Consolidated Financial Statements of

VANCOUVER
AIRPORT AUTHORITY

Years ended December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Directors of Vancouver Airport Authority

We have audited the accompanying consolidated financial statements of the Vancouver Airport Authority (the “Entity"), which comprise the statement of financial position as at December 31, 2010, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Vancouver Airport Authority as at December 31, 2010, and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

April 14, 2011

Vancouver, Canada

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Financial Position
(In thousands of dollars)

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash	$ 267	$ 439
Accounts receivable (note 3)	21,358	20,791
Other receivables	6,777	3,723
Current portion of net investment in lease	539	451
Supplies inventory	5,555	5,528
Other current assets	1,594	4,038
	36,090	34,970
Net investment in lease (note 4)	8,795	9,333
Investment in YVRAS (note 5)	120,084	113,959
Capital assets (note 6)	1,637,670	1,687,894
Other long-term assets (note 7)	24,525	22,319
Other long-term investments (note 8)	-	19,133
	$ 1,827,164	$ 1,887,608
Liabilities and Net Assets		
Current liabilities:		
Bank indebtedness (note 9)	$ 49,900	$ 131,922
Accounts payable and accrued liabilities	32,327	64,123
Current portion of deferred revenue	2,279	5,149
Lease inducement liabilities	-	6,000
Current portion of deferred ground lease payments (note 10)	2,053	2,053
	86,559	209,247
Deferred revenue	2,505	3,340
Other long-term liabilities (note 15(b))	6,979	6,011
Deferred ground lease payments (note 10)	8,211	10,264
Deferred capital contributions (note 11(a))	80,247	77,546
Debentures (note 12)	547,143	546,909
Deferred gain on deemed disposition of shares (note 5)	57,607	60,335
	789,251	913,652
Net assets:		
Invested in capital assets (note 13(a))	1,010,280	1,063,439
Unrestricted net assets (deficiency)	27,633	(89,483)
	1,037,913	973,956
Commitments and contingencies (note 16)		
	$ 1,827,164	$ 1,887,608

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)

Years ended December 31, 2010 and 2009

		2010		2009
Revenue:				
Landing fees	$	35,690	$	34,384
Terminal fees		87,110		87,927
Concessions		68,393		63,131
Airport improvement fees		89,569		86,509
Car parking		28,228		28,895
Rentals		30,887		30,261
Fees and miscellaneous		15,875		12,937
Contributions (note 11(b))		13,090		15,049
		368,842		359,093
Expenses:				
Salaries, wages and benefits		41,504		40,065
Materials, supplies and services		80,113		72,925
Payment in lieu of taxes, insurance and other		20,447		19,013
Amortization of capital assets		106,532		91,991
		248,596		223,994
Other expenses:				
Ground lease		33,177		65,619
Interest and financing charges		32,884		32,727
		66,061		98,346
Excess of revenue over expenses before undernoted items		54,185		36,753
Gain (loss) on other long-term investments (note 8)		1,141		(2,132)
Write down of capital assets		-		(2,099)
Equity earnings of YVRAS (note 5)		6,086		2,550
Amortization of deferred gain on deemed disposition of shares (note 5)		2,336		6,220
Excess of revenue over expenses	$	63,748	$	41,292

See accompanying notes to consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

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

Years ended December 31, 2010 and 2009

	Invested in capital assets (note 13)	Unrestricted	2010	2009
Balance, beginning of year	$ 1,063,439	$ (89,483)	$ 973,956	$ 932,664
Other comprehensive income from investment in YVRAS	-	209	209	-
Excess (deficiency) of revenue over expenses	(97,193)	160,941	63,748	41,292
Net change in invested in capital assets	44,034	(44,034)	-	-
Balance, end of year	$ 1,010,280	$ 27,633	$ 1,037,913	$ 973,956

