

EDMONTON INTERNATIONAL AIRPORT

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Edmonton Airports

Unaudited Quarterly Interim Financial Statements

For the Three and Six Months Ended June 30, 2010

EDMONTON
CITY CENTRE
AIRPORT

COOKING LAKE
AIRPORT

VILLENEUVE
AIRPORT

1. INTRODUCTION

The following commentary and analysis of the operating results and financial position of the Edmonton Regional Airports Authority (Edmonton Airports) for the six months ended June 30, 2010 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report as well as the Management Discussion and Analysis and the audited financial statements and related notes contained in the 2009 Annual Report.

Edmonton Airports' financial statements reflect the combined results of operations of the Edmonton International, Edmonton City Centre, Cooking Lake and Villeneuve Airports.

Edmonton Airports recorded overall net earnings of \$3.4 million for the six months ended June 30, 2010, which is a \$0.8 million decrease from the 2009 net earnings of \$4.2 million. During the period, Edmonton Airports experienced positive revenue growth of \$8.1 million (13.3%) however this was offset by increased expenses of \$8.8 million (15.4%). The period decrease in net earnings is primarily due to an increase in Airport improvement fee ("AIF") of \$6.6 million and Parking and car rentals revenues of \$1.6 million offset by increases in Canada lease rent of \$2.9 million, Amortization expense of \$2.8 million, Interest expense of \$1.4 million and Salaries and employee benefits of \$0.8 million.

2. EDMONTON INTERNATIONAL AIRPORT ACTIVITY

During the first six months of 2010, a total of 3,010,899 enplaning and deplaning passengers used Edmonton International, compared to 3,008,716 passengers for the same period in 2009 representing an increase of 0.1%. By sector, Domestic passengers for the first six months increased by 0.4% when compared to 2009; while Transborder increased by 4.3%, and International passengers decreased by -11.8%. The strong passenger results for May and June contributed to the net year to date overall increase in passengers over the same period for 2009.

EDMONTON AIRPORTS Passenger Traffic by Sector

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	%	2010	2009	%
Domestic	1,190,586	1,182,822	0.7	2,257,569	2,248,150	0.4
Transborder	245,495	235,053	4.4	533,721	511,524	4.3
International	76,331	77,916	-2.0	219,609	249,042	-11.8
Total	1,512,412	1,495,791	1.1	3,010,899	3,008,716	0.1

The figures in the above table may change due to adjustments to reflect actual which is dependent on timing and amendments filed by the airlines.

3. EDMONTON CITY CENTRE AIRPORT

On July 10, 2009, Edmonton City Council passed a resolution in respect of the phased closure of the Edmonton City Centre Airport to be completed by a future date yet to be determined. In order to facilitate the phased closure, Edmonton Airports signed an agreement on July 23, 2010 with the City of Edmonton ("Lease Amending Agreement") to surrender certain leased lands effective August 4, 2010. Edmonton Airports will continue to lease certain lands to operate runway 12-30 and associated apron and taxiways, and buildings required for the operation of the Edmonton City Centre Airport. The Lease Amending Agreement cannot reasonably be expected to materially adversely affect the interests of the Bondholders or the Security or the ability of Edmonton Airports to operate its Core Business.

The total financial impact of this transaction is not known at this time as there is a 90 day period in which final adjustments related to such items as a building appraisal are completed. Therefore, other than the accelerated amortization of the book value of runway 16-34 and its related assets, no other costs of the agreement are reflected in these statements.

4. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Edmonton Airports continued its IFRS conversion work in the second quarter of 2010. All component evaluations have been completed. An evaluation and recommendation of the different IFRS accounting policy options and first time IFRS adoption choices were approved at the Audit Committee meeting of March 12, 2010. The preparation of the IFRS adjustments to the 2010 financial statement comparative information for the 2011 financial statements is underway along with all of the remaining conversion activities. The conversion program is currently on budget.

5. RESULTS OF OPERATIONS

The table below shows Edmonton Airports combined operating earnings for the three and six months ended June 30, 2010 with comparative figures for the same period in 2009.

