Consolidated Financial Statements of

VANCOUVER AIRPORT AUTHORITY

Years ended December 31, 2009 and 2008

KPMG

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AUDITORS' REPORT TO THE DIRECTORS

We have audited the consolidated statement of financial position of Vancouver Airport Authority (the "Airport Authority") as at December 31, 2009 and 2008 and the consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Airport Authority as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied, except for the changes in accounting policies as explained in note 2(b) to the consolidated financial statements, on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants

Vancouver, Canada

January 27, 2010

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Financial Position
(In thousands of dollars)

December 31, 2009 and 2008

		2009		2008
Assets				
Current assets:				
Cash	$	439	$	409
Accounts receivable (note 3)		20,791		22,631
Other receivables		3,723		4,118
Prepaid ground lease		-		16,074
Current portion of net investment in lease		451		375
Other current assets		14,291		9,302
		39,695		52,909
Net investment in lease (note 4)		9,333		9,785
Long-term receivables (note 5)		346		641
Investment in YVRAS (note 6)		113,959		116,785
Capital assets (note 7)		1,687,894		1,558,832
Other long-term assets (note 8)		17,248		7,368
Other long-term investments (note 9)		19,133		21,265
	$	1,887,608	$	1,767,585
Liabilities and Net Assets				
Current liabilities:				
Bank indebtedness (note 10)	$	131,922	$	38,325
Accounts payable and accrued liabilities		72,125		76,437
Current portion of deferred revenue		3,158		4,803
Current portion of other long-term liabilities		6,000		1,000
Current portion of deferred ground lease		2,053		2,053
		215,258		122,618
Deferred revenue		3,340		4,175
Other long-term liabilities (note 11)		-		1,000
Deferred ground lease payments (note 12)		10,264		12,317
Deferred capital contributions (note 13)		77,546		81,568
Debentures (note 14)		546,909		546,688
Deferred gain on deemed disposition of shares (note 6)		60,335		66,555
		913,652		834,921
Net assets:				
Invested in capital assets (note 15)		1,063,439		930,576
Unrestricted net assets (deficiency)		(89,483)		2,088
		973,956		932,664
Commitments and contingencies (note 19)				
Guarantees (note 23)				
	$	1,887,608	$	1,767,585

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, 2009 and 2008

	2009	2008
Revenue:		
Landing fees	$ 34,384	$ 39,662
Terminal fees	87,927	93,492
Concessions	63,131	69,615
Airport improvement fees	86,509	93,925
Car parking	28,895	32,261
Rentals, fees and miscellaneous	43,198	47,590
Grant revenue (notes 13 and 16)	15,049	13,689
	359,093	390,234
Expenses:		
Salaries, wages and benefits	40,065	43,887
Materials, supplies and services	72,925	81,493
Payment in lieu of taxes, insurance and other	19,013	18,299
Amortization	91,991	77,223
	223,994	220,902
Other expenses:		
Ground lease	65,619	65,619
Interest and financing charges	32,727	33,643
	98,346	99,262
Excess of revenue over expenses before undernoted items	36,753	70,070
Unrealized loss on fair value of other long-term investments (note 9)	(2,132)	(5,160)
Write down of capital assets	(2,099)	-
Equity earnings of YVRAS (note 6)	2,550	9,054
Amortization of deferred gain on deemed disposition of shares (note 6)	6,220	1,470
Foreign exchange gain	-	108
Non-controlling interest	-	(18)
Excess of revenue over expenses	$ 41,292	$ 75,524

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, 2009 and 2008

	Invested in capital assets (note 15)	Unrestricted	2009	2008
Balance, beginning of year	$ 930,576	$ 2,088	$ 932,664	$ 857,140
Excess (deficiency) of revenue over expenses	(82,818)	124,110	41,292	75,524
Net change in invested in capital assets	215,681	(215,681)	-	-
Balance, end of year	$ 1,063,439	$ (89,483)	$ 973,956	$ 932,664

See accompanying notes to consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Cash Flows
(In thousands of dollars)