See accompanying notes to consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Cash Flows
(In thousands of dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Operations:		
Excess of revenue over expenses	$ 63,748	$ 41,292
Items not involving cash:		
Amortization of capital assets	106,532	91,991
Amortization of deferred capital contributions	(9,339)	(9,173)
Amortization of prepaid interest on bankers' acceptances	1,532	1,430
Amortization of deferred financing costs	234	221
Amortization of other long-term assets	2,136	1,610
Loss (gain) on other long-term investments	(1,141)	2,132
Write down of capital assets	-	2,099
Amortization of deferred gain on deemed disposition of shares	(2,336)	(6,220)
Equity earnings of YVRAS	(6,086)	(2,550)
Gain on disposal of capital assets	(9)	(18)
Changes in non-cash working capital (note 20(a))	(21,542)	12,634
	133,729	135,448
Financing:		
Increase in bank operating line	9,582	1,862
Issuance of bankers' acceptances	134,364	217,305
Repayment of bankers' acceptances	(227,500)	(127,000)
Deferred capital contributions	11,317	4,568
Increase (decrease) in lease inducement liabilities	(6,000)	4,000
Increase in other long-term liabilities	968	567
Deferred ground lease payments	(2,053)	(2,053)
	(79,322)	99,249
Investments:		
Proceeds on disposal of other long-term investments	20,274	-
Additions of capital assets	(71,159)	(226,553)
Proceeds on disposal of capital assets	28	18
Decrease in net investment in lease	450	376
Increase in other long-term assets	(4,342)	(13,884)
Investment in YVRAS (note 5)	(8,333)	-
Return of capital from YVRAS (note 5)	8,503	5,376
	(54,579)	(234,667)
Increase (decrease) in cash	(172)	30
Cash, beginning of year	439	409
Cash, end of year	$ 267	$ 439

Supplementary cash flow information (note 20(b))

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 International Airport (the “Airport”) pursuant to a lease of most of Sea Island, Richmond, British Columbia, from the Government of Canada (the “Ground Lease”). The subsidiary of the Airport Authority, Vancouver Airport Enterprises Ltd. (“VAEL”), is a holding company for the 50% investment in YVR Airport Services Ltd. (“YVRAS”) (see note 5), which invests in and manages a number of airports in Canada and around the world, and YVR Project Management Ltd. (“YVRPM”), a wholly owned subsidiary, which provides capital project management services to affiliated and non-affiliated entities.

2. Significant accounting policies:

(a) Presentation and basis of accounting:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the results of its wholly owned subsidiaries VAEL and YVRPM and the equity earnings of the 50% investment in YVRAS. All intercompany transactions and balances have been eliminated on consolidation.

(b) Changes in accounting policies:

(i) On January 1, 2010, the Airport Authority early adopted Section 1582, *Business Combinations*, issued by the Canadian Institute of Chartered Accountants (“CICA”). This standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of the acquisition. In addition, acquisition related and restructuring costs are to be recognized separately from the business combination and included in the consolidated statement of operations. The adoption of this standard aligns the Airport Authority’s accounting policies with those of its affiliated Companies. As a result of the adoption of this new standard, YVRAS has recorded the acquisition of Peel Airports Limited as described in note 5 using the new accounting standard, which is recognized as part of the equity earnings in these consolidated financial statements.

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(b) Changes in accounting policies (continued):

(ii) Future changes in accounting policies:

In December 2010 the CICA in conjunction with the Accounting Standards Board ("AcSB") issued Part III – Accounting Standards for Not-for-Profit Organizations ("Part III") of the CICA Handbook. Part III is effective for fiscal years commencing on or after January 1, 2012 and provides Canadian private sector not-for-profit organizations with a new financial reporting framework. The Airport Authority has the option to apply International Financial Reporting Standards or the newly approved accounting standards for Not-for-Profit Organizations.

After a detailed evaluation of both sets of accounting standards, the Airport Authority has elected to adopt the new accounting standards for not-for-profit organizations effective January 1, 2012. The differences on adoption are expected to be minimal.

(c) Supplies inventory:

Supplies inventory is valued at the lower of cost and net realizable value. The Airport Authority did not write down or reverse any previous write downs on its inventories. Cost includes purchase price, import duties, other net taxes, and transport, handling and other costs directly attributable to acquisition. Net realizable value is the estimated current replacement cost. The cost of inventory recognized as an expense during the year ended December 31, 2010 was $1,700,000 (2009 - $3,917,000).

(d) Investment in YVRAS:

The Airport Authority accounts for its 50% investment in YVRAS using the equity method.

(e) Capital assets:

Capital assets are recorded at cost. The cost includes the purchase price and other acquisition and construction costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation, insurance costs and duties.

