

EDMONTON INTERNATIONAL AIRPORT

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Edmonton Airports

# Unaudited Quarterly Interim Financial Statements

For the Three and Six Months Ended June 30, 2011

## 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, 2011 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 2010 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 \$4.5 million for the six months ended June 30, 2011, which is a \$1.1 million increase from the 2010 net earnings of \$3.4 million. During the six months period, Edmonton Airports experienced positive revenue growth of \$1.3 million however this was partially offset by increased expenses of \$0.2 million.

## 2. EDMONTON INTERNATIONAL AIRPORT ACTIVITY

During the first six months of 2011, a total of 3,062,074 enplaning and deplaning passengers used Edmonton International, compared to 3,010,899 passengers for the same period in 2010 representing an increase of 1.7%. By sector, Domestic passengers for the first six months increased by 0.8% when compared to 2010; while Transborder increased by 4.5%, and International passengers by 4.5%. The strong passenger results for April and May contributed to the net year to date overall increase in passengers over the same period for 2010.

### EDMONTON AIRPORTS Passenger Traffic by Sector

	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
	2011	2010		2011	2010	
Domestic	1,205,303	1,190,586	1.2	2,274,733	2,257,569	0.8
Transborder	260,862	245,495	6.3	557,826	533,721	4.5
International	83,498	76,331	9.4	229,515	219,609	4.5
Total	1,549,663	1,512,412	2.5	3,062,074	3,010,899	1.7

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. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

With the concurrence of its lenders, Edmonton Airports is not completing its 2011 quarterly interim financial statements on an IFRS compliant basis but continues to complete them in compliance with Canadian General Accepted Accounting Principles Part V of the Handbook (Pre-changeover Accounting Standards). This basis is consistent with the 2010 interim and annual financial statements.

Progress continued against the revised conversion plan, approved at the Audit Committee meeting of March 14, 2011. As required in the plan the 2010 IFRS opening balance sheet was completed and is currently being audited. When this audit is completed, transactions on an IFRS basis will be processed for 2010 and for the first two quarters in 2011.

## 4. AIRPORT IMPROVEMENT FEE

On July 26, 2011 Edmonton Airports announced that the Airport Improvement Fee (AIF) for all departing passengers from the Edmonton International will increase by \$5, bringing the AIF to \$25. The new AIF will apply to travel beginning on or after January 1, 2012 for tickets sold on or after October 1, 2011.

Although Edmonton International's passenger numbers are rebounding from the recession, they have not yet reached the levels originally forecast when the expansion was planned. Lower than predicted passenger traffic has resulted in lower total AIF revenue. The increase in the AIF is being implemented now to address this shortfall.

## 5. RESULTS OF OPERATIONS

The table below shows Edmonton Airports combined operating earnings for the three and six months ended June 30, 2011 with comparative figures for the same period in 2010.

### EDMONTON AIRPORTS

#### Statement of Operating Earnings (000's of dollars) Unaudited

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Operating revenues</b>				
Airside and general terminal	9,327	8,715	18,405	17,730
Parking and car rentals	8,620	8,239	16,805	16,179
Concession	2,119	2,018	4,262	3,833
Real estate leases	607	971	1,302	1,988
Other revenue	95	30	106	42
	20,768	19,973	40,880	39,772
<b>Operating expenses</b>				
Salaries and employee benefits	5,886	6,426	11,479	13,131
Service, maintenance, supplies and administration	4,999	4,468	9,952	9,105
Utilities, insurance and property taxes	2,581	1,912	5,167	4,054
Canada lease rent	2,802	2,676	5,604	5,352
	16,268	15,482	32,202	31,642
<b>Operating earnings</b>	4,500	4,491	8,678	8,130

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, 2011 were \$40.9 million compared to \$39.8 million for the corresponding period in 2010, an increase of \$1.1 million (2.8%). The increase in operating revenues is primarily the result of an increase in airside and general terminal (3.8%) concessions (11.2%) and parking and car rental (3.9%) revenue compared to the same period in 2010. The increase in airside and general terminal revenues is due to increased aircraft movements. Concession revenues are higher due to the addition of new concession agreements. Parking and car rental revenues are up due to the introduction of JetSet parking in the fall of 2010. Operating revenues were offset by the decrease in real estate leases (34.5%) compared to the same period in 2010. Real estate leases are down due to the surrender of certain Edmonton City Centre Airport leased lands during Q3 2010.

