

Consolidated Financial Statements of

VANCOUVER AIRPORT AUTHORITY

Year ended December 31, 2008



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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, 2008 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Chartered Accountants

Vancouver, Canada

March 13, 2009

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Financial Position

(In thousands of dollars)

Year ended December 31, 2008, with comparative figures for 2007

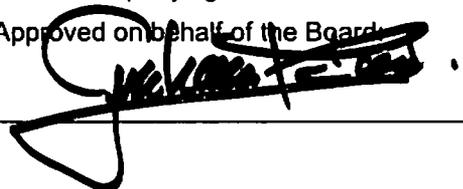
	2008	2007
Assets		
Current assets:		
Cash and short-term investments	\$ 409	\$ 64,678
Accounts receivable (note 3)	24,379	32,859
Other receivables	2,370	4,352
Current portion of net investment in lease (note 4)	375	307
Current portion of prepaid ground lease (note 18(a))	16,074	1,236
Other current assets	9,302	6,828
	<u>52,909</u>	<u>110,260</u>
Net investment in lease (note 4)	9,785	10,160
Long-term receivables (note 5)	641	913
Investment in YVRAS (note 6)	116,785	-
Capital assets (note 7)	1,558,832	1,434,262
Other long-term assets (note 8)	7,368	4,274
Prepaid ground lease (note 18(a))	-	16,074
Other long-term investments (note 20(c))	21,265	26,425
Contract procurement costs (note 6)	-	2,780
Investments in airport concessions (note 6)	-	2,404
Due from and investments in MBJ Airports Ltd. (note 6)	-	17,324
Intangible interest in airport lease (note 6)	-	17,818
Future income taxes (note 6)	-	1,683
	<u>\$ 1,767,585</u>	<u>\$ 1,644,377</u>
Liabilities and Net Assets		
Current liabilities:		
Bank indebtedness (note 9)	\$ 38,325	\$ -
Accounts payable and accrued liabilities	76,437	76,737
Current portion of deferred revenue	4,803	1,078
Current portion of deferred ground lease (note 10)	2,053	2,053
Current portion of other long-term liabilities (note 11)	1,000	1,000
Current portion of long term debt (note 6)	-	2,198
Current portion of capital lease obligations (note 6)	-	171
	<u>122,618</u>	<u>83,237</u>
Deferred revenue	4,175	5,820
Deferred ground lease (note 10)	12,317	14,370
Other long-term liabilities (note 11)	1,000	25,771
Deferred capital contributions (note 12)	81,568	89,771
Debentures (note 13)	546,688	546,441
Deferred gain on deemed disposition of shares (note 6)	66,555	-
Long-term debt (note 6)	-	21,054
Capital lease obligations (note 6)	-	731
	<u>834,921</u>	<u>787,195</u>
Non-controlling interest (note 6)	-	42
Net assets:		
Invested in capital assets (note 14)	930,576	773,896
Unrestricted net assets	2,088	83,244
	<u>932,664</u>	<u>857,140</u>
	<u>\$ 1,767,585</u>	<u>\$ 1,644,377</u>

Commitments and contingencies (note 18)

Guarantees (note 21)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director

Director

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Director

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Operations
(In thousands of dollars)

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Revenue:		
Landing fees	\$ 39,662	\$ 44,356
Terminal fees	93,492	94,738
Concessions	69,615	64,307
Airport improvement fees	93,925	101,672
Car parking	32,261	33,197
Rentals, fees and miscellaneous	47,590	53,905
Grant revenue (note 12 and 15)	13,689	13,718
	390,234	405,893
Expenses:		
Salaries, wages and benefits	43,887	45,002
Materials, supplies and services	81,493	84,622
Payment in lieu of taxes, insurance and other	18,299	18,097
Depreciation and amortization	77,223	70,760
	220,902	218,481
Other expenses:		
Ground lease (note 18(a))	65,619	65,619
Interest and financing charges	33,643	30,431
	99,262	96,050
Excess of revenue over expenses before underrated items and income taxes	70,070	91,362
Foreign exchange gain (note 11(a))	108	2,091
Non-controlling interest	(18)	(51)
Loss on fair value of other long-term investments (note 20(c))	(5,160)	(7,345)
Equity in earnings of YVRAS (note 6)	9,054	-
Amortization of deferred gain on deemed disposition of shares (note 6)	1,470	-
Excess of revenue over expenses	\$ 75,524	\$ 86,057