Amortization is provided at cost less estimated salvage value on a straight-line basis over a period not exceeding the estimated useful lives as follows:

Buildings and other structures	10 to 40 years
Runways and other paved surfaces	3 to 30 years
Rapid transit infrastructure	50 years
Machinery and equipment	5 to 15 years
Furniture and fixtures	5 to 15 years
Computer equipment and software	3 to 10 years
Art collection	Not amortized

2. Significant accounting policies (continued):

(f) Deferred revenue:

Deferred revenue represents premiums received from tenants at preferential locations, prepaid rents and licenses received from tenants and operators in advance, which are deferred and amortized over the terms of the related agreements.

(g) Deferred gain on deemed disposition of shares

The deferred gain on the deemed disposition of the Airport Authority's investment in YVRAS is recognized into income over the remaining expected useful life of the underlying assets that existed upon the disposition, which was estimated to be 27 years. Upon redemption or reduction of capital of preferred shares for cash, a pro-rata portion of the deferred gain will be recognized into income. Upon conversion of preferred shares into class A common shares, or into cash reinvested in YVRAS, the deferred gain will continue to be recognized on the basis described above.

(h) Revenue recognition:

Revenue is recognized if the amount to be received can be reasonably estimated and collection is reasonably assured as follows:

(i) Aeronautical charges, which consist of landing and terminal fees, are recognized as revenue when airport facilities are utilized.

(ii) Concession revenue is recognized based on the greater of agreed percentages of reported concessionaire sales and specified minimum rentals. Differences between revenue recognized and actual cash payments are recorded as lease inducement assets or liabilities. The lease inducement asset (liability) is amortized over the lease term, resulting in constant revenue recognized over the term of the lease.

(iii) Revenue from the Airport Improvement Fee (AIF), which is collected from passengers by air carriers, is recognized based on monthly remittances from air carriers.

(iv) Car parking revenue is recognized when airport facilities are utilized.

(v) Contributions:

The Airport Authority uses the deferral method of accounting for contributions

- Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- Contributions received to offset specific operating costs are recorded as revenue when the related costs are incurred.
- Contributions received and designated by third parties for specific capital purposes are deferred and brought into income on a basis consistent with the amortization of the related capital assets.

2. Significant accounting policies (continued):

(h) Revenue recognition (continued):

(v) Contributions: (continued):

- The Airport Authority does not have any endowment contributions.

(i) Ground lease expense:

The ground lease expense is based on a progressive scale of percentages of the Airport Authority's revenue as defined in the Ground Lease and is charged to operations.

The Airport Authority does not receive title to the underlying parcels of land; therefore the ground lease has been accounted for as an operating lease.

(j) Taxes:

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

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

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

(k) Employee future benefits:

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

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

The Airport Authority measures its accrued benefit obligations and the fair value of plan assets 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, 2009. The next valuation will be as of December 31, 2010, the results of which are expected to be available during the year ending December 31, 2011.

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 value.

2. Significant accounting policies (continued):

(k) Employee future benefits (continued):

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.

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.

(l) Financial instruments:

Recognition and measurement

Financial assets and liabilities, including derivative instruments, are initially recognized at fair value and subsequently classified into one of the following balance sheet categories:

- Held for trading financial assets and liabilities are initially measured at fair value with subsequent changes in fair value being recognized in the consolidated statement of operations;
- Available-for-sale financial assets are initially measured at fair value with subsequent changes in fair value being recognized in the consolidated statement of changes in net assets until the instrument is derecognized or impaired at which time the amount would be recorded in the consolidated statement of operations; or
- Held-to-maturity investments, loans and receivables, or other financial liabilities are initially measured at fair value with subsequent changes measured at amortized cost utilizing the effective interest rate method.

Classification of financial instruments:

The following is a summary of the classification applied to each of the Airport Authority's financial instruments:

Cash	Held for trading
Accounts receivable	Loans and receivables
Other receivables	Loans and receivables
Long-term receivables	Loans and receivables
Other long-term investments	Held for trading
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Debentures	Other financial liabilities

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(l) Financial instruments (continued):

Financing costs:

The Airport Authority capitalizes all transaction costs relating to the acquisition of financing as an offset to the related debt and amortizes the costs to interest expense using the effective interest rate method over the term of the underlying debt.

(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, allowance for doubtful accounts, percentage of completion for construction-in-progress, net recoverable value of assets, useful lives for amortization of capital assets, accrued liabilities, valuation of investment in YVRAS, assumptions with respect to defined benefit plans, valuation of other long-term investments and provisions for contingencies. Actual results could differ materially from those estimates.

