Unaudited Non-consolidated Financial Statements of

VANCOUVER
AIRPORT AUTHORITY

Years ended December 31, 2011 and 2010

VANCOUVER AIRPORT AUTHORITY

Unaudited Non-consolidated Statement of Financial Position
(In thousands of dollars)

December 31, 2011 and 2010

		2011		2010
Assets				
Current assets:				
Cash and cash equivalents (note 2(c))	$	66,626	$	-
Accounts receivable (note 3)		13,113		21,322
Other receivables		2,644		7,883
Current portion of net investment in lease (note 4)		639		539
Supplies inventory		5,534		5,555
Prepaid expenses		1,780		1,594
		90,336		36,893
Net investment in lease (note 4)		8,156		8,795
Investment in subsidiary (note 5)		52,570		52,570
Capital assets (note 6)		1,589,915		1,637,670
Other long-term assets (note 7)		25,977		24,525
	$	1,766,954	$	1,760,453
Liabilities and Net Assets				
Current liabilities:				
Bank indebtedness (note 8)	$	-	$	49,900
Accounts payable and accrued liabilities		36,830		32,322
Current portion of deferred revenue		4,943		2,279
Current portion of deferred ground lease payments (note 9)		2,053		2,053
		43,826		86,554
Deferred revenue		1,670		2,505
Other long-term liabilities (note 15(b))		7,673		6,979
Deferred ground lease payments (note 9)		6,158		8,211
Deferred capital contributions (note 10(a))		72,364		80,247
Debentures (note 11)		547,389		547,143
		679,080		731,639
Net assets:				
Invested in capital assets (note 12)		970,162		1,010,280
Unrestricted net assets		117,712		18,534
		1,087,874		1,028,814
Commitments and contingencies (note 16)				
	$	1,766,954	$	1,760,453

See accompanying notes to unaudited non-consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

Unaudited Non-consolidated Statement of Operations
(In thousands of dollars)

Years ended December 31, 2011 and 2010

	2011	2010
Revenue:		
Landing fees	$ 35,221	$ 35,690
Terminal fees	86,376	87,110
Concessions	68,462	68,393
Airport improvement fees	89,738	89,569
Car parking	27,641	28,228
Rentals	32,316	30,887
Fees and miscellaneous	15,598	15,686
Contributions (note 10(b))	13,910	13,090
	369,262	368,653
Expenses:		
Salaries, wages and benefits	42,294	41,070
Materials, supplies and services	74,133	79,823
Payments in lieu of taxes, insurance and other	19,707	20,453
Amortization of capital assets	108,115	106,532
	244,249	247,878
Other expenses:		
Ground lease	34,767	33,177
Interest and financing charges	31,606	32,884
	66,373	66,061
Excess of revenue over expenses before undernoted items	58,640	54,714
Dividend income (note 5)	240	170
Gain on disposal of capital assets	156	9
Unrealized foreign exchange gain (loss)	24	(44)
Gain on other long-term investments (note 14)	-	1,141
Excess of revenue over expenses	$ 59,060	$ 55,990

See accompanying notes to unaudited non-consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

Unaudited Non-consolidated Statement of Changes in Net Assets
(in thousands of dollars)

Years ended December 31, 2011 and 2010

	Invested in capital assets (note 12)	Unrestricted	2011	2010
Balance, beginning of year	$1,010,280	$ 18,534	$ 1,028,814	$ 972,824
Excess (deficiency) of revenue over expenses	(98,376)	157,436	59,060	55,990
Net change in invested in capital assets	58,258	(58,258)	-	-
Balance, end of year	$ 970,162	$ 117,712	$ 1,087,874	$ 1,028,814

See accompanying notes to unaudited non-consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

Unaudited Non-consolidated Statement of Cash Flows
(In thousands of dollars)