See accompanying notes to consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

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

Year ended December 31, 2008, with comparative figures for 2007

	Invested in capital assets	Unrestricted		2008	2007
		Net excess	Accumulated unrealized currency translation		
Balance, beginning of year	\$ 773,896	\$ 85,037	\$ (1,793)	\$ 857,140	\$ 773,221
Transitional adjustment on adoption of financial instrument standards	-	-	-	-	(345)
Unrealized currency translation adjustment directly recorded to net assets	-	(88)	88	-	(1,793)
Excess (deficiency) of revenue over expenses	(70,348)	145,872	-	75,524	86,057
Net change in invested in capital assets	231,531	(231,531)	-	-	-
Deemed disposition and change in control of YVRAS (note 6)	(4,503)	2,798	1,705	-	-
Balance, end of year	\$ 930,576	\$ 2,088	\$ -	\$ 932,664	\$ 857,140

See accompanying notes to consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

Consolidated Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used for):		
Operations:		
Excess of revenue over expenses	\$ 75,524	\$ 86,057
Items not involving cash:		
Amortization of capital assets	76,935	70,076
Amortization of other intangibles	1,031	1,773
Amortization of deferred capital contributions	(6,587)	(6,715)
Non-controlling interest	18	51
Loss on fair value of other long-term investments (note 20(c))	5,160	7,345
Future income taxes	-	(673)
Loss (gain) on disposal of capital assets	(15)	20
Equity in earnings of MBJ	(537)	(78)
Equity in earnings of YVRAS (note 6)	(9,054)	-
Amortization of deferred gain on deemed disposition of shares (note 6)	(1,470)	-
Interest on other long-term liabilities (note 11(a))	1,852	1,149
Unrealized foreign exchange (gain) loss	(44)	(2,565)
Changes in non-cash operating working capital (note 22(a))	529	(13,979)
	143,342	142,461
Financing:		
Decrease in long-term receivables	272	290
Increase in bank indebtedness	38,325	-
Repayment of notes payable	-	(150,000)
Increase in long-term debentures	-	200,000
Repayment of long-term debt	(758)	(2,169)
Issuance of long-term debt	-	16,630
Repayment of promissory note to CAIC (note 11(a))	(21,741)	-
Increase (decrease) in other long-term liabilities	(3,670)	2,950
Repayment of capital lease obligations	(69)	(162)
Increase in deferred capital contributions	3,695	29,526
Repayment of deferred ground lease payments	(2,053)	(2,053)
Distribution to non-controlling interest	-	(94)
	14,001	94,918
Investments:		
Increase in other long-term investments	-	(33,770)
Increase in other assets	-	(1,434)
Decrease in net investment in lease	307	248
Increase in contract procurement costs	-	(115)
Redemption of capital in YVRAS (note 6)	16,042	(9,151)
Increase in due from MBJ Airports Ltd.	-	(5,674)
Proceeds on disposal of capital assets	15	12
Additions of capital assets	(234,751)	(293,989)
Increase in other long-term assets	(3,225)	-
Acquisition of non-controlling interest in TradePort	-	(13,000)
	(221,612)	(356,873)
Decrease in cash	(64,269)	(119,494)
Cash, beginning of year	64,678	184,172
Cash, end of year	\$ 409	\$ 64,678

Cash is defined as cash and short-term investments.

