

EDMONTON INTERNATIONAL AIRPORT

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Edmonton Airports

# Unaudited Quarterly Interim Financial Statements

For the Three and Nine Months Ended September 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 nine months ended September 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 \$11.9 million for the nine months ended September 30, 2011, which is a \$4.3 million increase from the 2010 net earnings of \$7.6 million. During the nine months period ended September 30, 2011, Edmonton Airports experienced positive revenue growth of \$3.5 million and decrease in expenses of \$0.9 million in comparison to the same period in 2010.

## 2. EDMONTON INTERNATIONAL AIRPORT ACTIVITY

During the first nine months of 2011, a total of 4,716,934 enplaning and deplaning passengers used Edmonton International, compared to 4,605,079 passengers for the same period in 2010, representing an increase of 2.4%. By sector, Domestic passengers for the first nine months increased by 1.5% when compared to 2010; while Transborder increased by 6.5%, and International passengers by 3.5%. The strong passenger results for July, August and September 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			Nine Months Ended		
	September 30		%	September 30		%
	2011	2010		2011	2010	
Domestic	1,357,231	1,321,623	2.7	3,631,964	3,578,915	1.5
Transborder	242,675	217,270	11.7	800,240	751,107	6.5
International	54,913	55,774	(1.5)	284,730	275,057	3.5
Total	1,654,819	1,594,667	3.8	4,716,934	4,605,079	2.4

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.

The 2010 IFRS opening balance sheet was completed during the third quarter as required in the revised conversion plan approved at the Audit Committee meeting of March 14, 2011. The preparation of the 2011 IFRS pro-forma financial statements is underway.

## 4. RESULTS OF OPERATIONS

The table below shows Edmonton Airports combined operating earnings for the three and nine months ended September 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		Nine Months Ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Operating revenues</b>				
Airside and general terminal	9,499	8,374	27,904	26,104
Parking and car rentals	8,727	8,299	25,532	24,478
Concession	2,381	2,230	6,643	6,063
Real estate leases	1,068	1,089	2,370	3,077
Other revenue	318	304	936	885
	21,993	20,296	63,385	60,607
<b>Operating expenses</b>				
Salaries and employee benefits	5,432	6,246	16,911	19,377
Service, maintenance, supplies and administration	4,030	4,103	13,983	13,208
Utilities, insurance and property taxes	2,374	1,855	7,541	5,909
Canada lease rent	2,802	2,676	8,406	8,028
	14,638	14,880	46,841	46,522
<b>Operating earnings</b>	7,355	5,416	16,544	14,085

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.

## 4.1. Operating Revenues

Operating revenues for the nine months ended September 30, 2011 were \$63.3 million compared to \$60.6 million for the corresponding period in 2010, an increase of \$2.7 million (4.5%). The increase in operating revenues is primarily the result of an increase in airside and general terminal (6.9%) parking and car rental (4.3%) and concessions (9.6%) revenues compared to the same period in 2010. The increase in airside and general terminal revenues is due to increased aircraft movements. Parking and car rental revenues are up due to the introduction of JetSet parking in the fall of 2010. Concession revenues are higher due to the addition of new concession agreements. Operating revenues were offset by the \$0.7 million decrease in real estate lease revenue (23.0%) compared to the same period in 2010. Real estate lease revenue is down due to the surrender of certain Edmonton City Centre Airport leased lands during Q3 2010.

## 4.2. Operating Expenses

Operating expenses for the nine months ended September 30, 2011 were \$46.8 million compared to \$46.5 million for the corresponding period in 2010, an increase of \$0.3 million (0.6%). Salaries and employee benefits were \$2.4 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 (\$0.8 million), utilities, insurance and property taxes expense (\$1.6 million) due to the increase in assessment values for property taxes by Leduc County, and Canada lease rent expense (\$0.3 million).