Years ended December 31, 2011 and 2010

	2011	2010
Operations:		
Excess of revenue over expenses	$ 59,060	$ 55,990
Items not involving cash:		
Amortization of capital assets	108,115	106,532
Amortization of deferred capital contributions	(9,739)	(9,339)
Amortization of prepaid interest on bankers' acceptances	271	1,532
Amortization of deferred financing costs	246	234
Amortization of other long-term assets	2,007	2,136
Gain on other long-term investments (note 14)	-	(1,141)
Gain on disposal of capital assets	(156)	(9)
Unrealized foreign exchange (gain) loss	(24)	44
Changes in non-cash operating working capital (note 20(a))	17,475	(21,864)
	177,255	134,115
Financing:		
Increase (decrease) in bank operating line	(14,558)	9,582
Issuance of bankers' acceptances	10,887	134,364
Repayment of bankers' acceptances	(46,500)	(227,500)
Deferred capital contributions	3,502	11,317
Decrease in lease inducement liabilities	-	(6,000)
Increase in other long-term liabilities	694	968
Deferred ground lease payments	(2,053)	(2,053)
	(48,028)	(79,322)
Investing:		
Proceeds on disposal of other long-term investments (note 14)	-	20,274
Additions of capital assets	(59,873)	(71,159)
Proceeds on disposal of capital assets	168	28
Decrease in net investment in lease	539	450
Increase in other long-term assets	(3,459)	(4,342)
	(62,625)	(54,749)
Effect of exchange rates on cash	24	(44)
Increase in cash	66,626	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	$ 66,626	$ -

Supplementary cash flow information (note 20(b))

See accompanying notes to audited non-consolidated financial statements.

1. Operations:

The Vancouver Airport Authority (the "Airport Authority") is incorporated under the Canada Not-For-Profit Corporations Act (previously 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 (GAAP) because the Airport Authority’s wholly owned subsidiary is accounted for using the cost method. The Airport Authority also distributes audited consolidated financial statements prepared for the same period in accordance with Canadian GAAP.

(b) 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 Airport Authority has conducted a preliminary analysis of the new standards and the impact of the accounting differences on the financial statements of the Airport Authority. To date, this analysis has identified that the most significant financial impact on transition will result from the recognition of any unamortized actuarial balances which relate to the Airport Authority’s defined benefit pension plans will be recorded against the net assets. Other than this impact, the differences on adoption are expected to be minimal.

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term bankers' acceptances having original maturities of three months or less from the date of purchase, that are readily convertible to cash. As at December 31, 2011, the amount of the short term bankers' acceptances recorded as cash and cash equivalents was $50,000,000 (2010 - $ 0).

(d) Supplies inventory:

Supplies inventory is valued at the lower of weighted average 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, 2011 was $1,286,000 (2010 - $1,700,000).

(e) Investment in subsidiary:

The Airport Authority has an investment in Vancouver Airport Enterprises Ltd. ("VAEL"), a 100% subsidiary which is accounted for using the cost method. VAEL holds investments in the following companies:

- YVR Project Management Ltd. ("YVRPM") - 100% subsidiary of VAEL, which provides capital project management and consulting services to affiliated and non-affiliated entities.
- YVR Airport Services Ltd. ("YVRAS") - 50% equity interest held by VAEL, which invests in and manages a number of airports across Canada and around the world.

(f) 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, transportation charges, labour, insurance 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):

(g) 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.

(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 generally recognized as revenue when airport facilities are utilized.

During the year the Airport Authority introduced the Gateway Incentive Program, which is a program that offers carriers fixed annual aeronautical charges for a period of 5 years beginning in 2011 and ending in 2015 based on the amount of fees paid in 2010. Participating carriers are charged a fixed monthly aeronautical fee regardless of their level of activity.

(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.
- The Airport Authority does not have any endowment contributions.

2. Significant accounting policies (continued):

(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.

(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, 2010. The next valuation for funding purposes will be as of December 31, 2011, the results of which are expected to be available during the year ending December 31, 2012.

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.

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.

2. Significant accounting policies (continued):

(k) Employee future benefits (continued):

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 non-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 non-consolidated statement of changes in net assets until the instrument is derecognized or considered permanently impaired at which time the amount would be recorded in the non-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 and cash equivalents	Held for trading
Accounts receivable	Loans and receivables
Other receivables	Loans and receivables
Long-term receivables	Loans and receivables
Bank indebtedness	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Debentures	Other financial liabilities

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.