Supplementary cash flow information (note 22(b))

See accompanying notes to consolidated financial statements.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

1. Operations:

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

The Airport Authority operates the Vancouver Airport (the "Airport") pursuant to a lease of most of Sea Island, Richmond, British Columbia, from the Government of Canada (the "Ground Lease"). The subsidiaries of the Airport Authority include Vancouver Airport Enterprises Ltd. ("VAEL"), a holding company for the 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.

2. Significant accounting policies:

(a) Presentation and basis of accounting:

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

(b) Changes in accounting policies:

On January 1, 2008, 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 1506, *Accounting Changes*, revises current standards on changes in accounting policy, estimates or errors. An entity is permitted to change an accounting policy only when it results in financial statements that provide reliable and more relevant information or results from a requirement under a primary source of Canadian generally accepted accounting principles (GAAP). The guidance also addresses how to account for a change in accounting policy, estimate or corrections of errors, and establishes enhanced disclosures about their effects on the financial statements.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(b) Changes in accounting policies (continued):

- (ii) Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*, revise the current standards on financial instrument disclosure and presentation and require more extensive disclosure with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the year and at the balance sheet date, and how an entity manages these risks (note 20).
- (iii) Section 3031, *Inventories*, provides additional guidance on the measurement and disclosure requirements for inventories; significantly, the new standard allows the reversals of previous write-downs to the net realizable value when there is a subsequent increase in the value of inventories. This accounting standard was applied and there were no material impacts on adoption of the new standard.

Future changes in accounting policy:

- (i) The CICA has decided to transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS) effective January 1, 2011. The Airport Authority is evaluating the impact of a decision to apply IFRS to its financial statements.
- (ii) In December 2006, the CICA issued Handbook Section 1535, *Capital Disclosures*, which 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. This new standard is effective for the Airport Authority's financial statements commencing January 1, 2009.
- (iii) In February 2008, CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*. CICA 3064, which replaces Section 3062, *Goodwill and Intangible Assets*, and Section 3450, *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Airport Authority's financial statements commencing January 1, 2009.

The Airport Authority is assessing the impact of these new standards on its financial statements.

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Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(c) Financial instruments:

On January 1, 2007, the Airport Authority adopted CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3861, *Financial Instruments - Disclosure and Presentation*, and *Section 3865 - Hedges*. These standards were retroactively applied, but prospectively presented (through a transitional adjustment to opening net assets).

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

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

Financial liabilities:

On January 1, 2007, the USD \$22,000,000 promissory note on acquisition of CAIC included in other long-term liabilities (note 11(a)) was measured at fair value upon adoption of these standards. This resulted in a reduction to opening net assets at January 1, 2007 of \$943,000, a reduction in the promissory note of \$3,395,000, and a reduction to intangible asset of \$4,338,000.

Investments:

All of the Airport Authority's cash and short and other long-term investments held on January 1, 2007 or acquired subsequently are designated as held for trading investments under the standards. Purchases and sales of investments are recorded on a trade-date basis. Held for trading investments are measured at fair value with realized and unrealized gains and losses included on the consolidated statement of operations. Further information with regard to the Airport Authority's holdings of non-bank sponsored Asset Backed Commercial Paper (ABCP) is set out in note 20(c).

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Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(c) Financial instruments (continued):

Financing costs and the effective interest rate method:

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

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

Derivatives:

Upon adoption of the new standards, the Airport Authority reviewed all its outstanding contracts subsequent to the elected transition date of January 1, 2003 in accordance with Section 3855 to determine if any were derivatives or contained embedded derivatives. As at December 31, 2008 and 2007, the Airport Authority had no such embedded derivatives.

Hedges:

Section 3865 addresses the accounting treatment for qualifying hedging relationships and the necessary disclosures and also requires all derivatives to be recorded at fair value. As at December 31, 2008, the Airport Authority had no financial derivative contracts outstanding.