EDMONTON AIRPORTS
Statement of Operating Earnings (000's of dollars)
Unaudited

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Operating revenues				
Airside and general terminal	8,715	8,782	17,730	17,747
Parking and car rentals	8,239	7,203	16,179	14,587
Concession	2,018	2,011	3,833	4,055
Real estate leases	971	907	1,988	1,847
Other revenue	30	27	42	42
	19,973	18,930	39,772	38,278
Operating expenses				
Salaries and employee benefits	6,426	6,035	13,131	12,318
Service, maintenance, supplies and administration	4,468	4,318	9,105	9,090
Utilities, insurance and property taxes	1,912	1,597	4,054	3,633
Canada lease rent	2,676	1,225	5,352	2,451
	15,482	13,175	31,642	27,492
Operating earnings	4,491	5,755	8,130	10,786

The calculation of Operating Earnings excludes Airport improvement fee, Police and security, and Capital contributions (included in Other revenue) revenues as well as Airport improvement fee collection costs, Police and security, Interest and Amortization expenses.

5.1. Operating Revenues

Operating revenues for the six months ended June 30, 2010 were \$39.8 million compared to \$38.3 million for the corresponding period in 2009, an increase of \$1.5 million (3.9%). Parking and car rental revenue increased by \$1.6 (10.9%) compared to 2009. The increased revenue is due to the new car rental agreements. Concession revenues are slightly lower due to additional contract closing arrangements related to a change in the retail concession provider. Real estate revenues are slightly higher due to the impact of lease agreements approved or modified in the latter half of 2009.

5.2. Operating Expenses

Operating expenses for the six months ended June 30, 2010 were \$31.7 million compared to \$27.5 million for the corresponding period in 2009, an increase of \$4.2 million (15.3%). The Canada lease rent increased by \$2.9 million (118.4%) compared to 2009 due to the change in the calculation of rent payable to the Government of Canada. The rent calculation changed to an escalating percentage of gross revenues as of January 1, 2010. Salaries and employee benefits were \$0.8 million (6.5%) higher than 2009. This increase is primarily due to the negotiated wage increase for General Bargaining Unit personnel and staffing of positions in 2010 that were vacant during the same period in 2009.

5.3. Operating Earnings

Operating earnings for the six months ended June 30th, 2010 were \$8.1 million; a decrease of \$2.7 million (25.0%) over last year's operating earnings of \$10.8 million. The increase in the Canada lease rent (\$2.9 million) and Salaries and employee benefits (\$0.8 million) expense was partially offset by the increase in Parking and car rentals revenue (\$1.6 million).

5.4. Net Earnings

The net earnings of \$3.4 million for the six months ended June 30th, 2010 is a decrease of \$0.8 million (19.0%) from the 2009 net earnings of \$4.2 million. AIF revenues increased \$6.6 million (34.1%) primarily due to the per passenger rate increase of \$15 to \$20 in September 2009. However, this AIF revenue increase was offset by lower Operating Earnings and by the increases in interest and amortization expenses. The increase in interest expense results from additional borrowings to finance capital investment. The increased amortization expense also results from the increased capital investment and accelerated amortization for the closure of the Edmonton City Centre airport runway.

6. CAPITAL INVESTMENT

The approved 2010 Sustaining Capital Program is approximately \$12.5 million for all airports. To date, \$8.8 million has been approved and \$3.9 million has been spent on all projects including multi-year projects approved in prior years.

The approved Capital Expansion Program budget for 2010 is approximately \$217.2 million for all airports. For the six months ended June 30, 2010, cash out flows were \$78.2 million for all projects. The major expenditures were \$67.7 million for terminal expansion and control office tower, \$6.7 million for taxiway, apron expansion and roadway rehabilitation and \$3.8 million on long term park and ride.

EDMONTON AIRPORTS
Statements of Financial Position (000's of dollars)
Unaudited

As at June 30, 2010 with comparative figures at December 31, 2009

	Notes	June 30 2010 \$	December 31 2009 \$
Assets			
Current assets			
Cash in interest bearing accounts		59,495	30,016
Short-term investments		37,152	50,084
Accounts receivable	13	13,787	12,374
Prepaid expenses and other		3,603	2,556
		114,037	95,030
Restricted deposits	7	17,082	12,556
Deferred pension asset		8,104	8,104
Lessee receivable		174	240
Property, plant and equipment	5, 10	608,645	522,144
Intangible assets	6	738	789
		748,780	638,863
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5 (b)	55,922	34,065
Current portion of capital lease obligation		19	18
Current portion of long-term debt	7	12,043	10,196
Current portion of deferred revenue		1,243	1,224
		69,227	45,503
Tenants' security deposits		839	914
Deferred revenue		11,521	12,075
Obligation under capital lease		83	93
Long-term benefits payable		3,493	3,219
Long-term debt	7	531,055	447,932
		616,218	509,736
Contingencies	12		
Net Assets			
Contributed capital	4	3,805	3,805
Equity in property, plant and equipment	4	128,757	125,322
		132,562	129,127
		748,780	638,863