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

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

3. Accounts receivable:

	2011	2010
Current	$ 13,485	$ 21,973
31-60 days past due	312	140
61-90 days past due	45	16
90 + days past due	80	118
Less allowance for doubtful accounts	(809)	(925)
	$ 13,113	$ 21,322

	2011	2010
Allowance for doubtful accounts, beginning of year	$ 925	$ 725
Addition to (decrease in) allowance for doubtful accounts	(285)	975
Recovery of previously written-off accounts	367	-
Write off of specific accounts	(198)	(775)
Allowance for doubtful accounts, end of year	$ 809	$ 925

(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:

	2011	2010
Minimum lease payments receivable	$ 14,034	$ 15,730
Unearned income	(5,239)	(6,396)
	8,795	9,334
Less current portion	639	539
	$ 8,156	$ 8,795

As at December 31, 2011, the future minimum lease payments receivable under the direct financing lease are as follows:

2012	$ 1,721
2013	1,747
2014	1,773
2015	1,800
2016 and thereafter	6,993
	$ 14,034

5. Investment in subsidiary:

	2011	2010
Investment in Vancouver Airport Enterprises Ltd. ("VAEL"), at cost	$ 52,570	$ 52,570

During the year ended December 31, 2011, the Airport Authority recognized dividend income of $240,000 (2010 - $170,000) from VAEL; all of which is recorded in other receivables at December 31, 2011 and 2010.

(tabular amounts in thousands of dollars)

6. Capital assets:

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Buildings and other structures	1,338,498	438,125	$ 900,373	$ 922,314
Runways and other paved surfaces	432,391	155,968	276,423	287,707
Rapid transit infrastructure	298,934	14,395	284,539	289,868
Machinery and equipment	101,495	47,901	53,594	58,468
Furniture and fixtures	26,851	22,571	4,280	6,127
Computer equipment and software	104,784	80,274	24,510	31,334
Art collection	7,266	-	7,266	6,872
Construction-in-progress	38,930	-	38,930	34,980
	$ 2,349,149	$ 759,234	$ 1,589,915	$ 1,637,670

7. Other long-term assets:

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
(a) Lease inducements	$ 18,763	$ 6,104	$ 12,659	$ 11,679
(b) Leasehold interest	4,640	325	4,315	4,793
(c) Development costs	966	-	966	765
Accrued benefit asset (note 15(a))	8,037	-	8,037	7,261
Long-term receivables	-	-	-	27
	$ 32,406	$ 6,429	$ 25,977	$ 24,525

(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, the Airport Authority granted lease inducements of $2,913,000 (2010 - $1,360,000) to tenants and recognized $1,933,000 (2010 - $2,058,000) as a reduction of concession and rental 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.

In 2011 all work required to decommission and demolish the acquired building was completed at a final cost of $404,000 less than originally estimated, resulting in a reduction of the leasehold interest.

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, 2011, the amortization of the leasehold interest was $74,000 (2010 - $78,000).

(c) The Airport Authority is currently undertaking two major development projects on Sea Island. 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 as other long-term assets.

8. Bank indebtedness:

		2011		2010
Unsecured bank operating line	$	200,000	$	200,000
Bank indebtedness:				
Operating line drawings		-		14,558
Bankers' acceptances		-		35,342
Total bank indebtedness		-		49,900
Outstanding letters of credit, reducing available credit		1,576		-
Available unsecured bank operating line	$	198,424	$	150,100

(tabular amounts in thousands of dollars)

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.

	2011	2010
Deferred ground lease payments	$ 8,211	$ 10,264
Less current portion	2,053	2,053
Long term portion	$ 6,158	$ 8,211

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

10. Deferred capital and operating contributions:

(a) Deferred capital contributions:

	2011	2010
Capital contributions:		
Canadian Air Transport Security Authority ("CATSA")	$ 118,529	$ 116,779
Other	2,474	2,368
	121,003	119,147
Accumulated amortization	(48,639)	(38,900)
	$ 72,364	$ 80,247

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

(b) Contributions:

	2011	2010
Amortization of deferred capital contributions	$ 9,739	$ 9,339
Operating contributions	4,171	3,751
	$ 13,910	$ 13,090

(tabular amounts in thousands of dollars)

11. Debentures:

		2011		2010
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		(2,611)		(2,857)
	$	547,389	$	547,143

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.

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.