(d) Cash and short-term investments:

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

(e) Inventory:

Inventory, which is included in other current assets, is valued at the lower of cost and net realizable value. The Airport Authority did not write down or reverse any previous writedowns on its inventories. The cost of inventories recognized as an expense during the year ended December 31, 2008 was \$1,652,000

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(f) Interest in YVRAS:

The interest in 50% of YVRAS is accounted for using the equity method of accounting.

(g) Capital assets:

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

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

The art collection is recorded at cost with no amortization.

(h) Deferred financing costs:

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

(i) Deferred revenue:

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

(j) Revenue recognition:

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

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(j) Revenue recognition (continued):

Revenue is recognized as follows:

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

(k) Ground lease expenses:

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

(l) Taxes:

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

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

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

(m) Employee future benefits:

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

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(m) Employee future benefits (continued):

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

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

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

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

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

(n) 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 ABCP and provisions for contingencies. Actual results could differ from those estimates.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

3. Accounts receivable:

Current	\$	23,742
Aged 31-60 days		507
Aged 61-90 days		192
Aged over 90 days		571
Less allowance for doubtful accounts		(633)
	\$	24,379

Allowance for doubtful accounts, January 1, 2008	\$	592
Write off of specific account		(676)
Addition to allowance for doubtful accounts		834
Allowance related to YVRAS (note 6)		(117)
Allowance for doubtful accounts, end of period	\$	633

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:

	2008	2007
Minimum lease payments receivable	\$ 19,046	\$ 20,667
Unearned income	(8,886)	(10,200)
	10,160	10,467
Less current portion	375	307
	\$ 9,785	\$ 10,160

At December 31, 2008, the future minimum lease payments receivable under the direct financing lease are as follows:

2009	\$	1,646
2010		1,670
2011		1,696
2012		1,721
2013 and thereafter		12,313
	\$	19,046

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Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

5. Long-term receivables:

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

	2008	2007
Long-term receivables	\$ 913	\$ 1,163
Less current portion	272	250
	\$ 641	\$ 913

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

6. Investment in YVRAS:

	2008
Equity investment in class A common shares	\$ 30,285
Preferred shares	86,500
Total investment in YVRAS	\$ 116,785

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

In March 2007, the Airport Authority invested an additional \$5,500,000 in VAEL. These funds, through YVRAS, were used to increase its control of TradePort International Corporation from 62.33% to 100%.

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.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

6. Investment in YVRAS (continued):

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. For the year ended December 31, 2008, \$1,470,000 of the deferred gain was recognized.

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. Subsequent to May 21, 2008, the Airport Authority records its investment in YVRAS using the equity method of accounting. The assets and liabilities of YVRAS as at May 21, 2008, removed from the Airport Authority's consolidated statement of financial position, are as follows:

Current assets	\$	12,168
Long-term assets		64,628
Current liabilities		7,290
Long-term liabilities		22,052
Net assets	\$	47,454

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

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

6. Investment in YVRAS (continued):

Summarized statements of financial position, operations and cash flows of YVRAS as at December 31, 2008 and for the period from May 21, 2008 to December 31, 2008 are presented below:

	As at December 31, 2008
Current assets	\$ 119,209
Long-term assets	77,293
Current liabilities	15,508
Long-term liabilities	100,358
	<u>\$ 80,636</u>

	May 21, 2008 to December 31, 2008
Revenue	\$ 38,930
Expenses	20,823
Excess of revenue over expenses	<u>\$ 18,107</u>

Cash flows provided by (used in):	
Operating activities	\$ 9,549
Financing activities	(15,406)
Investing activities	14,661

During the period from May 21, 2008 to December 31, 2008, YVRAS redeemed capital of \$16,042,000 on class A common shares, which has been recorded as a reduction in the investment in YVRAS. Included in this amount is \$936,000 for interest earned on the restricted cash on preferred shares.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