3. Accounts receivable:

	2010	2009
Current	$ 22,009	$ 21,274
31-60 days past due	140	116
61-90 days past due	16	37
90 + days past due	118	89
Less allowance for doubtful accounts	(925)	(725)
	$ 21,358	$ 20,791

	2010	2009
Allowance for doubtful accounts, beginning of year	$ 725	$ 633
Addition to allowance for doubtful accounts	975	300
Write off of specific accounts	(775)	(208)
Allowance for doubtful accounts, end of year	$ 925	$ 725

(tabular amounts in thousands of dollars)

4. Net investment in lease:

During 2002, the Airport Authority acquired a cargo facility for cash consideration of $11,254,000 which was then leased back to the vendor under an agreement expiring December 31, 2019. The Airport Authority's net investment in the direct financing lease consists of:

	2010	2009
Minimum lease payments receivable	$ 15,730	$ 17,400
Unearned income	(6,396)	(7,616)
	9,334	9,784
Less current portion	539	451
	$ 8,795	$ 9,333

As at December 31, 2010, the future minimum lease payments receivable under the direct financing lease are as follows:

2011	$ 1,696
2012	1,721
2013	1,747
2014	1,773
2015 and thereafter	8,793
	$ 15,730

(tabular amounts in thousands of dollars)

5. Investment in YVRAS:

	Common Shares		Preferred Shares		
	Number	Amount	Number	Amount	Total
January 1, 2009	1,080	$ 30,285	865	$ 86,500	$ 116,785
Return of capital (a)	-	-	-	(5,000)	(5,000)
Equity earnings for the year ended December 31, 2009	-	2,550	-	-	2,550
Return of capital (d)	-	(376)	-	-	(376)
December 31, 2009	1,080	32,459	865	81,500	113,959
Return/reinvestment of capital (b)	-	8,333	-	(8,333)	-
Exchange of preferred shares for common shares (c)	497	42,039	(497)	(42,039)	-
Return of capital (d)	-	(170)	-	-	(170)
Equity earnings for the year ended December 31, 2010	-	6,086	-	-	6,086
Other comprehensive income of YVRAS	-	209	-	-	209
December 31, 2010	1,577	$ 88,956	368	$ 31,128	$ 120,084

(a) On June 18, 2009, the stated capital of the preferred shares of YVRAS held by VAEL was reduced by $5,000,000. This transaction reduced the redemption value of the preferred shares from $100,000 to $94,220 per share. The $5,000,000 return of capital was recorded as a reduction in the preferred share investment in YVRAS and a pro-rata portion of the deferred gain on deemed disposition of shares of $3,779,000 was immediately recognized.

(b) On June 9, 2010, the stated capital of the preferred shares of YVRAS held by VAEL was reduced by $8,333,000. This reduced the redemption value of the preferred shares from $94,220 to $84,586 per share. VAEL reinvested the $8,333,000 received as a capital contribution to its common shares of YVRAS. The capital reduction was recorded as a decrease in the preferred share investment in YVRAS, offset by an equal increase in the equity investment in YVRAS.

(c) On June 21, 2010 YVRAS acquired a 65% ownership interest in Peel Airports Ltd. (“PAL”) which includes the key airport assets of Liverpool John Lennon Airport, Robin Hood Airport Doncaster Sheffield, and Durham Trees Valley Airport. In order to release restricted cash in YVRAS to provide partial funding for the transaction, VAEL converted 497 YVRAS preferred shares at $84,586 per share to 497 YVRAS class A common shares, with a value of $42,039,000. Immediately after the conversion, VAEL’s investment in YVRAS consisted of 1,577 class A common shares and 368 preferred shares.

(tabular amounts in thousands of dollars)

5. Investment in YVRAS (continued):

(d) During the year ended December 31, 2010, YVRAS approved an additional return of capital on the class A common shares of $170,000 (2009 - $376,000). This return of capital relates to the after-tax interest earned on the restricted cash held by YVRAS and has been recorded as a reduction in the equity investment in class A common shares of YVRAS.

(e) For the year ended December 31, 2010, the deferred gain recognized into income was $2,336,000 (2009 - $6,220,000), with $57,607,000 (2009 - $60,335,000) remaining in deferred gain on deemed disposition of shares.

