UNAUDITED NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION

VANCOUVER AIRPORT AUTHORITY

December 31, 2007, with comparative figures for 2006 (In thousands of dollars)

	2007	2006
Assets		
CURRENT ASSETS:		
Cash and short-term investments	$ 50,283	$ 161,459
Accounts receivable	27,233	23,712
Other receivables	4,067	6,442
Current portion of net investment in lease (note 3)	307	248
Other current assets	6,311	5,111
	88,201	196,972
Deferred financing costs (note 2(b))	–	2,728
Net investment in lease (note 3)	10,160	10,467
Long-term receivables (note 4)	913	1,163
Investment in subsidiaries (note 5)	52,570	47,070
Capital assets (note 6)	1,401,199	1,177,939
Other long-term asset (note 10(b))	2,717	–
Prepaid ground lease (note 17(a))	17,310	11,128
Other long-term investments (note 19(c))	26,425	–
	$ 1,599,495	$ 1,447,467

	2007	2006
Liabilities and Net Assets		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 70,501	$ 74,970
Notes payable (note 7)	–	150,000
Deferred ground lease payments (note 9)	2,053	2,053
Current portion of other long-term liabilities (note 10(b))	1,000	–
	73,554	227,023
Deferred revenue	5,010	5,845
Debentures (note 8)	546,441	350,000
Deferred ground lease payments (note 9)	14,370	16,423
Other long-term liabilities (note 10)	23,809	25,639
Deferred capital contributions (note 11)	84,103	60,195
	747,287	685,125
NET ASSETS:		
Invested in capital assets (note 12)	770,655	617,744
Unrestricted net assets	81,553	144,598
	852,208	762,342
	$ 1,599,495	$ 1,447,467

Commitments and contingencies (note 17)

Guarantees (note 20)

Subsequent event (note 22)

See accompanying notes to non-consolidated financial statements.

UNAUDITED NON-CONSOLIDATED STATEMENT OF OPERATIONS

VANCOUVER AIRPORT AUTHORITY

Year ended December 31, 2007, with comparative figures for 2006 (In thousands of dollars)

	2007	2006
REVENUE:		
Landing fees	$ 36,361	$ 44,097
Terminal fees	93,017	90,032
Concessions	62,878	62,617
Airport improvement fees	97,239	89,451
Car parking	29,952	28,788
Rentals, fees and miscellaneous	36,707	35,316
Grant revenue (notes 11 and 13)	12,182	13,453
	368,336	363,754
EXPENSES:		
Salaries, wages and benefits	34,948	33,128
Materials, supplies and services	65,687	60,566
Payment in lieu of taxes, insurance and other	16,576	17,089
Amortization	66,459	56,589
	183,670	167,372
OTHER EXPENSES:		
Ground lease (note 17(a))	65,619	65,660
Interest and financing charges	28,547	22,807
	94,166	88,467
Excess of revenue over expenses before undernoted items:	90,500	107,915
Dividend revenue (note 5)	2,500	–
Foreign exchange gain (loss) on other long-term liabilities (note 10(a))	3,830	(124)
Loss on fair value of other long-term investments (note 19(c))	(7,345)	–
Excess of revenue over expenses	89,485	107,791

See accompanying notes to non-consolidated financial statements.

UNAUDITED NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

VANCOUVER AIRPORT AUTHORITY

Year ended December 31, 2007, with comparative figures for 2006 (In thousands of dollars)

	INVESTED IN CAPITAL ASSETS (NOTE 12)	UNRESTRICTED	**2007**	2006
Balance, beginning of year	$ 617,744	$ 144,598	$ 762,342	$ 654,551
Transition adjustment on adoption of financial instrument standards (note 2(b))	3,109	(2,728)	381	–
Excess (deficiency) of revenue over expenses	(60,841)	150,326	89,485	107,791
Net change in invested in capital assets (net)	210,643	(210,643)	–	–
Balance, end of year	$ 770,655	$ 81,553	$ 852,208	$ 762,342

See accompanying notes to non-consolidated financial statements.

