edmonton airports annual report 2000

going the distance

sidney h. hanson, chairman — scott clements, president and ceo

Our Journey Continues

The year 2000 was both the most challenging and successful in our eight year history as an airport authority. It was a year where the uncertainties of the domestic airline industry loomed as a major threat for the air travel industry in Canada; a year where, while continuing to build Phase II of our Air Terminal Redevelopment (ATR) Project, we tested our long term financial viability with world markets. It was also a year that progressively revealed a world economy that was slowing down for the first time in a long while. It was certainly a good test of the strengths and resolve of our strategic plan and guiding principles.

As you will see in this report, by all measures we met the major challenges that materialized, and achieved outstanding results under difficult conditions. These are the highlights:

- completion of our new South Terminal, on time and under budget;
- four A (high) credit ratings necessary to support Edmonton Airports' long-term borrowing;
- $250 million bond issue, used to finance the ATR Project;
- a passenger count that grew by almost four per cent in 2000, and forty-one per cent over the past five years;
- new non-stop service including flights to Los Angeles and a commitment to providing non-stop service to Europe via London Heathrow;
- expanded air service throughout our domestic network, particularly to the North;
- exceeded budget targets, including staying on schedule to make Edmonton City Centre Airport financially self-sustaining by the end of 2001;
- operational readiness that was declared exemplary by a comprehensive regulatory audit undertaken by Transport Canada; and
- public recognition for leadership in our community.

Throughout this year we transitioned to a new vision, with four key success drivers to guide and measure our progress toward our ambitious vision. Edmonton Airports will be the *industry leader in delivering outstanding airport and aviation services.* We have received very strong commitments from all the companies resident at Edmonton International Airport.

In fact we have formed a formal organization branded E-TEAM comprising the leaders of every group that have a direct or indirect effect on the experience of our customer at the airport.

In short, we have had a great year, and with the future completion of Phase III (Central Hall), we will enjoy continued success. In conclusion, we would like to recognize and thank all of our regional stakeholders for the very strong support of our strategic plan. Edmonton Airports is very pleased to be an important partner in the steadily growing economy of the best region, in the best province, in the best country in the world.

Scott Clements,
President and CEO

Sidney H. Hanson,
Chairman

Contents

Guiding Principles

Going the distance

At Edmonton Airports, the phrase *going the distance* means many things. It means that we work hard to exceed our customers' expectations for service. It means that we are a responsible member of the community, dedicated to improving the quality of life in the region we serve. It means that we set goals for our people and our organization — and that we are accountable for reaching them. It means that we operate by a set of principles and values that guide our business practices.

Vision

We are industry leaders in delivering outstanding airport and aviation services.

Mission

We manage our airports in a safe, secure, and commercially focused manner with emphasis on customer satisfaction. Through optimal air service, facilities and resources, we are a significant contributor to, and a catalyst for, regional/provincial economic growth.

Core values

- **Quality**

  We are motivated by customer expectations in providing quality facilities and services in a customer sensitive and service driven manner.
- **Safety**

  We ensure that the safety and security of our customers, staff, facilities and environment is a primary concern in all aspects of doing business.
- **Integrity**

  We are accountable for all our actions including financial management and act honestly and respectfully in our business relations, utilization of our resources, treatment of our customers and each other, and in the general conduct of our business.
- **Teamwork**

  People are our most important resource; we work together to foster an open and cooperative environment that encourages teamwork, communication and mutual respect.

Key success drivers

- **Customer satisfaction**

  To be an industry leader in creating, measuring and continuously improving customer value and satisfaction.
- **Stakeholder/community relations**

  To develop the relationships, partnerships, networks and reputation necessary to succeed.
- **Workforce excellence**

  To ensure that all airport services are provided efficiently by a skilled and motivated workforce.
- **Business innovation**

  To develop an entrepreneurial, market-oriented and 'best practices' culture that sustains a competitive advantage.

Core businesses

The 2000 Annual Report provides an overview of our performance in the core businesses of:

- Customer Services
- Passenger/Cargo Services Development
- Airport Land Development and
- General Aviation Services

Customer Service

2000 was a year of major developments and changes for Edmonton Airports. With the construction of the South Terminal, a five-week work stoppage, and airline restructuring, we faced and met significant customer service challenges. The team at Edmonton Airports managed these challenges and provided consistently high levels of service to all of our customers, both passenger and airside.