7. Capital assets:

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Buildings and other structures	\$ 1,059,798	\$ 269,087	\$ 790,711	\$ 685,424
Runways and other paved surfaces	360,806	104,524	256,282	266,250
Machinery and equipment	70,795	20,618	50,177	20,272
Furniture and fixtures	22,834	15,557	7,277	8,382
Computer equipment and software	69,847	44,803	25,044	26,710
Art collection	5,226	-	5,226	4,823
Construction-in-progress	424,115	-	424,115	417,464
Land	-	-	-	3,487
Equipment under capital lease	-	-	-	1,450
	\$ 2,013,421	\$ 454,589	\$ 1,558,832	\$ 1,434,262

8. Other long-term assets:

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
(a) Lease inducement	\$ 3,000	\$ 623	\$ 2,377	\$ 2,717
(b) Leasehold interest	5,043	52	4,991	-
Land-use restriction payment (note 6)	-	-	-	1,557
	\$ 8,043	\$ 675	\$ 7,368	\$ 4,274

- (a) On March 1, 2007, the Airport Authority agreed to provide a concession operator a \$3,000,000 rent credit, payable at \$1,000,000 per year in each of 2008, 2009, and 2010. This lease inducement is recognized against revenue evenly over the life of the lease term of 8 years and 10 months.

As at December 31, 2008, the lease inducement asset of \$2,377,000 is included in other long-term assets on the consolidated statement of financial position, \$340,000 has been recognized as an offset to revenue, and the remaining \$2,000,000 rent credit is accrued as part of other long-term liabilities (note 11(b)).

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

8. Other long-term assets (continued):

(b) In June 2008, the Airport Authority acquired 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 amortized over the remaining term of the Ground Lease, which expires on June 30, 2052.

9. Bank indebtedness:

	2008	2007
Bank operating line	\$ 3,114	\$ -
Bankers' acceptances	35,211	-
	<u>\$ 38,325</u>	<u>\$ -</u>

The Airport Authority has available an unsecured bank operating line of \$200,000,000 (2007 - \$200,000,000).

The bankers' acceptances have fixed rates of interest varying from 1.95% to 3.49% with maturity dates from February 23, 2009 to June 19, 2009.

10. Deferred ground lease payments:

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

Repayments are interest free over a ten-year period, commencing January 1, 2006. As at December 31, 2008, the Airport Authority has repaid a total of \$6,159,000 (2007 - \$4,106,000) of rent deferrals to Transport Canada (note 18(a)).

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

11. Other long-term liabilities:

	2008	2007
(a) Promissory note on acquisition of CAIC (USD \$22,000)	\$ -	\$ 19,918
(b) Lease inducement liability (see note 8(a))	2,000	3,000
Deferred share unit plan (note 6)	-	3,539
Other (note 6)	-	314
	2,000	26,771
Less current portion of other long-term liabilities	1,000	1,000
	\$ 1,000	\$ 25,771

(a) Promissory note on acquisition of CAIC:

As a result of the issuance of additional shares of YVRAS (note 6), the promissory note on acquisition of CAIC of USD \$22,000,000, with original due dates of USD \$17,000,000 in 2009 and USD \$5,000,000 in 2011, was repaid in full on May 21, 2008. A foreign exchange gain of \$29,000 (2007 - \$2,091,000) was recognized and an interest expense of \$1,852,000 was recorded.

12. Deferred capital contributions:

	2008	2007
Capital contributions:		
Canadian Air Transport Security Authority ("CATSA")	\$ 100,249	\$ 97,554
Airports Capital Assistance Program	-	9,781
Other	1,707	707
	101,956	108,042
Accumulated amortization	(20,388)	(18,271)
	\$ 81,568	\$ 89,771

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.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

13. Debentures:

	2008	2007
Amended Series B 7.425%, due December 7, 2026	\$ 150,000	\$ 150,000
Series D 4.424%, due December 7, 2018	200,000	200,000
Series E 5.020%, due November 14, 2015	200,000	200,000
	550,000	550,000
Less unamortized deferred financing costs	3,312	3,559
	\$ 546,688	\$ 546,441

The Series B debentures are issued under the Trust Indenture dated December 6, 1996. The Airport Authority received approval from holders of the Series B debentures to make changes to the Trust Indenture by way of a Supplemental Indenture dated December 7, 2006. These changes include increasing the limitation on guarantees and investments, and updating accounting terminology. To permit these changes, the debenture holders required that the Airport Authority increase the coupon on its Series B debentures by 0.05% to 7.425%.