UNAUDITED NON-CONSOLIDATED STATEMENT OF CASH FLOWS

VANCOUVER AIRPORT AUTHORITY

Year ended December 31, 2007, with comparative figures for 2006 (In thousands of dollars)

	2007	2006
Cash provided by (used for):		
OPERATIONS:		
Excess of revenue over expenses	$ 89,485	$ 107,791
Items not involving cash:		
Amortization of capital assets	66,459	56,589
Amortization of deferred capital contributions	(5,618)	(5,825)
Amortization of discount on debentures	6	13
Amortization of deferred financing costs	525	257
Amortization of lease inducement asset	283	–
Loss on disposal of capital assets	6	27
Foreign exchange (gain) loss on other long-term liabilities (note 10(a))	(3,830)	124
Loss on fair value of other long-term investments (note 19(c))	7,345	–
Changes in non-cash operating working capital (note 21(a))	(12,997)	16,405
	141,664	175,381
FINANCING:		
Issuance (repayment) of notes payable (note 7)	(150,000)	150,000
Repayment of debentures	–	(150,000)
Issuance of debentures (note 8)	200,000	200,000
Increase in deferred financing fees	(981)	(1,556)
Decrease in deferred revenue	(835)	(835)
Deferred capital contributions	29,526	9,182
Decrease in deferred ground lease (note 9)	(2,053)	(2,053)
	75,657	204,738
INVESTMENTS:		
Decrease in marketable securities	–	59,937
Increase in other long-term investments (note 19(c))	(33,770)	–
Additions of capital assets	(289,733)	(315,865)
Proceeds on disposal of capital assets	8	8
Increase in investment in subsidiaries (note 5)	(5,500)	(11,598)
Decrease in long-term receivables	250	231
Decrease in net investment in lease	248	197
	(328,497)	(267,090)
Increase (decrease) in cash	(111,176)	113,029
Cash, beginning of year	161,459	48,430
Cash, end of year	$ 50,283	$ 161,459

Cash is defined as cash and short-term investments.

Supplementary cash flow information (note 21)

See accompanying notes to non-consolidated financial statements.

NOTES TO UNAUDITED NON-CONSOLIDATED FINANCIAL STATEMENTS

VANCOUVER AIRPORT AUTHORITY

Year ended December 31, 2007 (tabular amounts in thousands of dollars)

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 International Airport (the "Airport") pursuant to a lease of most of Sea Island, Richmond, British Columbia, from the Government of Canada (the "ground lease").

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) PRESENTATION AND BASIS OF ACCOUNTING:

These non-consolidated financial statements have been prepared in accordance with the significant accounting policies described herein pursuant to the Trust Indenture Agreement (the "Trust Indenture") dated December 6, 1996, one Supplemental Indenture dated November 14, 2006, two dated December 7, 2006 and one dated November 14, 2007. The basis of accounting used to prepare these non-consolidated financial statements materially differs from Canadian generally accepted accounting principles because the Airport Authority's wholly-owned subsidiaries are accounted for using the cost method. The Airport Authority also distributes audited consolidated financial statements prepared for the same period in accordance with Canadian generally accepted accounting principles.

(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*, and 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.

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 revenue and expenses. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

(b) FINANCIAL INSTRUMENTS (continued):

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.

The impact of applying the new standards is described below:

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 19(c).

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 $2,728,000 to notes payable and debentures. As a result of reflecting the effective interest method, opening net assets increased by $381,000, with a corresponding decrease in notes payable of $1,000 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.

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) 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 20%
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):

(g) DEFERRED FINANCING COSTS:

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

(h) 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.

(i) 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 any 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 Fees ("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.

(j) 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.

(k) TAXES:

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

A payment in lieu of taxes is made for municipal services.

(l) 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).

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.

(m) 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, net recoverable value of assets, useful lives for amortization, valuation of ABCP and provisions for contingencies. Actual results could differ from those estimates.