Years ended December 31, 2009 and 2008

	2009	2008
Operations:		
Excess of revenue over expenses	$ 41,292	$ 75,524
Items not involving cash:		
Amortization of capital assets	91,991	76,935
Amortization of deferred capital contributions	(9,173)	(6,587)
Amortization of discount on bonds, deferred financing costs, other long-term assets and prepaid interest on bankers' acceptances	3,261	743
Amortization of other intangibles	-	288
Increase in other long-term assets	(15,450)	-
Increase (decrease) in other long-term liabilities	4,000	(1,000)
Gain on disposal of capital assets	(18)	(15)
Equity earnings of YVRAS	(2,550)	(9,054)
Amortization of deferred gain on deemed disposition of shares	(6,220)	(1,470)
Unrealized loss on fair value of other long-term investments	2,132	5,160
Write down of capital assets	2,099	-
Equity in earnings of MBJ Airports Ltd.	-	(537)
Non-controlling interest	-	18
Interest on other long-term liabilities	-	1,852
Foreign exchange gain	-	(29)
Changes in non-cash operating working capital (note 24(a))	10,488	1,932
	121,852	143,760
Financing:		
Increase in bank operating line	1,862	38,325
Issuance of bankers' acceptances	217,305	-
Repayment of bankers' acceptances	(127,000)	-
Deferred capital contributions	5,151	3,695
Deferred ground lease payments	(2,053)	(2,053)
Repayment of long-term debt	-	(758)
Repayment of capital lease obligations	-	(69)
Repayment of promissory note	-	(21,741)
Decrease in other long-term liabilities	-	(3,670)
	95,265	13,729
Investments:		
Additions of capital assets	(223,152)	(234,751)
Proceeds on disposal of capital assets	18	15
Decrease in long-term receivables	295	272
Decrease in net investment in lease	376	307
Return of capital from YVRAS (note 6)	5,376	16,042
Increase in other long-term assets	-	(3,643)
	(217,087)	(221,758)
Increase (decrease) in cash	30	(64,269)
Cash, beginning of year	409	64,678
Cash, end of year	$ 439	$ 409

Supplementary cash flow information (note 24(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 6), 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 accounts of its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

(b) Changes in accounting policies:

On January 1, 2009, the Airport Authority adopted accounting policies required under the newly issued standards by the Canadian Institute of Chartered Accountants (“CICA”) relating to the following:

(i) Section 1535, *Capital Disclosures,* specifies the disclosure of information that enables users of an entity’s financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences of non-compliance (note 22).

Future changes in accounting policy:

(ii) The Accounting Standards Board (“AcSB”) is in the process of evaluating the accounting framework options for not-for-profit organizations. An exposure draft is expected in 2010. The Airport Authority is awaiting the AcSB’s decision and will evaluate the implications of the future accounting framework.

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(c) Inventory:

Inventory, which is included in other current assets, 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. The cost of inventory recognized as an expense during the year ended December 31, 2009 was $3,917,000 (2008 - $1,652,000).

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

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

The art collection is recorded at cost and not amortized.

(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 is deferred and amortized over the terms of the related agreements.

(g) Revenue recognition:

Revenue is recognized 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 averaged over the term of the lease. Differences between revenue recognized and actual cash payments are recorded as lease inducement assets or liabilities.

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

2. Significant accounting policies (continued):

(g) Revenue recognition (continued):

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

(v) Rental revenue is recognized over the terms of the respective leases.

(vi) Grant revenue is recognized using the deferral method of accounting for contributions whereby unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. The Airport Authority does not receive any endowment contributions. Grants received to offset specific operating costs are recorded as revenue. Grants towards capital are deferred and brought into income on a basis consistent with the amortization of the related capital assets.

(h) Ground lease expense:

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

(i) Taxes:

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

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

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

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

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

2. Significant accounting policies (continued):

(j) 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. The average remaining service period of the active employees covered by the defined pension plan is 7.2 years.

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

(k) 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 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:

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 liabilities
Accounts payable and accrued liabilities	Other liabilities
Debentures	Other liabilities

(tabular amounts in thousands of dollars)

2. Significant accounting policies (continued):

(k) 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 recognizes these costs as an adjustment to interest expense over the life of the debt. The Airport Authority uses the effective interest rate method to recognize debenture interest expense.

(l) 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, net recoverable value of assets, useful lives for amortization, accrued liabilities, valuation of investment in YVRAS, valuation of other long-term investments and provisions for contingencies. Actual results could differ materially from those estimates.

