2006 - $2,293,000).

These transactions are in the normal course of operations and have been recorded at the exchange amount.

26. Economic dependence:

The Airport Authority derives approximately $47,900,000 (2006 - $49,900,000) in aeronautical fees and rents from one airline and $20,100,000 (2006 - $22,600,000) in concession revenue from one concession operator.

27. Financial instruments:

(a) Concentration of credit risk:

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. The Airport Authority believes that the cessation of operations of an airline would not have a material long-term effect on the Airport Authority's revenue or operations.

YVRAS' revenues are dependent on large contracts from a limited number of domestic and international customers. As a result, periodic concentration of credit risks may occur.

(b) Foreign exchange:

YVRAS has an exposure to foreign currency fluctuations related to its international operations. Foreign exchange risk on foreign denominated liabilities is managed whenever possible by matching assets with related liabilities by currency.

The fair value of the debentures at December 31, 2007 is estimated to be $587,000,000 (2006 - $541,000,000).

27. Financial instruments (continued):

(c) Fair value of financial instruments:

The Airport Authority's financial instruments include cash and short-term investments, accounts receivable, other receivables, long-term receivables and accounts payable and accrued liabilities for which the carrying amounts approximate fair values. The fair value of other long-term investments is discussed below in note 27(d).

(d) Other long-term investments:

As at December 31, 2007, the Airport Authority held investments in non-bank sponsored ABCP with maturity values totaling $33,770,000, which are included in other long-term investments.

During August 2007, disruptions occurred in the Canadian non-bank sponsored ABCP market that prevented some trusts from meeting their obligations regarding commercial paper maturities. On December 23, 2007, a restructuring plan was announced and is anticipated to be completed by March, 2008. This restructuring plan contemplates converting holdings in the affected trusts into new floating rate notes with a term to maturity matching that of the underlying assets.

There is uncertainty related to the outcome of the restructuring plan being considered for these securities and in estimating the amount and timing of cash flows in any restructuring. As a result, management has applied its best judgment to assess market conditions and, following a probability weighted cash flow model, has estimated the fair value of these securities at December 31, 2007. The valuation of each security has been limited by a lack of information about the underlying assets of each of the Trusts as the information has not been made available by them.

As a result of the valuation, the Airport Authority has recognized a loss on fair value of $7,345,000 against the carrying value of the ABCP. This estimate of the fair value of the ABCP is subject to uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in assumptions could affect the value to ABCP in the next fiscal quarters. The resolution of these uncertainties could be such that the ultimate fair value of these investments may vary from management's current best estimate and any such difference could affect the Airport Authority's financial results.

The Airport Authority has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect a material adverse impact on its business as a result of the ABCP liquidity issue.

(tabular amounts in thousands of dollars)

28. Supplementary cash flow information:

(a) Changes in non-cash operating working capital:

	2007	2006
Changes in non-cash operating working capital		
Accounts receivable	$ (3,625)	$ (1,890)
Other receivables	2,564	4,337
Other current assets	(1,258)	(1,769)
Prepaid ground lease	(6,182)	(11,128)
Accounts payable and accrued liabilities	(4,534)	27,122
Other	(51)	-
	$ (13,086)	$ 16,672

(b) Other supplementary information:

	2007	2006
Supplementary information:		
Interest expense paid	$ 28,243	$ 21,536
Interest income received	2,338	2,740
Income taxes paid	1,653	1,564
Non-cash items:		
Lease inducement provided to a concession operator	3,000	-
Financing costs accounted for under effective interest method (note 2(b))	(345)	-

29. Subsequent event:

The Airport Authority and YVRAS have recently agreed to negotiate the issuance of a substantial common equity interest to a third party for cash. If this activity completes, YVRAS' capital will be substantially changed.

30. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the year ended December 31, 2007.