Year ended December 31, 2007 (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:

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.

	2007	2006
Long-term receivables	$ 1,163	$ 1,394
Less current portion	250	231
	$ 913	$ 1,163

The current portion of long-term receivables is included in accounts receivable.

5. INVESTMENT IN SUBSIDIARIES:

The amount comprises investments in Vancouver Airport Enterprises Limited ("VAEL") which through its subsidiary, YVR Airport Services Ltd. ("YVRAS"), invests in and manages a number of airports across Canada and around the world, and through YVR Project Management Ltd. ("YVRPM"), which provides capital project management services.

Initial investments in VAEL	$	9,957
Acquisition of the non-controlling interest in YVRAS in 2006:		
Consideration given in cash		11,598
Subsequent amounts due, recognized as other long-term liabilities (USD $22,000)		25,515
Investment in subsidiaries at December 31, 2006		47,070
Additional investment		5,500
Investment in subsidiaries at December 31, 2007	$	52,570

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 CDC Airport Investments (Canada) Ltd. ("CAIC") (a subsidiary of CDC Group PLC ("CDC"), a UK public company) which owned the remaining common and preferred shares of YVRAS. The purchase price consists of consideration of $15,809,000 (USD $13,631,000) and $21,304,000 (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 from 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, to be funded by additional equity contributions into VAEL by the Airport Authority, are payable as follows for the respective shares:

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

On January 1, 2007, YVRAS and CDC Airport Investments (Canada) Ltd. ("CAIC") completed a short form amalgamation and continued as YVRAS. The issued and outstanding common and preferred 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.

In March 2007, the Airport Authority invested an additional $5,500,000 in VAEL. These funds, through YVRAS, were used to increase its control of TradePort International Corporation ("TradePort") from 62.33% to 100%. As part of the financing arrangement of this transaction, the Airport Authority received a $2,500,000 dividend indirectly from YVRAS.

Year ended December 31, 2007 (tabular amounts in thousands of dollars)

6. CAPITAL ASSETS:

	Cost	Accumulated amortization	2007 Net book value	2006 Net book value
Buildings and other structures	$ 903,594	$ 224,596	$ 678,998	$ 518,693
Runways and other paved surfaces	341,020	90,371	250,649	241,532
Machinery and equipment	35,163	16,271	18,892	13,911
Furniture and fixtures	21,011	12,824	8,187	5,832
Computer equipment and software	62,070	35,151	26,919	21,212
Art collection	4,823	–	4,823	4,120
Construction-in-progress	412,731	–	412,731	372,639
	$ 1,780,412	$ 379,213	$ 1,401,199	$ 1,177,939

7. 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.

8. 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 14, 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 7), 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.

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.

9. 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 17(a)).

Year ended December 31, 2007 (tabular amounts in thousands of dollars)

10. OTHER LONG-TERM LIABILITIES:

		2007		2006
(a) Due to VAEL (USD $22,000)	$	21,809	$	25,639
(b) Lease inducement liability		3,000		–
Other long-term liabilities		24,809		25,639
Less current portion of other long-term liabilities		1,000		–
Other long-term liabilities	$	23,809	$	25,639

(a) As part of the acquisition of the non-controlling interest in YVRAS in March 2006 by VAEL, the Airport Authority committed USD $22,000,000 as an additional investment in VAEL to fund the acquisition. VAEL is committed to pay USD $17,000,000 in 2009 and USD $5,000,000 in 2011, subject to adjustments. A foreign exchange gain of $3,830,000 represents the adjustment necessary to translate this US denominated long-term liability to the exchange rate in effect on December 31, 2007.

(b) 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.

11. DEFERRED CAPITAL CONTRIBUTIONS:

		2007		2006
Canadian Air Transport Security Authority ("CATSA")	$	97,554	$	68,039
Other		707		696
		98,261		68,735
Accumulated amortization		(14,158)		(8,540)
Ending balance	$	84,103	$	60,195

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.