The most dramatic and comprehensive customer service program implemented in 2000 was E-TEAM, which drives all 42 companies and 3,000+ employees resident at Edmonton International Airport in a coordinated service delivery program. This program recognizes that although each of our 42 companies provide different services, we all serve the same customer. A complete description of this program is found on page 17 of this Annual Report.

A supporting initiative, the *Customer Service Advisory Committee,* met regularly throughout the year to provide input and feedback on our operations. This group includes representatives of several of our stakeholder groups including business travellers, regional Chambers of Commerce, the military, and mayors of northern Alberta communities.

Customer surveys

Edmonton Airports launched a quarterly Customer Satisfaction Research Tracking Program at Edmonton International Airport in July 1999. Throughout 2000, this research program continued to monitor passenger satisfaction levels, evaluate the performance of current airport amenities and programs, and formulate targeted service initiatives based on the needs of the passenger base. Overall, we received a rating of 4.0/5 for customer satisfaction in 2000; the same result achieved in 1999. Given the amount of construction activity at Edmonton International, this was a significant achievement.

By identifying Best Predictors, which are those services or facilities that our customers indicate most strongly influence their overall satisfaction with their airport experience, we can effectively focus our programs to achieve greater customer satisfaction.

The 2000 Best Predictors (and ratings) were: Safety and Security (4.1/5), Check-in/Baggage Delivery Speed (3.9/5), Décor/Atmosphere (3.6/5), Scheduled Bus/Shuttle Availability (4.0/5), and Variety of Retail Stores (3.2/5). *Safety and Security* continues to be the most important factor in influencing a customer's overall satisfaction, and continues to be highly rated by airport customers. The *Variety of Retail Stores* category rated relatively low. Central Hall, the next phase of the ATR Project, will address this deficiency through significant food & beverage and retail expansion.

In addition to passengers, Edmonton Airports surveyed our airside users throughout 2000. Results of airside users surveys showed improvement from 1999 scores. These surveys target users of airside facilities, including pilots, NAVCANADA air traffic controllers and employees licensed to operate vehicles airside. Overall, 83% of respondents were satisfied with airside services and facilities, an increase of 4%.

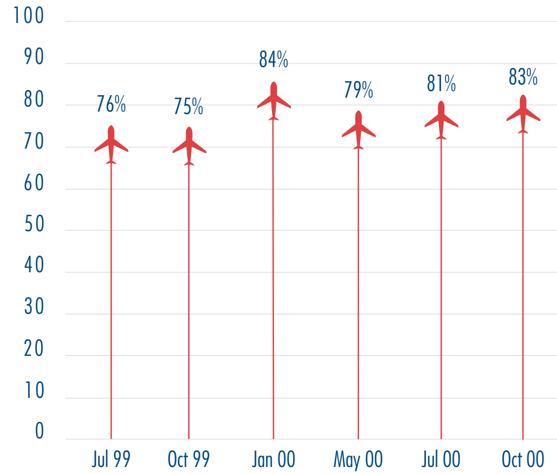
Proven results

Historically, Edmonton Airports' commitment to our goals and values has brought us recognition for our high standards and commitment to excellence. The year 2000 was no exception.

The results of **Transport Canada's Routine Conformance Monitoring Audit** of Edmonton International Airport in August were very positive. The facility was the first international airport in Canada to undergo this extensive examination of airside emergency response services, safety, and environmental operations. The audit report commended Edmonton Airports on our program development, teamwork and cooperation.