(tabular amounts in thousands of dollars)

12. Invested in capital assets:

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

	2011	2010
Capital assets	$ 1,589,915	$ 1,637,670
Amounts financed by:		
Deferred capital contributions	(72,364)	(80,247)
Debentures	(547,389)	(547,143)
	$ 970,162	$ 1,010,280

(b) Deficiency of revenue over expenses:

	2011	2010
Amortization of deferred capital contributions	$ 9,739	$ 9,339
Amortization of capital assets	(108,115)	(106,532)
	$ (98,376)	$ (97,193)

(c) Net change in invested in capital assets:

	2011	2010
Purchase of capital assets	$ 59,873	$ 71,159
Amounts funded by deferred capital contributions	(3,502)	(11,317)
Proceeds from disposal of capital assets	(168)	(28)
Gain on disposal of capital assets	156	9
Amortization of deferred financing fees	(246)	(234)
Net changes in capital assets and deferred capital contribution accruals	2,145	(15,555)
	$ 58,258	$ 44,034

13. 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, 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 $89,093,000 (2010 - $88,869,000) main terminal AIF revenue, and main terminal AIF eligible capital expenditures totaled $56,371,000 (2010 - $59,842,000). To December 31, 2011, the cumulative main terminal AIF revenue totaled $1,210,273,000 (2010 - $1,121,180,000), and cumulative AIF eligible expenditures totaled $2,296,527,000 (2010 - $2,240,156,000).

14. Gain on other long-term investments:

On January 19, 2009, the Airport Authority's Asset Backed Commercial Paper (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.

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% of their earnings. Total contributions included in the pension expense for 2011 were $2,127,000 (2010 - $2,148,000).

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, 2011 was $11,000 (2010 - $10,000).

Some senior executives are also provided a Retirement Compensation Arrangement (RCA). Contributions to the RCA in 2011 totaled $196,000 (2010 - $234,000).

(tabular amounts in thousands of dollars)

15. Employee future benefits (continued):

(a) Funded pension plans (continued):

Defined benefit plan:

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

	2011	2010
Accrued benefit obligation:		
Balance, beginning of year	$ 45,321	$ 39,747
Current service cost	1,147	1,004
Interest cost	2,637	2,674
Benefits paid	(1,215)	(1,215)
Actuarial loss	7,762	3,111
Balance, end of year	55,652	45,321
Fair value of plan assets:		
Balance, beginning of year	45,660	39,739
Actual return on plan assets	(510)	3,857
Employer contributions	1,679	3,024
Employee contributions	220	255
Benefits paid	(1,215)	(1,215)
Balance, end of year	45,834	45,660
Surplus (deficiency) of plan assets	(9,818)	339
Unamortized net actuarial loss	17,855	6,921
Unamortized transitional obligation	-	1
Accrued benefit asset	$ 8,037	$ 7,261

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

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

	2011	2010
Asset category:		
Equity shares	65.2%	62.8%
Debt securities	32.4%	33.1%
Cash and short-term investments	2.4%	4.1%
Total	100%	100.0%

(tabular amounts in thousands of dollars)

15. Employee future benefits (continued):

(a) Funded pension plans (continued):

Defined benefit plan (continued):

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

	2011	2010
Accrued benefit obligation as of December 31:		
Discount rate	4.80%	5.75%
Rate of compensation increase	4.00%	4.00%
Benefit costs for years ended December 31:		
Discount rate	5.75%	6.75%
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:

	2011	2010
Current service cost, net of employees' contributions	$ 927	$ 750
Interest cost	2,637	2,674
Actual return on plan assets	510	(3,858)
Actuarial loss	7,762	3,111
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	11,836	2,677
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	(3,498)	1,208
Difference between actuarial loss recognized for year and actual actuarial loss on accrued benefit obligation for year	(7,436)	(3,028)
Amortization of the transitional obligation	(1)	(369)
Defined benefit costs recognized	$ 901	$ 488

15. Employee future benefits (continued):

(a) Funded pension plans (continued):

Total cash payments:

In April 2011, amendments were made to the Pension Benefits Standards Regulations which permitted plan sponsors to secure structured letters of credit in lieu of making solvency payments to the pension plan, up to a limit of 15% of plan assets. On August 31, 2011, the Airport Authority issued a letter of credit to fund its required solvency payments to its defined benefit plan. At December 31, 2011, the total amount of the letter of credit was $584,000, which reduced the available bank operating line (note 8).

Total cash payments for employee future benefits for the year ended December 31, 2011, consisting of cash contributed by the Airport Authority to its funded pension plans (the defined benefit plan, defined contribution plans and RCA) were $4,669,000 (2010 - $5,399,000).