## 4.3. Operating Earnings

Operating earnings for the nine months ended September 30, 2011 were \$16.5 million; an increase of \$2.5 million (17.8%) over last year's operating earnings of \$14.0 million. The net earnings increase resulted from the combination of two effects, the increase of \$2.7 million in operating revenues and the increase of \$0.4 million in operating expenses as described above.

## 4.4. Net Earnings

The net earnings of \$11.9 million for the nine months ended September 30, 2011 represents an increase of \$4.3 million compared to net earnings of \$7.6 million (57.3%) for the same period in 2010.

The \$4.3 million increase resulted from the increase of \$2.5 million in operating earnings as described above and the combination of two effects, i) the increase of \$0.7 million in non-operating revenue primarily Airport improvement fee and, ii) the decrease of \$1.1 million in non-operating expenses, primarily Amortization and Interest.

## 5. CAPITAL INVESTMENT

The approved 2011 Sustaining Capital Program is approximately \$13.3 million in projects for all airports. To date, \$13.1 million has been approved and \$9.7 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 nine months ended September 30, 2011, \$178.6 million was spent on all projects, the major components of which are the terminal expansion, central 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 budget of \$1.0 billion.

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

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

	Notes	September 30 2011 \$	December 31 2010 \$
<b>Assets</b>			
Current assets			
Cash in interest bearing accounts		101,847	105,206
Short-term investments		2,176	2,161
Accounts receivable	13	16,164	15,081
Prepaid expenses and other		3,417	2,432
		123,604	124,880
Restricted deposits	7	21,331	21,164
Deferred pension asset		10,100	9,141
Lessee receivable		51	112
Prepaid expenses		528	-
Property, plant and equipment	5, 10	908,221	733,582
Intangible assets	6	311	623
		1,064,146	889,502
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	5 (b)	103,124	79,669
Current portion of capital lease obligation		22	20
Current portion of long-term debt	7	15,982	14,528
Current portion of deferred revenue		1,079	1,099
		120,207	95,316
Tenants' security deposits		918	946
Deferred revenue		8,525	9,355
Obligation under capital lease		55	73
Long-term benefits payable		3,778	3,592
Long-term debt	7	781,268	642,687
		914,751	751,969
Contingencies	12		
<b>Net Assets</b>			
Contributed capital	4	3,805	3,805
Equity in property, plant and equipment	4	145,590	133,728
		149,395	137,533
		1,064,146	889,502

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 Nine Months Ended September 30, 2011 with comparative figures for 2010

	Notes	Three Months Ended		Nine Months Ended	
		September 30		September 30	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Revenues</b>					
Airport improvement fee	8, 13	14,569	13,986	40,694	39,854
Airside and general terminal	13	9,499	8,374	27,904	26,104
Parking and car rentals		8,727	8,299	25,532	24,478
Concession		2,381	2,230	6,643	6,063
Police and security		1,474	1,530	4,416	4,501
Real estate leases		1,068	1,089	2,370	3,077
Other revenue		318	304	936	885
		38,036	35,812	108,495	104,962
<b>Expenses</b>					
Amortization	5(c), 6(b)	8,359	8,804	26,610	26,727
Salaries and employee benefits	9	5,432	6,246	16,911	19,377
Interest	10	5,431	5,667	16,538	17,616
Service, maintenance, supplies and administration		4,030	4,103	13,983	13,208
Canada lease rent	3	2,802	2,676	8,406	8,028
Utilities, insurance and property taxes		2,374	1,855	7,541	5,909
Police and security		1,403	1,457	4,205	4,286
Airport improvement fee collection costs		903	863	2,497	2,435
		30,734	31,671	96,691	97,586
<b>Earnings before the undernoted</b>		7,302	4,141	11,804	7,376
Other items		44	(4)	58	196
<b>Net earnings and comprehensive income</b>		7,346	4,137	11,862	7,572
Equity in property, plant and equipment, Beginning of period		138,244	128,757	133,728	125,322
Equity in property, plant and equipment, End of period		145,590	132,894	145,590	132,894