See accompanying notes to interim financial statements

EDMONTON AIRPORTS

Statements of Net Earnings, Comprehensive Income and Equity in Property, Plant and Equipment (000's of dollars) Unaudited

For the Three and Six Months Ended June 30, 2010 with comparative figures for 2009

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2010 \$	2009 \$	2010 \$	2009 \$
Revenues					
Airport improvement fee	8, 13	13,178	9,607	25,868	19,266
Airside and general terminal	13	8,715	8,782	17,730	17,747
Parking and car rentals		8,239	7,203	16,179	14,587
Concession		2,018	2,011	3,833	4,055
Police and security		1,472	1,502	2,971	2,946
Real estate leases		971	907	1,988	1,847
Other revenue		299	298	581	582
		34,892	30,310	69,150	61,030
Expenses					
Amortization	5(c), 6(b)	9,172	7,527	17,923	15,109
Salaries and employee benefits	9	6,426	6,035	13,131	12,318
Interest	10	5,860	4,717	11,949	10,574
Service, maintenance, supplies and administration		4,468	4,318	9,105	9,090
Canada lease rent	3	2,676	1,225	5,352	2,451
Utilities, insurance and property taxes		1,912	1,597	4,054	3,633
Police and security		1,401	1,402	2,829	2,777
Airport improvement fee collection costs		801	576	1,572	1,158
		32,716	27,397	65,915	57,110
Earnings before the undermoted		2,176	2,913	3,235	3,920
Other gains		205	285	200	329
Net earnings and comprehensive income		2,381	3,198	3,435	4,249
Equity in property, plant and equipment, Beginning of period		126,376	119,325	125,322	118,274
Equity in property, plant and equipment, End of period		128,757	122,523	128,757	122,523

See accompanying notes to interim financial statements

EDMONTON AIRPORTS
Statements of Cash Flows (000's of dollars)
Unaudited

For the Three and Six Months Ended June 30, 2010 with comparative figures for 2009

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash provided by (used in):				
Operating activities				
Cash receipts from customers	34,139	30,192	66,164	64,479
Cash paid to employees and suppliers	(22,773)	(20,412)	(32,919)	(31,785)
Cash paid to the landlord	(1,279)	(1,226)	(2,853)	(2,584)
Interest received	134	260	262	838
Interest paid	(5,994)	(4,977)	(12,211)	(11,412)
	4,227	3,837	18,443	19,536
Financing activities				
Capital contributions	-	-	-	194
Repayment of tenants' security deposits	(206)	(17)	(76)	(33)
Principal payments under capital lease obligations	(4)	-	(9)	-
Repayments of long-term debt	(3,034)	(2,453)	(5,030)	(4,360)
Proceeds of long-term debt	60,000	-	90,000	-
	56,756	(2,470)	84,885	(4,199)
Investing activities				
Net proceeds of short-term investments	12,974	13,827	12,931	17,408
Net purchase of interest bearing deposits	(16)	(11)	(4,526)	(790)
Loan repayments	33	32	66	63
Purchase of intangible assets	(130)	(302)	(278)	(539)
Purchase of property, plant and equipment	(52,988)	(15,638)	(82,068)	(32,959)
Proceeds on disposal of capital assets	26	36	26	36
	(40,101)	(2,056)	(73,849)	(16,781)
Increase (decrease) in cash	20,882	(689)	29,479	(1,444)
Cash in interest bearing accounts, beginning of period	38,613	20,077	30,016	20,832
Cash in interest bearing accounts, end of period	59,495	19,388	59,495	19,388

See accompanying notes to interim financial statements

Notes to 2nd Quarter 2010 Interim Financial Statements (Unaudited)

(000's of dollars unless otherwise stated)

1. INTERIM FINANCIAL STATEMENTS

These interim financial statements conform in all material respects to the requirements of Canadian generally accepted accounting principles (GAAP) for interim financial statements and should be read in conjunction with the most recent annual audited financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements follow the same accounting policies and methods in their application as the most recent annual audited financial statements for Edmonton Airports.