3. Accounts receivable:

	2009	2008
Current	$ 21,274	$ 22,872
31-60 days past due	116	313
61-90 days past due	37	14
90 + days past due	89	65
Less allowance for doubtful accounts	(725)	(633)
	$ 20,791	$ 22,631

	2009	2008
Allowance for doubtful accounts, beginning of year	$ 633	$ 482
Addition to allowance for doubtful accounts	300	944
Write off of specific accounts	(208)	(793)
Allowance for doubtful accounts, end of year	$ 725	$ 633

(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:

	2009	2008
Minimum lease payments receivable	$ 17,400	$ 19,046
Unearned income	(7,616)	(8,886)
	9,784	10,160
Less current portion	(451)	(375)
	$ 9,333	$ 9,785

As at December 31, 2009, the future minimum lease payments receivable under the direct financing lease are as follows:

2010	$ 1,670
2011	1,696
2012	1,721
2013	1,747
2014 and thereafter	10,566
	$ 17,400

5. Long-term receivables:

The Airport Authority has repayment schedules over two years with tenants relating to leasehold improvements. The Airport Authority receives interest on the outstanding balance at approximately 8.5% annually.

	2009	2008
Long-term receivables	$ 649	$ 913
Less current portion	(303)	(272)
	$ 346	$ 641

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

(tabular amounts in thousands of dollars)

6. Investment in YVRAS:

	2009	2008
Equity investment in class A common shares	$ 32,459	$ 30,285
Preferred shares	81,500	86,500
Total investment in YVRAS	$ 113,959	$ 116,785

On April 4, 2008, VAEL exchanged 19,131,000 class B common shares of YVRAS for the following:

(a) 1,080 class A common shares without par value; and

(b) 865 preferred shares without par value, redeemable at VAEL's option at $100,000 per share and convertible into class A common shares.

The share exchange was accounted for at the carrying value.

Under the Shareholders' Agreement dated May 21, 2008, YVRAS has established an account for the sole purpose of holding the preferred shares amount of $86,500,000. Any interest, net of applicable taxes, accrues to VAEL.

On May 21, 2008, YVRAS issued 1,080 class B common shares from treasury to CIP Airports Ltd. ("CII"), providing CII a 50% joint ownership in YVRAS. These transactions resulted in a deferred gain on the deemed disposition of 50% of the Airport Authority's investment in YVRAS amounting to $68,025,000, which will be recognized into income over the weighted average of the expected revenues to be generated by the use of the assets of YVRAS of 27 years.

Upon redemption 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, the deferred gain will continue to be recognized over the basis described above.

On June 18, 2009, YVRAS approved a return of capital of $5,000,000 on the stated capital of the preferred shares held by VAEL and amended the Shareholders' Agreement to reduce the redemption value of the 865 preferred shares from $100,000 to $94,220 per share. The $5,000,000 return of capital was recorded as a reduction in the investment in YVRAS and the pro-rata portion of the deferred gain on deemed disposition of shares of $3,779,000 was immediately recognized.

For the year ended December 31, 2009, the deferred gain recognized into income was $6,220,000 (for the period from May 21 to December 31, 2008 - $1,470,000). Cumulatively, the total deferred gain recognized into income to-date was $7,690,000.

The net income and cash flows of YVRAS from January 1, 2008 to May 21, 2008 have been included in the Airport Authority's consolidated statements of operations and cash flows for the year ended December 31, 2008. Subsequent to the reduction of ownership on May 21, 2008, the Airport Authority began recording its investment in YVRAS using the equity method of accounting.

(tabular amounts in thousands of dollars)

6. Investment in YVRAS (continued):

During the year ended December 31, 2009, the equity in earnings of YVRAS was $2,550,000 representing 50% of the net income for the year ended December 31, 2009 (for the period from May 21 to December 31, 2008 - $9,054,000).

During the year ended December 31, 2009, YVRAS approved an additional return of capital on the class A common shares of $376,000 (2008 - $936,000). 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.