Summarized consolidated statements of financial position, operations and cash flows of YVRAS as at and for the year ended December 31, 2010 are presented below:

	As at December 31, 2010	As at December 31, 2009
Current assets	$ 95,060	$ 109,329
Long-term assets	395,335	74,335
Current liabilities	36,757	8,265
Long-term liabilities	270,710	93,380
Net assets	$ 182,928	$ 82,019

	Year ended December 31, 2010	Year ended December 31, 2009
Revenue	$ 76,158	$ 41,558
Expenses	63,986	36,458
Net income	$ 12,172	$ 5,100

Cash flows provided by (used in):		
Operating activities	$ 10,446	$ 2,337
Financing activities	48,600	(7,772)
Investing activities	(68,862)	(1,833)

(tabular amounts in thousands of dollars)

6. Capital assets:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Buildings and other structures	$ 1,300,138	$ 377,824	$ 922,314	$ 938,588
Runways and other paved surfaces	425,829	138,122	287,707	296,093
Rapid transit infrastructure	298,781	8,913	289,868	295,211
Machinery and equipment	96,975	38,507	58,468	67,411
Furniture and fixtures	26,742	20,615	6,127	7,678
Computer equipment and software	100,337	69,003	31,334	28,561
Art collection	6,872	-	6,872	6,496
Construction-in-progress	34,980	-	34,980	47,856
	$ 2,290,654	$ 652,984	$ 1,637,670	$ 1,687,894

7. Other-long term assets:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
(a) Lease inducement	$ 15,851	$ 4,172	$ 11,679	$ 12,377
(b) Leasehold interest	5,043	250	4,793	4,871
(c) Development costs	765	-	765	-
(d) Long-term receivables	27	-	27	346
(e) Accrued benefit asset (note 15(a))	7,261	-	7,261	4,725
	$ 28,947	$ 4,422	$ 24,525	$ 22,319

(a) In certain circumstances, the Airport Authority provides lease inducements to tenants. These lease inducements are recorded as long-term assets and recognized evenly as a reduction of revenue over the life of the lease. During the year ended December 31, 2010, the Airport Authority granted lease inducements of $1,360,000 (2009 - $15,450,000) to tenants and recognized $2,058,000 (2009 - $1,491,000) as a reduction of concession revenue.

(tabular amounts in thousands of dollars)

7. Other long-term assets (continued):

(b) In June 2008, the Airport Authority acquired a leasehold interest on Sea Island for $5,043,000, which included the estimated cost of decommissioning and demolishing the existing building on the land. Accordingly, the Ground Lease with Transport Canada was amended to include this additional site. During the year ended December 31, 2010, the decommissioning and demolition of the building were substantially completed with the costs incurred applied against the related accrued liability.

The leasehold interest is being amortized over the remaining term of the Ground Lease, which has been extended to June 30, 2072 (note 16(a)). For the year ended December 31, 2010, the amortization of the leasehold interest was $78,000 (2009 - $120,000).

(c) The Airport Authority is currently undertaking two major development projects on Sea Island. The Airport Authority is planning to jointly involve private partners with appropriate expertise in the developments. The Airport Authority's costs to date consist primarily of design and surveying costs for these developments. The costs are expected to form part of the Airport Authority's future investment, therefore the costs have been recorded in other long-term assets.

(d) The Airport Authority has receivables from tenants relating to leasehold improvements which are repayable over two years. The Airport Authority receives interest on the outstanding balance at approximately 8.5% annually.

	2010	2009
Long-term receivables	$ 346	$ 649
Less current portion	(319)	(303)
	$ 27	$ 346

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

(tabular amounts in thousands of dollars)

8. Other-long term investments:

On January 19, 2009, the Airport Authority's Asset Backed Commercial Paper's (ABCP) holdings with original maturity values totaling $34,300,000 were exchanged for long-term floating rate notes (FRN) with maturity values totaling approximately $33,035,000, in accordance with an ABCP restructuring plan. The FRN had expected maturity dates from December 20, 2013 to December 25, 2036.

As at December 31, 2009, the Airport Authority estimated the fair value of the FRN at $19,133,000. On April 22, 2010, the Airport Authority sold all of its FRN holdings for proceeds of approximately $20,274,000 and recorded a gain of $1,141,000 for the year ended December 31, 2010 (2009 – loss of $2,132,000).

9. Bank indebtedness:

	2010	2009
Bank operating line	$ 14,558	$ 4,976
Bankers' acceptances	35,342	126,946
	$ 49,900	$ 131,922

The Airport Authority has available an unsecured bank operating line of $200,000,000 (2009 - $200,000,000).

The bankers' acceptances have fixed rates of interest varying from 1.83% to 2.04% with maturity dates ranging from January 7, 2011 to June 8, 2011.