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

**For the Three and Nine Months Ended September 30, 2011 with comparative figures for 2010**

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash provided by (used in):				
<b>Operating activities</b>				
Cash receipts from customers	38,556	35,907	106,562	102,071
Cash paid to employees and suppliers	(11,927)	(11,653)	(54,833)	(44,572)
Cash paid to the landlord	(2,624)	(1,279)	(14,128)	(4,132)
Interest received	355	245	1,085	507
Interest paid	(65)	(5,912)	(5,462)	(18,123)
Deferred pension asset	(771)	-	(959)	-
	23,524	17,308	32,265	35,751
<b>Financing activities</b>				
Proceeds (repayment) of tenants' security deposits	12	2	(28)	(74)
Principal payments under capital lease obligations	(5)	(4)	(15)	(13)
Repayments of long-term debt	(2,794)	(2,281)	(9,965)	(7,311)
Proceeds of long-term debt	50,000	-	150,000	90,000
	47,213	(2,283)	139,992	82,602
<b>Investing activities</b>				
Net (purchase) proceeds of short-term investments	(5)	34,996	(15)	47,927
Net purchase of interest bearing deposits	(57)	(35)	(167)	(4,561)
Loan repayments	20	32	60	98
Purchase of intangible assets	(111)	(85)	(86)	(363)
Purchase of property, plant and equipment	(60,790)	(62,146)	(175,427)	(144,214)
Proceeds on disposal of property, plant and equipment	14	162	19	188
	(60,929)	(27,076)	(175,616)	(100,925)
<b>Increase (decrease) in cash</b>	9,808	(12,051)	(3,359)	17,428
Cash in interest bearing accounts, beginning of period	92,039	59,495	105,206	30,016
<b>Cash in interest bearing accounts, end of period</b>	101,847	47,444	101,847	47,444

## Notes to 3<sup>rd</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 September 30, 2011, Edmonton Airports was in compliance with its debt covenants.

**Notes to 3<sup>rd</sup> Quarter 2011 Interim Financial Statements (Unaudited)**  
(000's of dollars unless otherwise stated)

**5. PROPERTY, PLANT AND EQUIPMENT**

	September 30 2011 \$	December 31 2010 \$
Terminal and facilities	1,101,905	906,318
Machinery and equipment	47,672	41,922
Office equipment under capital lease	115	115
	<u>1,149,692</u>	<u>948,355</u>
Less accumulated amortization	<u>(241,471)</u>	<u>(214,773)</u>
	<u>908,221</u>	<u>733,582</u>

- (a) At September 30, 2011, \$478,747 (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 September 30, 2011 is \$82,581 (December 31, 2010 - \$57,154) relating to unpaid capital expenditures.
- (c) For the nine month period ended September 30, 2011, \$26,212 (September 30, 2010 - \$26,248) of the amortization expense is for property, plant and equipment.
- (d) Included in other items at September 30, 2011 is \$15 (September 30, 2010 - \$158) of gain on sale of property, plant and equipment.

**6. INTANGIBLE ASSETS**

	September 30 2011 \$	December 31 2010 \$
Cost	2,120	2,034
Accumulated amortization	<u>(1,809)</u>	<u>(1,411)</u>
	<u>311</u>	<u>623</u>

- (a) Intangible assets are purchased software and software licenses.
- (b) For the nine month period ended September 30, 2011, \$398 (September 30, 2010 - \$479) of the amortization expense is for intangible assets.