Summarized statements of financial position, operations and cash flows of YVRAS as at December 31, 2009 and for year ended December 31, 2009 are presented below:

	As at December 31, 2009	As at December 31, 2008
Current assets	$ 109,329	$ 119,209
Long-term assets	74,335	77,293
Current liabilities	8,265	15,508
Long-term liabilities	93,451	100,358
Net assets	$ 81,948	$ 80,636

	Year ended December 31, 2009	May 21, 2008 to December 31, 2008
Revenue	$ 41,558	$ 38,930
Expenses	36,458	20,823
Net income	$ 5,100	$ 18,107

Cash flows provided by (used in):		
Operating activities	$ 2,337	$ 9,549
Financing activities	(7,772)	(15,406)
Investing activities	(1,833)	14,661

(tabular amounts in thousands of dollars)

7. Capital assets:

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Buildings and other structures	$ 1,556,652	$ 322,852	$ 1,233,800	$ 790,711
Runways and other paved surfaces	416,540	120,447	296,093	256,282
Machinery and equipment	96,273	28,862	67,411	50,177
Furniture and fixtures	25,931	18,253	7,678	7,277
Computer equipment and software	84,601	56,040	28,561	25,044
Art collection	6,496	-	6,496	5,226
Construction-in-progress	47,855	-	47,855	424,115
	$ 2,234,348	$ 546,454	$ 1,687,894	$ 1,558,832

8. Other-long term assets:

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
(a) Lease inducement	$ 14,930	$ 2,553	$ 12,377	$ 2,377
(b) Leasehold interest	5,043	172	4,871	4,991
	$ 19,973	$ 2,725	$ 17,248	$ 7,368

(a) On March 1, 2007, the Airport Authority agreed to provide a concession operator with a $3,000,000 rent credit, of which $2,000,000 has since been applied. On January 1, 2009, the Airport Authority granted the operator an additional $15,000,000 rent credit, of which $10,000,000 has been applied in 2009. The remaining $6,000,000 credit will be utilized in 2010. The total lease inducements are recognized evenly as a reduction in revenue over the remaining life of the lease term until December 31, 2017.

As at December 31, 2009, the lease inducement asset of $11,927,000 is included in other long-term assets, and $1,491,000 has been recognized as an offset to revenue during the year ended December 31, 2009. The remaining $6,000,000 rent credit is included in the current portion of other long-term liabilities (note 11).

In July 2009, the Airport Authority provided another concession operator with a $450,000 rent deferral, which will be repaid in equal monthly installments from June 2010 to May 2014.

8. Other-long term assets (continued):

(b) In June 2008, the Airport Authority acquired a leasehold interest on Sea Island for $3,643,000; accordingly, the Ground Lease with Transport Canada was amended to include this site. As part of this Ground Lease amendment, the Airport Authority agreed to decommission and demolish the building on this land. The estimated cost of decommissioning and demolishing the building of $1,400,000 has been included in the acquisition cost of the leasehold interest and the related liability has been included in accrued liabilities. The leasehold interest is being amortized over the remaining term of the Ground Lease, which expires on June 30, 2052.

For the year ended December 31, 2009, the amortization of the leasehold interest was $120,000 (2008 - $52,000).

9. Other long-term investments:

In January 2009, the Pan-Canadian Committee (the “Committee”) of non-bank sponsored Asset Backed Commercial Paper (ABCP) investors announced that the third-party ABCP restructuring plan had been implemented. Pursuant to the terms of the plan, holders of ABCP had their short-term commercial paper exchanged for long-term floating rate notes (FRN) whose maturities match those of the assets previously contained in the underlying conduits.

On January 19, 2009, in accordance with the ABCP restructuring plan, the Airport Authority’s ABCP holdings with original maturity values totaling $34,300,000 were exchanged for FRN with maturity values totaling approximately $33,035,000. The exchange ratio was based on the settlement value for the ABCP as at August 13, 2008. The FRN have expected maturity dates from December 20, 2013 to December 25, 2036. The interest payout ratio for the FRN, for the quarterly period ended January 7, 2010, ranged between 0.00% and 0.25%.

Since there is only a limited active market for the FRN, management has estimated the fair value of these assets by discounting future cash flows using a valuation model that incorporates observable market data, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates.

In determining the fair value of the FRN, management reviewed its assumptions to factor in new information available at that date and changes in credit market conditions. As a result of the valuation, the Airport Authority recognized an unrealized loss on fair value of $2,132,000 during the year ended December 31, 2009 (December 31, 2008 - $5,160,000). The carrying value of the FRN at December 31, 2009 was $19,133,000 (December 31, 2008 - $21,265,000).

(tabular amounts in thousands of dollars)

9. Other long-term investments (continued):

While management believes that its valuation technique is appropriate in the circumstances, significant changes in variables in the valuation model described above, or, if a secondary market further develops and reliable pricing information becomes available, the fair value of the FRN could be affected in subsequent periods. The resolution of these uncertainties could be such that the ultimate fair value of these investments may vary from management's current best estimate and any such difference could affect the Airport Authority's financial results.