## 5.2. Operating Expenses

Operating expenses for the six months ended June 30, 2011 were \$32.2 million compared to \$31.6 million for the corresponding period in 2010, an increase of \$0.6 million (1.9%). Salaries and employee benefits were \$1.6 million (12.4%) lower than 2010 as a result of fewer full time positions in 2011. This favourable effect was offset primarily by the increase of service maintenance, supplies and administration expenses (\$0.9 million), utilities, insurance and property taxes expense (\$1.1 million) due to the increase in assessment values for property taxes by Leduc County and Canada lease rent expense (\$0.2 million).

## 5.3. Operating Earnings

Operating earnings for the six months ended June 30, 2011 were \$8.6 million; an increase of \$0.5 million (7.4%) over last year's operating earnings of \$8.1 million. The net earnings increase resulted from the combination of two effects, the increase of \$1.1 million in operating revenues and the increase of \$0.6 million in operating expenses as described above.

## 5.4. Net Earnings

The net earnings of \$4.5 million for the six months ended June 30, 2011 represents an increase of \$1.1 million compared to net earnings of \$3.4 million (32.4%) for the same period in 2010.

The \$1.1 million increase resulted from the increase of \$0.5 million in operating earnings as described above and the combination of two effects, i) the increase of \$0.2 million in non-operating revenue primarily Airport improvement fee and, ii) the decrease of \$0.4 million in non-operating expenses primarily Amortization and Interest.

## 6. CAPITAL INVESTMENT

The approved 2011 Sustaining Capital Program is approximately \$13.3 million in projects for all airports. To date, \$10.5 million has been approved and \$3.1 million has been spent on all projects including multi-year projects approved in prior years.

The approved Capital Expansion Program expenditures for 2011 are approximately \$210.1 million for all airports. For the six months ended June 30, 2011, \$105.1 million was spent on all projects, the major components of which are the terminal expansion, control office tower, apron and central utilities plant. Overall project construction is on schedule and costs will be in line with the revised budget of \$0.7 billion which is down from the original \$1.0 billion.

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

**As at June 30, 2011 with comparative figures at December 31, 2010**

	Notes	June 30 2011 \$	December 31 2010 \$
<b>Assets</b>			
Current assets			
Cash in interest bearing accounts		92,039	105,206
Short-term investments		2,171	2,161
Accounts receivable	13	16,944	15,081
Prepaid expenses and other		4,275	2,432
		115,429	124,880
Restricted deposits			
Restricted deposits	7	21,274	21,164
Deferred pension asset		9,329	9,141
Lessee receivable		72	112
Property, plant and equipment	5, 10	831,510	733,582
Intangible assets	6	494	623
		978,108	889,502
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	5 (b)	71,428	79,669
Current portion of capital lease obligation		22	20
Current portion of long-term debt	7	15,853	14,528
Current portion of deferred revenue		1,073	1,099
		88,376	95,316
Tenants' security deposits			
Tenants' security deposits		906	946
Deferred revenue		8,781	9,355
Obligation under capital lease		61	73
Long-term benefits payable		3,744	3,592
Long-term debt	7	734,191	642,687
		836,059	751,969
Contingencies			
Contingencies	12		
<b>Net Assets</b>			
Contributed capital	4	3,805	3,805
Equity in property, plant and equipment	4	138,244	133,728
		142,049	137,533
		978,108	889,502

**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, 2011 with comparative figures for 2010**

	Notes	Three Months Ended		Six Months Ended	
		June 30		June 30	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Revenues</b>					
Airport improvement fee	8, 13	13,263	13,178	26,125	25,868
Airside and general terminal	13	9,327	8,715	18,405	17,730
Parking and car rentals		8,620	8,239	16,805	16,179
Concession		2,119	2,018	4,262	3,833
Police and security		1,529	1,472	2,942	2,971
Real estate leases		607	971	1,302	1,988
Other revenue		352	299	618	581
		35,817	34,892	70,459	69,150
<b>Expenses</b>					
Amortization	5(c), 6(b)	8,803	9,172	18,251	17,923
Salaries and employee benefits	9	5,886	6,426	11,479	13,131
Interest	10	5,458	5,860	11,107	11,949
Service, maintenance, supplies and administration		5,000	4,468	9,953	9,105
Canada lease rent	3	2,802	2,676	5,604	5,352
Utilities, insurance and property taxes		2,580	1,912	5,167	4,054
Police and security		1,456	1,401	2,802	2,829
Airport improvement fee collection costs		807	801	1,594	1,572
		32,792	32,716	65,957	65,915
<b>Earnings before the undernoted</b>		3,025	2,176	4,502	3,235
Other items		-	205	14	200
<b>Net earnings and comprehensive income</b>		3,025	2,381	4,516	3,435
Equity in property, plant and equipment, Beginning of period		135,219	126,376	133,728	125,322
Equity in property, plant and equipment, End of period		138,244	128,757	138,244	128,757