10. 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.

	2010	2009
Deferred ground lease payments	$ 10,264	$ 12,317
Less current portion	(2,053)	(2,053)
Long term portion	$ 8,211	$ 10,264

Annual repayments of $2,053,000 are interest free over a ten-year period, commencing January 1, 2006.

(tabular amounts in thousands of dollars)

11. Operating and deferred capital contributions:

(a) Deferred capital contributions:

	2010	2009
Capital contributions:		
Canadian Air Transport Security Authority ("CATSA")	$ 116,779	$ 105,163
Other	2,368	1,944
	119,147	107,107
Accumulated amortization	(38,900)	(29,561)
	$ 80,247	$ 77,546

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

(b) Contributions:

	2010	2009
Amortization of deferred capital contributions	$ 9,339	$ 9,173
Operating contributions	3,751	5,876
	$ 13,090	$ 15,049

12. Debentures:

	2010	2009
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	200,000
	550,000	550,000
Less unamortized deferred financing costs	(2,857)	(3,091)
	$ 547,143	$ 546,909

The amended Series B debentures are issued under the Trust Indenture dated December 6, 1996, and amended under the Supplemental Indenture dated December 7, 2006. The Series D and Series E debentures are issued under Supplemental Indentures dated December 7, 2006 and November 14, 2007, respectively.

(tabular amounts in thousands of dollars)

12. Debentures (continued):

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 of equivalent maturity 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, acquisitions of corporations, investments and guarantees.

13. Invested in capital assets:

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

	2010	2009
Capital assets	$ 1,637,670	$ 1,687,894
Amounts financed by:		
Deferred capital contributions	(80,247)	(77,546)
Debentures	(547,143)	(546,909)
	$ 1,010,280	$ 1,063,439

(tabular amounts in thousands of dollars)

13. Invested in capital assets (continued):

(b) Deficiency of revenue over expenses:

	2010	2009
Amortization of deferred capital contributions	$ 9,339	$ 9,173
Amortization of capital assets	(106,532)	(91,991)
	$ (97,193)	$ (82,818)

(c) Net change in invested in capital assets:

	2010	2009
Purchase of capital assets	$ 71,159	$ 226,553
Amounts funded by deferred capital contributions	(11,317)	(4,568)
Proceeds from disposal of capital assets	(28)	(18)
Gain on disposal of capital assets	9	18
Write down of capital assets	-	(2,099)
Amortization of deferred financing fees	(234)	(221)
Net changes in capital assets and deferred capital contributions accruals	(15,555)	(3,984)
	$ 44,034	$ 215,681

14. 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 is to 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 $88,869,000 (2009 - $85,873,000) main terminal AIF revenue, and main terminal AIF eligible capital expenditures totaled $59,842,000 (2009 - $218,001,000). To December 31, 2010, the cumulative AIF revenue totaled $1,121,180,000 (2009 - $1,032,311,000), and cumulative AIF eligible expenditures totaled $2,240,156,000 (2009 - $2,180,314,000).

(tabular amounts in thousands of dollars)

15. 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%, and the Airport Authority contributes an additional 7% (2009 - 7%) of their earnings. Total contributions included in the pension expense for 2010 were $2,148,000 (2009 - $2,115,000).

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 year ended December 31, 2010 was $10,000 (2009 - $10,000).

Some senior executives are also provided a Retirement Compensation Arrangement (RCA). Contributions to the RCA in 2010 totaled $234,000 (2009 - $1,129,000).

Defined benefit plan:

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

	2010	2009
Accrued benefit obligation:		
Balance, beginning of year	$ 39,748	$ 30,455
Current service cost	1,004	819
Interest cost	2,674	2,542
Benefits paid	(1,215)	(930)
Actuarial loss	3,111	6,862
Balance, end of year	45,322	39,748
Fair value of plan assets:		
Balance, beginning of year	39,739	32,966
Actual return on plan assets	3,857	4,248
Employer contributions	3,024	3,187
Employee contributions	255	268
Benefits paid	(1,215)	(930)
Balance, end of year	45,660	39,739
Surplus (deficiency) of plan assets	338	(9)
Unamortized net actuarial loss	6,922	5,103
Unamortized transitional obligation	1	(369)
Accrued benefit asset	$ 7,261	$ 4,725

The accrued benefit asset is included in other long-term assets (note 7).