Significant assumptions used to value the affected FRN include the discount rate used. Using the methodology described above, a 1% increase in the discount rates used in the valuation would result in an additional loss on fair value of $1,073,000.

The Airport Authority does not expect a material adverse impact on its business as a result of its investment in the restructured FRN.

10. Bank indebtedness:

	2009	2008
Bank operating line	$ 4,976	$ 3,114
Bankers' acceptances	126,946	35,211
	$ 131,922	$ 38,325

The Airport Authority has available an unsecured bank operating line of $200,000,000 (2008 - $200,000,000).

The bankers' acceptances have fixed rates of interest varying from 1.36% to 1.55% with maturity dates ranging from January 13, 2010 to June 28, 2010.

11. Other long-term liabilities:

	2009	2008
Lease inducement liabilities (see note 8)	$ 6,000	$ 2,000
Less current portion of other long-term liabilities	(6,000)	(1,000)
	$ -	$ 1,000

(tabular amounts in thousands of dollars)

12. Deferred ground lease payments:

Between July 2003 and June 2005, the Airport Authority deferred a total of $20,529,000 of ground lease payments due to Transport Canada under an arrangement whereby Transport Canada provided temporary relief to Canadian airports, which suffered declines in passenger traffic resulting from international events in 2001 through 2003.

Repayments are interest free over a ten-year period, commencing January 1, 2006. As at December 31, 2009, the Airport Authority has repaid a total of $8,212,000 (2008 - $6,159,000) of rent deferrals to Transport Canada (note 19(a)).

13. Deferred capital contributions:

	2009	2008
Capital contributions:		
Canadian Air Transport Security Authority ("CATSA")	$ 105,163	$ 100,249
Other	1,944	1,707
	107,107	101,956
Accumulated amortization	(29,561)	(20,388)
	$ 77,546	$ 81,568

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

14. Debentures:

	2009	2008
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	(3,091)	(3,312)
	$ 546,909	$ 546,688

(tabular amounts in thousands of dollars)

14. Debentures (continued):

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.

15. Invested in capital assets:

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

	2009	2008
Capital assets	$ 1,687,894	$ 1,558,832
Amounts financed by:		
Deferred capital contributions	(77,546)	(81,568)
Debentures	(546,909)	(546,688)
	$ 1,063,439	$ 930,576

(tabular amounts in thousands of dollars)

15. Invested in capital assets (continued):

(b) Deficiency of revenue over expenses:

	2009	2008
Amortization of deferred capital contributions	$ 9,173	$ 6,587
Amortization of capital assets	(91,991)	(76,935)
	$ (82,818)	$ (70,348)

(c) Net change in invested in capital assets:

	2009	2008
Purchase of capital assets	$ 223,152	$ 234,751
Amounts funded by deferred capital contributions	(5,151)	(3,695)
Proceeds from disposal of capital assets	(18)	(15)
Gain on disposal of capital assets	18	15
Write down of capital assets	(2,099)	-
Amortization of deferred financing fees and discount on debentures	(221)	(352)
Principal payments on long-term debt	-	758
Principal payments on capital leases	-	69
	$ 215,681	$ 231,531

16. Operating contributions:

During 2002, the Airport Authority entered into a policing contribution agreement with CATSA. CATSA contributed to the costs of policing incurred by the Airport Authority. Effective April 1, 2008, this agreement was transferred from CATSA to Transport Canada. Contributions are determined annually by Transport Canada up to a maximum amount not to exceed the actual allowable costs incurred by the Airport Authority in providing these services. This agreement ended December 31, 2009.

17. 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 $85,873,000 (2008 - $93,925,000) main terminal AIF revenue, and main terminal AIF eligible capital expenditures totaled $218,001,000 (2008 - $229,314,000). To December 31, 2009, the cumulative AIF revenue totaled $1,032,311,000 (2008 - $946,438,000), and cumulative AIF eligible expenditures totaled $2,180,314,000 (2008 - $1,962,313,000).

18. Employee future benefits:

(a) Funded pension plans:

Defined contribution plans:

The Airport Authority participates in a Registered Retirement Savings Plan (RRSP) which covers employees who have joined the Airport Authority since June 1992. Employees covered by this plan are required to contribute 6% of their earnings and, effective January 1, 2009, the Airport Authority contributes 7% (2008 - 6%) of their earnings. Total contributions included in the pension expense for 2009 were $2,115,000 (2008 - $1,405,000).