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

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

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

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

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

14. Invested in capital assets:

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

	2008	2007
Capital assets	\$ 1,558,832	\$ 1,434,262
Amounts financed by:		
Deferred capital contributions	(81,568)	(89,771)
Debentures	(546,688)	(546,441)
Long-term debt	-	(23,252)
Capital lease obligation	-	(902)
	\$ 930,576	\$ 773,896

(b) Deficiency of revenue over expenses:

	2008	2007
Amortization of deferred capital contributions	\$ 6,587	\$ 6,715
Amortization of capital assets	(76,935)	(70,076)
	\$ (70,348)	\$ (63,361)

(c) Net change in invested in capital assets:

	2008	2007
Purchase of capital assets	\$ 234,751	\$ 293,989
Amounts funded by deferred capital contributions	(3,695)	(29,526)
Proceeds from disposal of capital assets	(15)	(12)
Gain (loss) on disposal of capital assets	15	(20)
Increase in deferred financing fees	-	1,001
Amortization of deferred financing fees and discount	(352)	(803)
Principal payments on long-term debt	758	2,169
Issuance of long-term debt	-	(16,630)
Issuance of debentures	-	(200,000)
Repayment of FRNs	-	150,000
Principal payments on capital leases	69	162
	\$ 231,531	\$ 200,330

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

15. 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 is to be extended annually as required and recorded as grant revenue.

16. 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 \$91,673,000 (2007 - \$96,356,000) main terminal AIF revenue, and main terminal AIF eligible capital expenditures totaled \$229,314,000 (2007 - \$260,193,000). To December 31, 2008, the cumulative AIF revenue totaled \$946,438,000 (2007 - \$854,765,000), and cumulative AIF eligible expenditures totaled \$1,962,313,000 (2007 - \$1,732,999,000).

17. Employee future benefits:

(a) Funded pension plans:

Defined contribution plans:

The Airport Authority participates in a Registered Retirement Savings Plan (RRSP) which covers employees who have joined the Airport Authority since June 1992. Employees covered by this plan are required to contribute 6% of their earnings and the Airport Authority contributes equal amounts. Total contributions included in the pension expense for 2008 were \$1,405,000 (2007 - \$1,267,000).

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, 2008 was \$10,000 (2007 - \$10,000). Some senior executives are also provided a Retirement Compensation Arrangement (RCA). Contributions to the RCA in 2008 totaled \$1,274,000 (2007 - \$2,300,000).

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

17. Employee future benefits (continued):

(a) Funded pension plans (continued):

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, 2007. The next valuation will be as of December 31, 2008, the results of which are expected to be available during the year ending December 31, 2009.

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

	2008	2007
Accrued benefit obligation:		
Balance, beginning of year	\$ 41,308	\$ 43,149
Current service cost	1,347	1,380
Interest cost	2,428	2,303
Benefits paid	(868)	(1,316)
Actuarial losses	(13,760)	(4,208)
Balance, end of year	30,455	41,308
Fair value of plan assets:		
Balance, beginning of year	39,014	37,158
Actual return on plan assets	(6,933)	1,916
Employer contributions	1,473	982
Employee contributions	280	274
Benefits paid	(868)	(1,316)
Balance, end of year	32,966	39,014
Surplus (deficiency) of plan assets	2,511	(2,294)
Unamortized net actuarial loss	264	4,354
Unamortized transitional obligation	(739)	(1,108)
Accrued benefit asset	\$ 2,036	\$ 952

The accrued benefit asset is included in other current assets.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

17. Employee future benefits (continued):

(a) Funded pension plans (continued):