(tabular amounts in thousands of dollars)

15. 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:

	2010	2009
Asset category:		
Equity shares	62.8%	62.0%
Debt securities	33.1%	36.2%
Cash and short-term investments	4.1%	1.8%
Total	100.0%	100.0%

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

	2010	2009
Accrued benefit obligation as of December 31:		
Discount rate	5.75%	6.75%
Rate of compensation increase	4.00%	4.00%
Benefit costs for years ended December 31:		
Discount rate	6.75%	8.25%
Expected long-term rate of return on plan assets	6.50%	6.50%
Rate of compensation increase	4.00%	4.00%
Expected average remaining service life	7.2	7.2

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

	2010	2009
Current service cost, net of employees' contributions	$ 750	$ 551
Interest cost	2,674	2,542
Actual return on plan assets	(3,858)	(4,248)
Actuarial loss	3,111	6,862
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	2,677	5,707
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	1,208	2,023
Difference between actuarial loss recognized for year and actual actuarial gain on accrued benefit obligation for year	(3,028)	(6,862)
Amortization of the transitional obligation	(369)	(369)
Defined benefit costs recognized	$ 488	$ 499

15. Employee future benefits (continued):

(a) Funded pension plans (continued):

Total cash payments:

Total cash payments for employee future benefits for the year ended December 31, 2010, consisting of cash contributed by the Airport Authority to its funded pension plans (the defined benefit plan, defined contribution plans and RCA) were $5,399,000 (2009 - $5,957,000).

(b) Unfunded pension plans:

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

Pension expense for the year ended December 31, 2010 was $1,045,000 (2009 - $632,000). Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2010 was $6,979,000 (2009 - $6,011,000), which has been accrued as long-term liabilities.

16. 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 Airport Authority exercised its option to renew the Ground Lease for an additional 20 years, with an amendment dated January 5, 2010 to extend the term to June 30, 2072.

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

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

On May 9, 2005, the Government of Canada announced the adoption of a new rent policy that resulted in reduced ground lease expense for Canadian airport authorities, including the Airport Authority. This reduced ground lease expense formula was phased in over a period of four years, beginning in 2006, during which the ground lease expense was fixed.

(tabular amounts in thousands of dollars)

16. Commitments and contingencies (continued):

(a) Ground Lease (continued):

Effective January 1, 2010 the ground lease expense is based on a progressive scale of percentages of the Airport Authority's revenue as defined in the Ground Lease. At minimum, the required monthly payments are based on the immediately preceding year's actual ground lease expense. The ground lease expense for the year ended December 31, 2010 totaled $33,177,000 (2009 - $65,619,000). As at December 31, 2010, the difference between the required payments made and the ground lease expense is $3,551,000 and is included in other receivables.

Projected lease expense and payments, including repayments of deferred ground lease payments (note 10) under the amended Ground Lease for the next five years, are estimated as follows:

	Lease expense	Lease payments
2011	$ 35,845	$ 31,687
2012	37,439	40,566
2013	38,458	41,086
2014	39,467	41,530
2015	40,293	42,529

(b) Capital and operating commitments:

As at December 31, 2010, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately $3,715,000 (2009 - $11,743,000). As at December 31, 2010, in connection with operating the Airport, the Airport Authority has total operating commitments of approximately $41,599,000 (2009 - $42,309,000). These commitments extend for periods of up to five years.

(c) Legal claims:

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

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

17. Economic dependence:

The Airport Authority derives approximately $51,589,000 (2009 - $48,292,000) in aeronautical charges and rents from one airline and $20,065,000 (2009 - $20,065,000) in concession revenue from one concession operator. 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.

18. Financial instruments:

(a) Fair value of financial instruments:

The Airport Authority's financial instruments include accounts receivable, other receivables, long-term receivables, bank indebtedness and accounts payable and accrued liabilities for which the carrying amounts approximate fair values.

The fair value of the debentures at December 31, 2010 is estimated to be $621,209,000 (2009 - $603,522,000). To determine an estimated fair value of the debentures, the Airport Authority maintains a financial model which uses current market interest rates based upon the applicable Government of Canada bond yield plus a corporate spread based upon the Airport Authority's credit rating.

(b) Risk management:

The Airport Authority primarily has exposure to credit, currency, interest rate and liquidity risk on its financial instruments.