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, 2009 was $10,000 (2008 - $10,000). Some senior executives are also provided a Retirement Compensation Arrangement (RCA). Contributions to the RCA in 2009 totaled $1,129,000 (2008 - $1,274,000).

Defined benefit plan:

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

The Airport Authority measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year, using a measurement date of October 31. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2008. The next valuation will be as of December 31, 2009, the results of which are expected to be available during the year ending December 31, 2010.

(tabular amounts in thousands of dollars)

18. Employee future benefits (continued):

(a) Funded pension plans (continued):

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

	2009	2008
Accrued benefit obligation:		
Balance, beginning of year	$ 30,455	$ 41,308
Current service cost	819	1,347
Interest cost	2,542	2,428
Benefits paid	(930)	(868)
Actuarial loss (gain)	6,862	(13,760)
Balance, end of year	39,748	30,455
Fair value of plan assets:		
Balance, beginning of year	32,966	39,014
Actual return (loss) on plan assets	4,248	(6,933)
Employer contributions	3,187	1,473
Employee contributions	268	280
Benefits paid	(930)	(868)
Balance, end of year	39,739	32,966
Surplus (deficiency) of plan assets	(9)	2,511
Unamortized net actuarial loss	5,103	264
Unamortized transitional obligation	(369)	(739)
Accrued benefit asset	$ 4,725	$ 2,036

The accrued benefit asset is included in other current assets.

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

	2009	2008
Asset category:		
Equity shares	62.0%	59.6%
Debt securities	36.2%	37.8%
Cash and short-term investments	1.8%	2.6%
Total	100.0%	100.0%

(tabular amounts in thousands of dollars)

18. Employee future benefits (continued):

(a) Funded pension plans (continued):

Defined benefit plan (continued):

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

	2009	2008
Accrued benefit obligation as of December 31:		
Discount rate	6.75%	8.25%
Rate of compensation increase	4.00%	4.00%
Benefit costs for years ended December 31:		
Discount rate	8.25%	5.75%
Expected long-term rate of return on plan assets	6.50%	7.00%
Rate of compensation increase	4.00%	4.00%

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

	2009	2008
Current service cost, net of employees' contributions	$ 551	$ 1,067
Interest cost	2,542	2,428
Actual loss (return) on plan assets	(4,248)	6,933
Actuarial loss (gain)	6,862	(13,760)
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	5,707	(3,332)
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	2,023	(9,695)
Difference between actuarial gain (loss) recognized for year and actual actuarial gain on accrued benefit obligation for year	(6,862)	13,785
Amortization of the transitional obligation	(369)	(369)
Defined benefit costs recognized	$ 499	$ 389

Total cash payments:

Total cash payments for employee future benefits for the year ended December 31, 2009, consisting of cash contributed by the Airport Authority to its funded pension plans (the defined benefit plan, defined contribution plans and RCA) were $5,957,000 (2008 - $4,161,000).

18. Employee future benefits (continued):

(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, 2009 was $632,000 (2008 - $403,000). Based on an actuarial report prepared as at December 31, 2008, the accrued benefit obligation as at December 31, 2009 was $5,876,000 (2008 - $4,783,000).

19. Commitments and contingencies:

(a) Ground Lease:

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

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

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

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

During the four year period, rent expense was recorded on a straight-line basis. As a result, the ground lease payments made in excess of the ground lease expense in previous years resulted in prepaid ground lease expense, which was fully utilized by December 31, 2009 (2008 - $16,074,000).

(tabular amounts in thousands of dollars)

19. Commitments and contingencies (continued):

(a) Ground lease (continued):

Beginning January 1, 2010, the rent will be based on percentages of gross revenue on a progressive scale. Projected lease expense and payments (including repayments of deferred ground lease payments - note 12) under the amended ground lease for the next five years, are estimated as follows:

	Lease expense	Lease payments
2010	$ 34,650	$ 36,703
2011	36,592	38,645
2012	38,852	40,905
2013	40,497	42,550
2014	42,408	44,461

(b) Capital and operating commitments:

In connection with the construction of certain capital projects, the Airport Authority has capital commitments outstanding as at December 31, 2009 of approximately $32,333,000 (2008 - $115,178,000). In connection with operating the Airport, the Airport Authority has total operating commitments, as at December 31, 2009, of approximately $42,309,000 (2008 - $39,218,000). 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.