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

	2008	2007
Asset category:		
Equity shares	59.6%	54.2%
Debt securities	37.8%	30.8%
Cash and short-term investments	2.6%	15.0%
Total	100.0%	100.0%

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

	2008	2007
Accrued benefit obligation as of December 31:		
Discount rate	8.25%	5.75%
Rate of compensation increase	4.00%	4.00%
Benefit costs for years ended December 31:		
Discount rate	5.75%	5.25%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%

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

	2008	2007
Current service cost, net of employees' contributions	\$ 1,067	\$ 1,106
Interest cost	2,428	2,303
Actual return on plan assets	6,933	(1,916)
Actuarial losses	(13,760)	(4,208)
Employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	(3,332)	(2,715)
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	(9,695)	(684)
Difference between actuarial gain recognized for year and actual actuarial gain on accrued benefit obligation for year	13,785	4,654
Amortization of the transitional obligation	(369)	(369)
Defined benefit costs recognized	\$ 389	\$ 886

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

17. Employee future benefits (continued):

(a) Funded pension plans (continued):

Total cash payments:

Total cash payments for employee future benefits for the year ended December 31, 2008, consisting of cash contributed by the Airport Authority to its funded pension plans (the defined benefit plan, defined contribution plans and RCA) were \$4,161,000 (2007 - \$4,559,000).

(b) Unfunded pension plans:

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

Pension expense for 2008 was \$403,000 (2007 - \$807,000). Based on an actuarial report prepared as at December 31, 2007, the accrued benefit obligation as at December 31, 2008 was \$4,783,000 (2007 - \$5,505,000).

18. Commitments and contingencies:

(a) Ground Lease:

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

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

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

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

During the four year period, rent expense will be recorded on a straight-line basis. As a result, the ground lease payments made, in excess of the ground lease expense during the year, have been recorded as a prepaid ground lease expense. At December 31, 2008, the amount of prepaid ground lease to was \$16,074,000 (2007 - \$17,310,000).

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

18. Commitments and contingencies (continued):

(a) Ground Lease (continued):

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

	Lease expense	Lease payments
2009	\$ 65,619	\$ 51,598
2010	37,173	39,226
2011	39,439	41,492
2012	42,221	44,274
2013	44,704	46,757

(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, 2008 of approximately \$106,312,000 (2007 - \$52,671,000). In connection with operating the Airport, the Airport Authority has total operating commitments, as at December 31, 2008, of approximately \$39,218,000 (2007 - \$13,400,000). These commitments extend for periods of up to five years.

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

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

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

18. Commitments and contingencies (continued):

(c) CLCO (continued):

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

The Airport Authority has contributed a total of \$265,520,000 (2007 - \$218,700,000) to CLCO towards the Project costs, which reduced the remaining contribution obligations of the Airport Authority. The amounts have been capitalized as construction-in-progress.

(d) Legal claims:

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

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

19. Economic dependence:

The Airport Authority derives approximately \$50,354,000 (2007 - \$47,900,000) in aeronautical fees and rents from one airline and \$25,951,000 (2007 - \$21,141,000) in concession revenue from one concession operator.

20. Financial instruments:

(a) Fair value of financial instruments:

The Airport Authority's financial instruments include cash and short-term investments, 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 below in note 20(c).

The fair value of the debentures at December 31, 2008 is estimated to be \$529,000,000 (2007 - \$587,000,000). 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.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

20. Financial instruments (continued):

(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 \$1,513,000 as at December 31, 2008. 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, 2008, the Airport Authority did not realize any material gains or losses on its financial liabilities measured at amortized cost. The Airport Authority recorded bad debts of \$667,000 related to a concessionaire that filed for bankruptcy.

As at December 31, 2008, the Airport Authority did not hold any short-term investments and therefore was not exposed to credit risk on investments, other than the non-bank sponsored ABCP discussed in note 20(c).

(ii) Currency risk:

The Airport Authority has minimal transactions denominated in foreign currencies.