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

**For the Three and Six Months Ended June 30, 2011 with comparative figures for 2010**

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash provided by (used in):				
<b>Operating activities</b>				
Cash receipts from customers	34,605	34,139	68,006	66,164
Cash paid to employees and suppliers	(73,873)	(22,773)	(89,959)	(32,919)
Cash paid to the landlord	(2,625)	(1,279)	(11,504)	(2,853)
Interest received	371	134	730	262
Interest paid	(2,142)	(5,994)	(5,397)	(12,211)
Deferred pension asset	-	-	(188)	-
	(43,664)	4,227	(38,312)	18,443
<b>Financing activities</b>				
Repayment of tenants' security deposits	(42)	(206)	(40)	(76)
Principal payments under capital lease obligations	(6)	(4)	(10)	(9)
Repayments of long-term debt	(4,838)	(3,034)	(7,171)	(5,030)
Proceeds of long-term debt	50,000	60,000	100,000	90,000
	45,114	56,756	92,779	84,885
<b>Investing activities</b>				
Net (purchase of) proceeds from short-term investments	(5)	12,974	(10)	12,931
Net purchase of interest bearing deposits	(55)	(16)	(110)	(4,526)
Loan repayments	20	33	40	66
Proceeds on disposal (purchase of) intangible assets	14	(130)	25	(278)
Purchase of property, plant and equipment	(13,200)	(52,988)	(67,584)	(82,068)
Proceeds on disposal of property, plant and equipment	5	26	5	26
	(13,221)	(40,101)	(67,634)	(73,849)
<b>(Decrease) increase in cash</b>	(11,771)	20,882	(13,167)	29,479
Cash in interest bearing accounts, beginning of period	103,810	38,613	105,206	30,016
<b>Cash in interest bearing accounts, end of period</b>	<b>92,039</b>	<b>59,495</b>	<b>92,039</b>	<b>59,495</b>

## Notes to 2<sup>nd</sup> Quarter 2011 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 Part V Pre-changeover Accounting Standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook 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 Regional Airports Authority ("Edmonton Airports").

### 3. LEASE AGREEMENTS

There have been no material changes in the terms and conditions of the lease agreements represented in the most recent annual financial statements of Edmonton Airports.

### 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, 2011, Edmonton Airports was in compliance with the restrictions imposed on capital.

**Notes to 2<sup>nd</sup> Quarter 2011 Interim Financial Statements (Unaudited)**  
(000's of dollars unless otherwise stated)

**5. PROPERTY, PLANT AND EQUIPMENT**

	June 30 2011 \$	December 31 2010 \$
Terminal and facilities	1,020,074	906,318
Machinery and equipment	44,846	41,922
Office equipment under capital lease	115	115
	<u>1,065,035</u>	<u>948,355</u>
Less accumulated amortization	(233,525)	(214,773)
	<u>831,510</u>	<u>733,582</u>

- (a) At June 30, 2011, \$397,956 (December 31, 2010 - \$278,821) 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, 2011 is \$57,707 (December 31, 2010 - \$57,154) relating to unpaid capital expenditures.
- (c) For the six month period ended June 30, 2011, \$18,147 (June 30, 2010 - \$17,594) of the amortization expense is for property, plant and equipment.
- (d) Included in other items at June 30, 2011 is \$3 (June 30, 2010 - \$26) of gain on sale of property, plant and equipment.

**6. INTANGIBLE ASSETS**

	June 30 2011 \$	December 31 2010 \$
Cost	2,009	2,034
Accumulated amortization	(1,515)	(1,411)
	<u>494</u>	<u>623</u>

- (a) Intangible assets are purchased software and software licenses.
- (b) For the period ended June 30, 2011, \$104 (June 30, 2010 - \$329) of the amortization expense is for intangible assets.