3. LEASE AGREEMENTS

Effective 2010, Canada Lease Rent is based on a percentage of Gross revenues at EIA, including AIF revenues, on a progressive scale as follows:

<u>Gross Revenues</u>	<u>Rent Paid</u>
On the first \$5 million	0%
On the next \$5 million	1%
On the next \$15 million	5%
On the next \$75 million	8%
On the next \$150 million	10%
On any amount over \$250 million	12%

Canada Lease Rent for 2010 is forecasted to be approximately \$10.6 million.

4. CAPITAL MANAGEMENT

Edmonton Airports complies with the covenants for Debt Service Coverage Ratio, Gross Debt Service Coverage Ratio and Interest Coverage Ratio. Edmonton Airports' credit rating allows it to secure access to financing at the lowest reasonable cost.

As at June 30, 2010, Edmonton Airports was in compliance with the restrictions imposed on capital.

Notes to 2nd Quarter 2010 Interim Financial Statements (Unaudited)

(000's of dollars unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

	June 30 2010 \$	December 31 2009 \$
Terminal and facilities	778,392	668,600
Machinery and equipment	32,537	38,878
Office equipment under capital lease	115	115
	811,044	707,593
Less accumulated amortization	(202,399)	(185,449)
	608,645	522,144

- (a) At June 30, 2010, \$182,314 (December 31, 2009 - \$89,723) of property, plant, and equipment was under construction and not yet subject to amortization.
- (b) Included in accounts payable and accrued liabilities at June 30, 2010 is \$40,621 (December 31, 2009 - \$18,634) relating to unpaid capital expenditures.
- (c) For the six month period ended June 30, 2010, \$17,594 (June 30, 2009 - \$14,952) of the amortization expense is for property, plant and equipment.
- (d) Included in other gains at June 30, 2010 is \$26 (June 30, 2009 - nil) of gain on sale of assets.

6. INTANGIBLE ASSETS

	June 30 2010 \$	December 31 2009 \$
Cost	1,842	1,563
Accumulated amortization	(1,104)	(774)
	738	789

- (a) Intangible assets are purchased software and software licenses.
- (b) For the period ended June 30, 2010, \$329 (June 30, 2009 - \$157) of the amortization expense is for intangible assets.

Notes to 2nd Quarter 2010 Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

7. LONG-TERM DEBT

			2010 June 30 \$	2009 December 31 \$
Revenue Bond, Series A Bonds payable in semi-annual payments of principal and interest at preset varying amounts each year commencing May 1, 2001 until November 1, 2030:				
Interest Rate	Semi-annual Amount	Maturity Date		
7.21%	Varying	November 1, 2030	236,882	238,416
Fixed Rate Debentures, Series C Bonds payable in semi-annual instalments of principal and interest:				
4.37%	\$755	December 15, 2026	17,621	17,983
4.50%	\$1,145	March 15, 2027	27,015	27,541
5.00%	\$398	June 15, 2027	9,052	9,220
4.89%	\$395	September 17, 2027	9,212	9,377
4.68%	\$1,552	June 16, 2028	37,455	38,114
4.55%	\$3,068	September 17, 2028	76,173	77,477
4.67%	\$1,245	December 15, 2039	39,688	40,000
4.54%	\$920	March 15, 2040	30,000	-
4.56%	\$1,845	June 15, 2040	60,000	-
			543,098	458,128
Less: Current Portion			12,043	10,196
			531,055	447,932

Pursuant to the terms of the Indenture, Edmonton Airports is required to maintain a Debt Service Reserve Fund equal to one-half of its annual debt service costs. At June 30, 2010, Restricted Deposits of \$17,082 (December 31, 2009 – \$12,556) are restricted as a requirement of the Debt Service Reserve Fund.

Notes to 2nd Quarter 2010 Interim Financial Statements (Unaudited)

(000's of dollars unless otherwise stated)

8. AIRPORT IMPROVEMENT FEE

Effective April 12, 1997, Edmonton Airports implemented an Airport Improvement Fee ("AIF") to fund capital expenditures and the related financing costs, including the redevelopment and expansion of the terminal facilities at the Edmonton International.