The Airport Authority recognized a foreign exchange gain of \$68,000 (2007 - \$3,830,000) on its US denominated long-term liability which was repaid during the year (note 11(a)).

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

20. Financial instruments (continued):

(b) Risk management (continued):

(iii) Interest rate risk:

The Airport Authority is exposed to interest rate risk on its bank operating line which is charged at a rate of prime. During the year, the bank operating line was utilized on a daily average of \$1,031,000 (2007 - \$783,000). An increase of 1% in the prime rate, during the year, would have increased interest expense by approximately \$10,000 (2007 - \$8,000). The balance of outstanding debt is issued by way of bankers' acceptances (note 9) and debentures (note 13) which have fixed interest rates for their term and therefore changes in interest rates do not significantly impact interest payments or their fair values. The other long-term liabilities are non-interest bearing.

(iv) Liquidity risk:

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

(c) Other long-term investments:

At December 31, 2008, the Airport Authority held investments in non-bank sponsored ABCP with maturity values totaling \$34,300,000 which are included in other long-term investments. The original maturity of these trusts ranged from August 16, 2007 to October 1, 2007; however, none were redeemed at maturity. At December 31, 2008, no active market existed for the ABCP requiring management to determine an estimate of value by constructing valuation models as described below.

On September 6, 2007, a Pan Canadian Committee (the "Committee") consisting of a panel of major Montreal Proposal ABCP investors was formed. The Committee subsequently retained legal and financial advisors to oversee the restructuring process. On January 21, 2009, the Committee announced that the restructuring Plan affecting \$32 billion of third party ABCP was completed. Pursuant to the terms of the Plan, holders of affected ABCP will have their short term commercial paper exchanged for longer term FRNs whose maturities match those of the assets previously contained in the underlying conduits.

There continues to be uncertainty in estimating the amount and timing of cash flows from the restructuring. Management has used information for the valuation of ABCP from the "Eighteenth Report of the Monitor" and the "Nineteenth Report of the Monitor" published by the Committee and has estimated the fair value of these securities by estimating future cash flows for each series of FRNs given available market conditions data and taking into account known and assumed credit ratings for each series of FRNs at December 31, 2008.

As a result of the valuation, the Airport Authority has recognized a loss on fair value of \$5,160,000 for the year ended December 31, 2008 (2007 - \$7,345,000) against the carrying value of the ABCP.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

20. Financial instruments (continued):

(c) Other long-term investments (continued):

While management believes that its valuation technique is appropriate in the circumstances, once a secondary market develops and pricing information becomes available, the value of the FRNs 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 ABCP 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 \$1,448,000 against the carrying value of the ABCP.

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

21. 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 \$11,344,000).

- (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.

VANCOUVER AIRPORT AUTHORITY

Notes to Consolidated Financial Statements (continued)
(tabular amounts in thousands of dollars)

Year ended December 31, 2008

22. Supplementary cash flow information:

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

	2008	2007
Accounts receivable	\$ 1,487	\$ (3,625)
Other receivables	1,591	2,564
Other current assets	(3,109)	(1,258)
Prepaid ground lease	1,236	(6,182)
Accounts payable and accrued liabilities	(3,992)	(4,585)
Deferred revenue	3,316	(893)
	\$ 529	\$ (13,979)

(b) Other supplementary information:

	2008	2007
Supplementary information:		
Interest expense paid	\$ 30,055	\$ 28,243
Interest income received	749	3,556
Income taxes paid	284	1,653
Non-cash items:		
Deemed disposition and change in control of YVRAS to the equity method of accounting (note 6)	123,165	-
Deferred gain on deemed disposition of shares (note 6)	68,025	-
Decommissioning costs on leasehold interest (note 8(b))	1,400	-
Lease inducement provided (credited) to a concession operator (note 11(b))	(1,000)	3,000
Financing costs accounted for under effective interest method	-	345

23. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the year ended December 31, 2008.