## Notes to 2<sup>nd</sup> Quarter 2011 Interim Financial Statements (Unaudited)

(000's of dollars unless otherwise stated)

### 7. LONG TERM DEBT

			June 30	December 31
			2011	2010
			\$	\$
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:				
<b>Interest Rate</b>	<b>Semi-annual Amount</b>	<b>Maturity Date</b>		
7.21%	Varying	November 1, 2030	233,525	235,293
Fixed Rate Debentures, Series C Bonds payable in semi-annual instalments of principal and interest:				
4.37%	\$755	December 15, 2026	16,873	17,251
4.50%	\$1,145	March 15, 2027	25,928	26,477
5.00%	\$398	June 15, 2027	8,704	8,880
4.89%	\$395	September 17, 2027	8,869	9,042
4.68%	\$1,552	June 16, 2028	36,092	36,781
4.55%	\$3,068	September 17, 2028	73,474	74,839
4.67%	\$1,245	December 15, 2039	39,041	39,368
4.54%	\$920	March 15, 2040	29,515	29,761
4.56%	\$1,845	June 15, 2040	59,035	59,523
4.00%	\$1,439	October 01, 2040	49,561	50,000
4.40%	\$2,112	December 15, 2040	69,427	70,000
4.41%	\$1,511	March 15, 2041	50,000	-
4.16%	\$1,041	June 15, 2041	50,000	-
			750,044	657,215
Less: Current Portion			15,853	14,528
			734,191	642,687

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, 2011, Restricted Deposits of \$21,274 (December 31, 2010 – \$21,164) are held as a requirement of the Debt Service Reserve Fund.

Notes to 2<sup>nd</sup> Quarter 2011 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.

On July 26, 2011, Edmonton Airports announced that the AIF for all departing passengers from the Edmonton International will increase by \$5, bringing the AIF to \$25. The new AIF will apply to travel beginning on or after January 1, 2012 for tickets sold on or after October 1, 2011.

	June 30 2011 \$	December 31 2010 \$
Cumulative AIF revenues net of collection costs	381,727	357,196
Less: Cumulative expenditures	1,106,981	984,944
	(725,254)	(627,748)

**9. BENEFIT PLAN EXPENSE**

	Three Months Ended June 30			Total \$
	Pension Plan \$	SERP \$	Long-term Benefit Plan \$	
Current service cost	360	50	59	469
Interest cost	405	19	(3)	421
Expected return on plan assets	(190)	-	-	(190)
Amortization of transitional surplus	(41)	-	-	(41)
Amortization of actuarial gain (loss)	122	-	(20)	102
Net benefit plan expense included in salaries and benefits expense 2011	656	69	36	761
Net benefit plan expense included in salaries and benefits expense 2010	635	69	93	797

Notes to 2<sup>nd</sup> Quarter 2011 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	720	100	119	939
Interest cost	810	38	52	900
Expected return on plan assets	(571)	-	-	(571)
Amortization of transitional surplus	(83)	-	-	(83)
Amortization of actuarial gain (loss)	245	-	(39)	206
Net benefit plan expense included in salaries and benefits expense 2011	1,121	138	132	1,391
Net benefit plan expense included in salaries and benefits expense 2010	1,095	138	201	1,434

**10. INTEREST EXPENSE**

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Bond interest	4,222	4,262	8,466	8,562
Debenture Interest	5,309	2,954	10,112	5,529
Other interest and financing costs	23	67	46	176
Interest income and other	(298)	(93)	(587)	(181)
	9,256	7,190	18,037	14,086
Less: capitalized interest	(3,798)	(1,330)	(6,930)	(2,137)
	5,458	5,860	11,107	11,949

## Notes to 2<sup>nd</sup> Quarter 2011 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 2011 actual for January through June to the same period last year.

Month	Actual 2011	Actual 2010	Variance	%
January	489,947	486,471	3,476	0.7
February	480,168	478,767	1,401	0.3
March	542,296	533,249	9,047	1.7
First Quarter	1,512,411	1,498,487	13,924	0.9
April	521,938	506,095	15,843	3.1
May	519,125	506,659	12,466	2.5
June	508,600	499,658	8,942	1.8
Second Quarter	1,549,663	1,512,412	37,251	2.5

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.

## Notes to 2<sup>nd</sup> Quarter 2011 Interim Financial Statements (Unaudited)

(000's of dollars unless otherwise stated)

### 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 68% (69% - 2010) 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.

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. At June 30, 2011, the provision for impairment of accounts receivable was \$0.3 million; this provision has increased by \$0.2 million from December 31, 2010.

At June 30, 2011, the aging analysis of trade receivables that are past due but not impaired is as follows:

	June 30 2011 \$	December 31 2010 \$
30 to 90 days	4,547	3,321
Greater than 90 days	948	916
	5,495	4,237

No other impairments have been identified within accounts receivable.