20. Economic dependence:

The Airport Authority derives approximately $48,292,000 (2008 - $50,354,000) in aeronautical fees and rents from one airline and $20,065,000 (2008 - $25,951,000) in concession revenue from one concession operator.

21. 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 other long-term investments is discussed in note 9.

The fair value of the debentures at December 31, 2009 is estimated to be $603,522,000 (2008 - $529,000,000). 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 of 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 $1,639,000 as at December 31, 2009 (2008 - $1,513,000). An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Detailed accounts receivable aging and allowance for doubtful accounts 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. 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.

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

As at December 31, 2009, the Airport Authority did not hold any short-term investments and therefore was not exposed to credit risk on investments, other than the other long-term investments discussed in note 9.

(ii) Currency risk:

The Airport Authority has minimal transactions denominated in foreign currencies.

21. Financial instruments (continued):

(b) Risk management (continued):

(iii) Interest rate risk:

The Airport Authority is exposed to interest rate risk on its bank indebtedness, consisting of a bank operating line and bankers' acceptances. Drawings upon the bank operating line are charged an interest rate equivalent to the lender's prime rate. During the year, the bank operating line was utilized on a daily average of $2,897,000 (2008 - $1,031,000). An increase of 1% in the prime rate, during the year, would have increased interest expense by approximately $29,000 (2008 - $10,000). The balance of outstanding short-term debt is issued by way of bankers' acceptances (note 10). During the year, there was a daily average of $80,186,300 in bankers' acceptances outstanding and a 1% increase in the weighted average daily rate would have increased the bankers' acceptance interest expense by $800,000. The balance of outstanding debt is by way of debentures (note 14), 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.

22. 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 14 provide the terms of the debentures issued and require a minimum interest coverage ratio of 1.25:1. As at December 31, 2009, the Airport Authority was in compliance with the required minimum interest coverage ratio.

As at December 31, 2009, net assets amounted to $973,956,000 (2008 - $932,664,000). The Airport Authority has established, within its net assets, funds for operational requirements and debt obligations. Net assets consist of net assets invested in capital assets and unrestricted net assets.

22. Capital risk management (continued):

(a) Invested in capital assets:

A portion of excess 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, 2009, the cumulative AIF revenue has been used to fund AIF eligible capital expenditures in accordance with the MOA (note 17).

(b) Unrestricted:

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

23. Guarantees:

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

YVRAS Cyprus has an 11.0% interest in Hermes, which was funded by an equity bridge facility established by Hermes. The security for this facility was provided by each shareholder in Hermes. YVRAS Cyprus share is secured by an irrevocable letter of credit guaranteed by the Airport Authority. The amount of this guarantee is EUR **€**6,655,000 (CAD $10,235,000).

(b) The Airport Authority has entered into a sponsorship agreement with the Vancouver Organizing Committee ("VANOC") for the 2010 Olympic and Paralympic Winter Games. Under this agreement, the Airport Authority has agreed to provide a sum of $3,000,000 value in-kind services to VANOC through to December 31, 2012. The Airport Authority has also entered into an agreement for the operation of six Olympic Stores and twelve modular retail outlets. As part of this agreement, 50% of all revenues earned from these stores and units are paid to VANOC, with a minimum guarantee of $740,000, which is included in the $3,000,000 value to be provided to VANOC as part of the sponsorship agreement.

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

(tabular amounts in thousands of dollars)

24. Supplementary cash flow information:

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

	2009	2008
Accounts receivable	$ 1,840	$ 2,487
Other receivables	395	1,591
Other current assets	(4,989)	(3,109)
Prepaid ground lease	16,074	1,236
Accounts payable and accrued liabilities	(4,312)	(3,589)
Deferred revenue	1,480	3,316
	$ 10,488	$ 1,932

(b) Other supplementary information:

	2009	2008
Supplementary information:		
Interest expense paid	$ 31,776	$ 30,055
Interest income received	1,832	749
Income taxes paid	15	284
Non-cash transactions:		
Deemed disposition and change in control of YVRAS to the equity method of accounting	-	123,165
Deferred gain on deemed disposition of shares (note 6)	-	68,025
Decommissioning costs on leasehold interest	-	1,400

25. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the year ended December 31, 2009.