12. INVESTED IN CAPITAL ASSETS:

(a) INVESTED IN CAPITAL ASSETS IS DETERMINED AS FOLLOWS:

	2007	2006
Capital assets	$ 1,401,199	$ 1,177,939
Amounts financed by:		
Deferred capital contributions	(84,103)	(60,195)
Debentures and FRNs	(546,441)	(500,000)
	$ 770,655	$ 617,744

(b) DEFICIENCY OF REVENUE OVER EXPENSES:

	2007	2006
Amortization of deferred capital contributions	$ 5,618	$ 5,825
Amortization of capital assets	(66,459)	(56,589)
	$ (60,841)	$ (50,764)

(c) NET CHANGE IN INVESTED IN CAPITAL ASSETS:

	2007	2006
Purchase of capital assets	$ 289,733	$ 315,865
Amounts funded by deferred capital contributions	(29,526)	(9,182)
Proceeds from disposal of capital assets	(8)	(8)
Loss on disposal of capital assets	(6)	(27)
Repayment of FRNs	150,000	–
Repayment of debentures	–	150,000
Issuance of debentures	(200,000)	(350,000)
Deferred financing fees	981	–
Amortization of deferred financing fees	(525)	–
Amortization of discount on debentures	(6)	–
	$ 210,643	$ 106,648

13. 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.

14. BANK OPERATING LINE:

During 2007, 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.

15. 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).

16. EMPLOYEE FUTURE BENEFITS:

(a) FUNDED PENSION PLANS:

Defined contribution plans:

The Airport Authority participates in a Registered Retirement Savings Plan ("RRSP") which covers employees who have joined the Airport Authority since June 1992. Employees covered by this plan are required to contribute 6% 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 ending December 31, 2008.

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.

Year ended December 31, 2007 (tabular amounts in thousands of dollars)

16. EMPLOYEE FUTURE BENEFITS (continued):

(a) FUNDED PENSION PLANS (continued):

Defined benefit plan (continued):

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%

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 benefit 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).

(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).

17. COMMITMENTS AND CONTINGENCIES:

(a) GROUND LEASE:

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

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.

Year ended December 31, 2007 (tabular amounts in thousands of dollars)

17. COMMITMENTS AND CONTINGENCIES (continued):

(a) GROUND LEASE (continued):

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 9) 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 $13,400,000 (2006 – $28,900,000). These commitments extend for periods of up to five years.

(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 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.

18. 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.

19. 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.

(b) 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 amount due to VAEL (note 10(a)) has been recorded at the exchange amount. The fair value of other long-term investments is discussed below in note 19(c).

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

(c) 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.

19. FINANCIAL INSTRUMENTS (continued):

(c) OTHER LONG-TERM INVESTMENTS (continued):

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.

20. GUARANTEES:

(a) 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.

(b) 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.

(c) 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 EUR Đ6,655,000 (CAD $10,200,000).

(d) 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.

21. SUPPLEMENTARY CASH FLOW INFORMATION:

(a) CHANGES IN NON-CASH OPERATING WORKING CAPITAL:

		2007		2006
Increase in accounts receivable	$	(3,521)	$	(416)
Decrease in other receivables		2,375		4,340
Increase in other current assets		(1,200)		(1,692)
Increase in prepaid ground lease (note 17(a))		(6,182)		(11,128)
Increase (decrease) in accounts payable and accrued liabilities		(4,469)		25,301
	$	(12,997)	$	16,405

(b) OTHER SUPPLEMENTARY INFORMATION:

		2007		2006
Supplementary information:				
Interest expense paid	$	26,760	$	20,888
Interest income received		2,338		2,740
Non-cash transaction:				
Lease inducement provided to a concession operator		3,000		–
Financial costs accounted for under effective interest method (note 2(b))		381		–
Additional investment payable to VAEL (note 5)		–		25,515

22. 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.

23. COMPARATIVE FIGURES:

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