## Notes to 3<sup>rd</sup> Quarter 2011 Interim Financial Statements (Unaudited)

(000's of dollars unless otherwise stated)

### 7. LONG TERM DEBT

			September 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:				
Interest Rate	Semi-annual Amount	Maturity Date		
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	25,366	26,477
5.00%	\$398	June 15, 2027	8,704	8,880
4.89%	\$395	September 17, 2027	8,691	9,042
4.68%	\$1,552	June 16, 2028	36,092	36,781
4.55%	\$3,068	September 17, 2028	72,078	74,839
4.67%	\$1,245	December 15, 2039	39,041	39,368
4.54%	\$920	March 15, 2040	29,265	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	49,592	-
			697,250	657,215
Fixed Rate Debentures, Series C Bonds payable in semi-annual instalments of interest only for six years:				
4.16%	\$1,041	June 15, 2041	50,000	-
3.70%	\$927	September 15, 2041	50,000	-
			797,250	657,215
Less: Current Portion			15,982	14,528
			781,268	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 September 30, 2011, Restricted Deposits of \$21,331 (December 31, 2010 – \$21,164) are held as a requirement of the Debt Service Reserve Fund.

Notes to 3<sup>rd</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.

	September 30 2011 \$	December 31 2010 \$
Cumulative AIF revenues net of collection costs	395,393	357,196
Less: Cumulative expenditures	1,181,019	984,944
	(785,626)	(627,748)

**9. BENEFIT PLAN EXPENSE**

	Three Months Ended September 30			Total \$
	Pension Plan \$	SERP \$	Long-term Benefit Plan \$	
Current service cost	360	50	61	471
Interest cost	405	19	26	450
Expected return on plan assets	(244)	-	-	(244)
Amortization of transitional surplus	(42)	-	-	(42)
Amortization of actuarial gain (loss)	123	-	(19)	104
Net benefit plan expense included in salaries and benefits expense 2011	602	69	68	739
Net benefit plan expense included in salaries and benefits expense 2010	446	70	106	622

Notes to 3<sup>rd</sup> Quarter 2011 Interim Financial Statements (Unaudited)  
(000's of dollars unless otherwise stated)

**9. BENEFIT PLAN EXPENSE (CONTINUED)**

	Nine Months Ended			Total \$
	September 30			
	Pension Plan \$	SERP \$	Long-term Benefit Plan \$	
Current service cost	1,080	150	180	1,410
Interest cost	1,215	57	78	1,350
Expected return on plan assets	(815)	-	-	(815)
Amortization of transitional surplus	(125)	-	-	(125)
Amortization of actuarial gain (loss)	368	-	(58)	310
Net benefit plan expense included in salaries and benefits expense 2011	1,723	207	200	2,130
Net benefit plan expense included in salaries and benefits expense 2010	1,541	208	307	2,056

**10. INTEREST EXPENSE**

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Bond interest	4,211	4,244	12,677	12,806
Debenture Interest	5,841	3,517	15,953	9,046
Other interest and financing costs	33	41	101	217
Interest income and other	(290)	(198)	(898)	(379)
	9,795	7,604	27,833	21,690
Less: capitalized interest	(4,364)	(1,937)	(11,295)	(4,074)
	5,431	5,667	16,538	17,616

## Notes to 3<sup>rd</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 September to the same period last year.

Month	Actual 2011	Actual 2010	Variance	%
January	489,947	486,471	3,476	0.7
February	480,168	478,773	1,395	0.3
March	542,296	533,252	9,044	1.7
First Quarter	1,512,411	1,498,496	13,915	0.9
April	521,979	506,106	15,873	3.1
May	519,125	506,068	13,057	2.6
June	508,600	499,742	8,858	1.8
Second Quarter	1,549,704	1,511,916	37,788	2.5
July	568,139	546,240	21,899	4.0
August	583,661	565,230	18,431	3.3
September	503,019	483,197	19,822	4.1
Third Quarter	1,654,819	1,594,667	60,152	3.8

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.

Notes to 3<sup>rd</sup> Quarter 2011 Interim Financial Statements (Unaudited)  
(000's of dollars unless otherwise stated)

**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% (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 September 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 September 30, 2011, the aging analysis of trade receivables that are past due but not impaired is as follows:

	September 30 2011 \$	December 31 2010 \$
30 to 90 days	2,248	3,321
Greater than 90 days	809	916
	3,057	4,237

No other impairments have been identified within accounts receivable.