(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, 2011 was $790,000 (2010 - $1,045,000). Based on an actuarial report, the total accrued benefit liability of these plans as at December 31, 2011 was $7,673,000 (2010 - $6,979,000), 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, through an amendment dated January 5, 2010, which extends 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.

(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 while the expense is calculated as a percentage of current year revenues.

For the year ended December 31, 2011, the Airport Authority's required ground lease payments were less than its ground lease expense by $1,591,000. This amount is included in accounts payable and accrued liabilities at December 31, 2011.

For the year ended December 31, 2010, the Airport Authority's required ground lease payments exceeded its ground lease expense by $3,551,000. This amount was included in other receivables as at December 31, 2010 and was subsequently collected in May 2011.

Projected lease expense and payments, including repayments of deferred ground lease payments (note 9) under the amended Ground Lease for the next five years, are estimated as follows:

	Lease expense	Lease payments
2012	$ 37,813	$ 39,866
2013	40,866	42,919
2014	41,966	44,019
2015	43,620	45,673
2016	45,573	45,573

(b) Capital and operating commitments:

As at December 31, 2011, in connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding of approximately $23,685,000 (2010 - $3,715,000). As at December 31, 2011, in connection with operating the Airport, the Airport Authority has total operating commitments of approximately $42,522,000 (2010 - $41,599,000). 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.

As at December 31, 2011, there are no material claims pending against the Airport Authority.

17. Economic dependence:

The Airport Authority derives approximately $46,980,000 (2010 - $47,545,000) in aeronautical charges and rents from one airline and $20,801,000 (2010 - $20,065,000) in concession revenue from one concession operator. The Airport Authority believes that the cessation of operations of an airline or concession operator would not have a material long-term effect on the Airport Authority's revenue or operations.

18. Financial instruments:

(a) Fair value of financial instruments:

The Airport Authority's financial instruments include cash and cash equivalents, 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, 2011 is estimated to be $655,625,000 (2010 - $621,209,000). 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 $2,060,000 as at December 31, 2011 (2010 - $1,550,000). 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, 2011, the Airport Authority purchased short-term bankers' acceptances with a maximum term to maturity of 90 days and did not realize any material gains or losses (2010 - 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, 2011, there was a daily average of $13,452,000 (2010 - $103,458,000) in bankers' acceptances outstanding and a 1% increase in the weighted average daily rate would have increased the bankers' acceptance interest expense by $135,000 (2010 - $1,034,000). Drawings upon the bank operating line are charged an interest rate equivalent to the lender's prime rate. During the year ended December 31, 2011, the bank operating line was utilized on a daily average of $778,000 (2010 - $2,716,000). An increase of 1% in the prime rate would have increased interest expense for the year ended December 31, 2011 by approximately $8,000 (2010 - $27,000). The balance of outstanding debt is by way of debentures (note 11) which have fixed interest rates for their term and therefore changes in interest rates do not impact the Airport Authority's interest payments.

(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 11 provide the terms of the debentures issued and require a minimum interest coverage ratio of 1.25:1. As at December 31, 2011, the Airport Authority was in compliance with the required minimum interest coverage ratio.

As at December 31, 2011, net assets amounted to $1,087,874,000 (2010 - $1,028,814,000). 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 related financing costs of airport infrastructure development which are included in amounts invested in capital assets. To December 31, 2011, the cumulative AIF revenue has been used to fund AIF eligible capital expenditures in accordance with the MOA (note 13).

(b) Unrestricted:

Unrestricted net assets represent the cumulative excess of revenue over expenses, including interest expense incurred, excluding the amounts allocated for capital projects and related amortization as described above.

20. Supplementary cash flow information:

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

	2011	2010
Accounts receivable	$ 8,209	$ (570)
Other receivables	3,593	(2,658)
Supplies inventory	21	(27)
Prepaid expenses	(186)	2,050
Accounts payable and accrued liabilities	4,009	(16,954)
Deferred revenue	1,829	(3,705)
	$ 17,475	$ (21,864)

(b) Other supplementary information:

	2011	2010
Supplementary information:		
Interest expense paid	$ 30,796	$ 31,795
Interest income received	249	35
Non-cash transaction:		
Construction-in-progress accrual	9,544	9,045
Deferred capital contributions accrual	-	1,646

21. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the year ended December 31, 2011.