	June 30 2010 \$	December 31 2009 \$
Cumulative AIF revenues net of collection costs	331,829	307,533
Cumulative expenditures	834,974	723,560
	(503,145)	(416,027)

9. BENEFIT PLAN EXPENSE

	Three Months Ended June 30			Total \$
	Pension Plan \$	SERP \$	Long-term Benefit Plan \$	
Current service cost	292	39	56	387
Interest cost	334	34	57	425
Expected return on plan assets	12	-	-	12
Amortization of transitional surplus	(41)	-	-	(41)
Amortization of actuarial gain (loss)	38	(4)	(20)	14
Net benefit plan expense included in salaries and benefits expense 2010	635	69	93	797
Net benefit plan expense included in salaries and benefits expense 2009	513	70	87	670

Notes to 2nd Quarter 2010 Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

9. BENEFIT PLAN EXPENSE (CONTINUED)

	Six Months Ended			Total \$
	June 30			
	Pension Plan \$	SERP \$	Long-term Benefit Plan \$	
Current service cost	584	77	112	773
Interest cost	669	69	128	866
Expected return on plan assets	(151)	-	-	(151)
Amortization of transitional surplus	(83)	-	-	(83)
Amortization of actuarial gain (loss)	76	(8)	(39)	29
Net benefit plan expense included in salaries and benefits expense 2010	1,095	138	201	1,434
Net benefit plan expense included in salaries and benefits expense 2009	899	140	171	1,210

10. INTEREST EXPENSE

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010 \$	2009 \$	2010 \$	2009 \$
Bond interest	4,262	4,333	8,562	8,681
Debenture Interest	2,954	2,114	5,529	4,241
Other interest and financing costs	67	123	176	175
Interest income and other	(93)	(292)	(181)	(810)
	7,190	6,278	14,086	12,287
Less: capitalized interest	(1,330)	(1,561)	(2,137)	(1,713)
	5,860	4,717	11,949	10,574

Notes to 2nd Quarter 2010 Interim Financial Statements (Unaudited)

(000's of dollars unless otherwise stated)

11. PASSENGER VOLUME SEASONALITY

Passenger volume, comprised of the total number of enplaned and deplaned passengers, is the main driver of certain Edmonton Airports revenue streams. These include Parking and Car rentals, Concession, AIF, and Police and security revenues. The following table outlines the seasonality component of passenger traffic at the Edmonton International and compares 2010 actual for January through June to the same period last year.

Month	Actual 2010	Actual 2009	Variance	%
January	486,471	493,541	(7,070)	-1.4
February	478,767	492,286	(13,519)	-2.7
March	533,249	527,098	6,151	1.2
First Quarter	1,498,487	1,512,925	(14,438)	-1.0
April	506,095	526,066	(19,971)	-3.8
May	506,659	488,472	18,187	3.7
June	499,658	481,253	18,405	3.8
Second Quarter	1,512,412	1,495,791	16,621	1.1

The figures in the above table may change due to adjustments to reflect actual passengers which are dependent on timing and amendments filed by the airlines.

12. CONTINGENCIES

There have been no material changes in the existence, likelihood or amount of contingencies since the most recent annual financial statements.

13. RISK MANAGEMENT

Edmonton Airports' Board of Directors ("Board") is responsible for understanding the principal risks of the business in which Edmonton Airports is engaged, achieving a balance between risks incurred and the purpose of Edmonton Airports and confirming that there are systems in place to effectively monitor and manage those risks with a view to the long-term viability of Edmonton Airports. The Board has established the Audit Committee, which reviews significant financial risks associated with future performance, growth and lost opportunities identified by management that could materially affect Edmonton Airports' ability to achieve its strategic or operational targets. The Board is responsible for confirming that management has procedures in place to mitigate identified risks.

Credit risk

The maximum exposure to credit risk is the carrying value of loans and receivables on the balance sheet. Edmonton Airports has a concentration of credit risk with two airlines which comprise approximately 69% (67% - 2009) of its airside and general terminal and AIF revenue. In management's opinion Edmonton Airports' is not exposed to significant credit risk from these airlines.

Notes to 2nd Quarter 2010 Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

13. RISK MANAGEMENT (CONTINUED)

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. At June 30, 2010, the provision for impairment of accounts receivable was \$0.8 million; this provision has increased by \$0.1 million from December 31, 2009.

At June 30, 2010, the aging analysis of trade receivables that are past due but not impaired is as follows:

	June 30 2010 \$	December 31 2009 \$
30 to 90 days	3,967	2,071
Greater than 90 days	572	60
	4,539	2,131

No other impairments have been identified within accounts receivable.