(i) Credit risk:

The Airport Authority is subject to credit risk through its financial assets. Ongoing credit valuations are performed on these accounts and valuation allowances are maintained for potential credit losses. The credit quality of financial assets can be assessed by reference to external credit ratings or historical information about the customer. The Airport Authority held security deposits in the amount of $1,550,000 as at December 31, 2010 (2009 - $1,639,000). An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. The accounts receivable aging and allowance for doubtful accounts reconciliation are detailed in note 3.

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

During the year ended December 31, 2010, the Airport Authority did not realize any material gains or losses on its financial liabilities measured at amortized cost (2009 - nil).

As at December 31, 2010, the Airport Authority did not hold any short-term investments and therefore was not exposed to credit risk on investments (2009 - nil).

18. Financial instruments (continued):

(b) Risk management (continued):

(ii) Currency risk:

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

(iii) Interest rate risk:

The Airport Authority is exposed to interest rate risk on its bank indebtedness, consisting of bankers' acceptances and a bank operating line. During the year ended December 31, 2010, there was a daily average of $103,458,000 (2009 - $80,186,000) in bankers' acceptances outstanding and a 1% increase in the weighted average daily rate would have increased the bankers' acceptance interest expense by $1,034,000 (2009 - $802,000). Drawings upon the bank operating line are charged an interest rate equivalent to the lender's prime rate. During the year ended December 31, 2010, the bank operating line was utilized on a daily average of $2,716,000 (2009 - $2,897,000). An increase of 1% in the prime rate would have increased interest expense for the year ended December 31, 2010 by approximately $27,000 (2009 - $29,000). The balance of outstanding debt is by way of debentures (note 12) which have fixed interest rates for their term and therefore changes in interest rate do not impact the Airport Authority's interest payments. The other long-term liabilities are non-interest bearing.

(iv) Liquidity risk:

The Airport Authority manages liquidity risk by maintaining adequate cash or available credit facilities. Cash flow projections are continually updated and reviewed by management to ensure a sufficient continuity of funding.

19. Capital risk management:

The Airport Authority is a non-share corporation and, accordingly, is funded through aeronautical and non-aeronautical revenues, AIF revenue, an unsecured bank operating line and debentures. The funds generated by the Airport Authority are used to cover costs within its mandate. There were no changes in the Airport Authority's approach to capital risk management during the year.

The Trust Indenture dated December 6, 1996 and related supplemental indentures as described in note 12 provide the terms of the debentures issued and require a minimum interest coverage ratio of 1.25:1. As at December 31, 2010, the Airport Authority was in compliance with the required minimum interest coverage ratio.

As at December 31, 2010, net assets amounted to $1,037,913,000 (2009 - $973,956,000). The Airport Authority has established, within its net assets, funds for operational requirements and debt obligations. The net assets consist of net assets invested in capital assets and unrestricted net assets.

(tabular amounts in thousands of dollars)

19. Capital risk management (continued):

(a) Invested in capital assets:

A portion of excess of revenue over expenses generated by the Airport Authority has been allocated for capital projects. In accordance with the Memorandum of Agreement (MOA) with the signatory airlines and the Air Transport Association of Canada, all AIF revenues collected are used to fund capital and relating financing costs of airport infrastructure development which are included in amounts invested in capital assets. To December 31, 2010, the cumulative AIF revenue has been used to fund AIF eligible capital expenditures in accordance with the MOA (note 14).

(b) Unrestricted:

Unrestricted net assets represent the cumulative excess of revenue over expenses, including interest expense incurred and cumulative unrealized changes in net assets, which remain after amounts have been allocated for capital projects and related amortization as described above.

20. Supplementary cash flow information:

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

	2010	2009
Accounts receivable	$ (567)	$ 1,840
Other receivables	(2,331)	978
Supplies inventory	(27)	(1,542)
Other current assets	2,444	(758)
Prepaid ground lease	-	16,074
Accounts payable and accrued liabilities	(16,964)	(1,774)
Deferred revenue	(3,705)	(2,184)
Other	(392)	-
	$ (21,542)	$ 12,634

(tabular amounts in thousands of dollars)

20. Supplementary cash flow information (continued):

(b) Other supplementary information:

	2010	2009
Supplementary information:		
Interest expense paid	$ 31,795	$ 31,776
Interest income received	35	1,832
Income taxes paid	12	4
Non-cash transactions:		
Construction in progress accrual	9,045	23,877
Deferred capital contributions accrual	1,646	924
Conversion of 497 YVRAS preferred shares to 497 common shares (note 5)	42,039	-

21. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the year ended December 31, 2010.