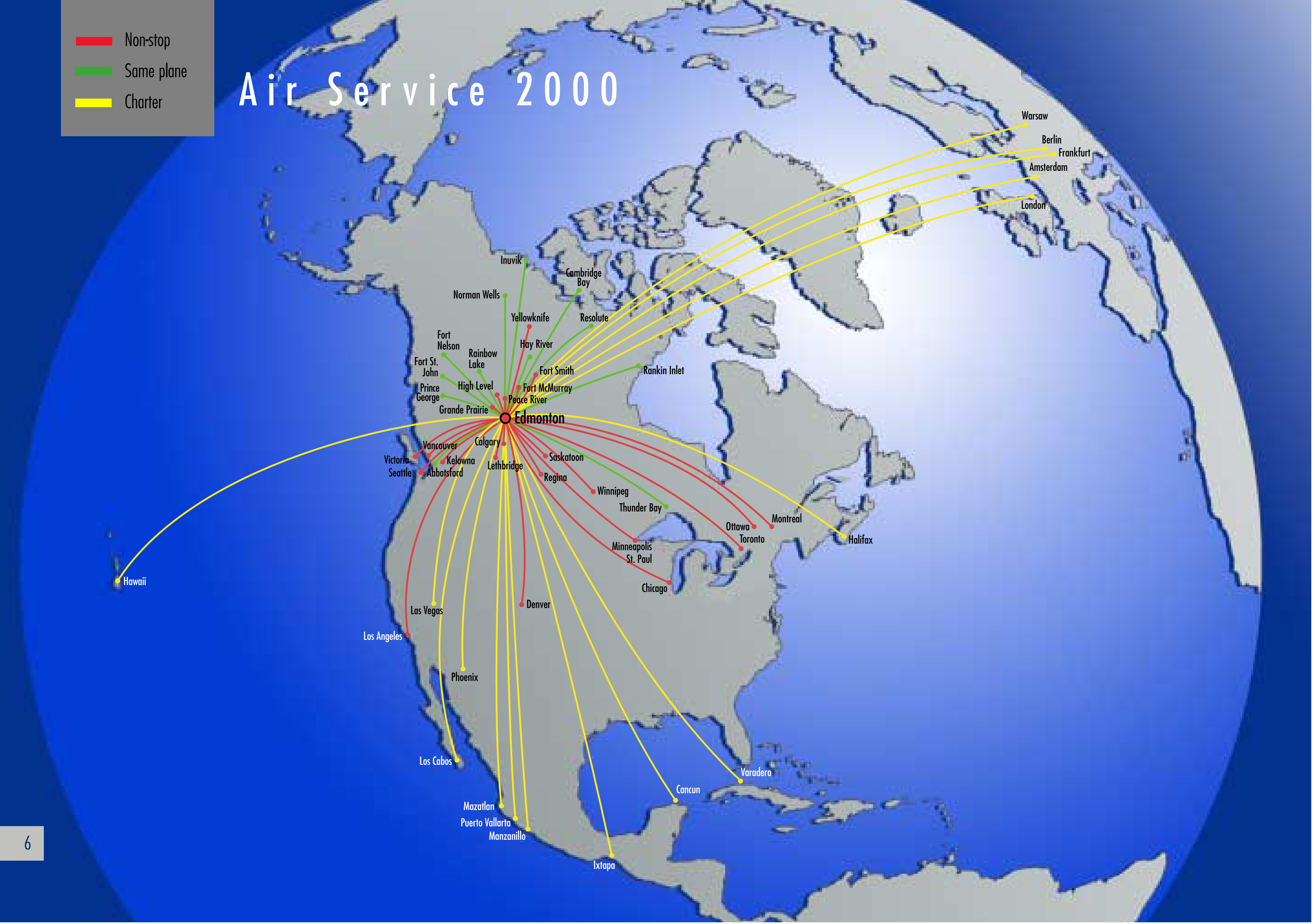
Edmonton Airports has pursued a comprehensive safety and security program through proactive policy making and implementation. To test the effectiveness of these policies and procedures, a major **Emergency Exercise** was held at Edmonton International Airport over three days in April. The real-time exercise — the first of its kind in Canada — tested the effectiveness of not only airport staff and security, but also involved partner organizations including the RCMP at the local, provincial and national levels, police departments from across the country, the military, NAVCANADA, Department of National Defense, Foreign Affairs and International Trade, and Transport Canada. The exercise, which simulated realistic demands on personnel and facilities that could be expected during emergency conditions, was highly successful.

Overall Passenger Satisfaction



Edmonton Airports sustained high levels of satisfaction throughout 2000. This is a significant achievement, considering the Air Terminal Redevelopment construction, and associated customer service challenges.

Air Service 2000



Passenger/Cargo Services Development

More than 3.84 million passengers *went the distance* with Edmonton Airports during the year 2000, an increase of 3.9% over 1999 and significant growth in a year of change in the Canadian airline industry.

The integration of two national carriers proved challenging not only for the airlines, but for airports and air service/transportation stakeholders across the industry. Consolidation did however provide the opportunity for cost efficiencies within our Air Terminal Redevelopment Project, which had initially included upgraded and expanded space for two national carriers.

Although restructuring resulted in a reduction in service capacity to regional destinations, Edmonton fared well compared to other cities. Through a restructuring plan that resulted in loss of services and destinations from many airports across Canada, Edmonton was the only city to receive two new non-stop destinations: Los Angeles and Montreal.

In addition to air services provided by the national carrier, there continues to be a strong air service mix in the Edmonton market, including aggressive discount carriers and charter carriers that have expanded service and product options for our region.

Long haul domestic transborder/international

In April 2000, Air Canada established daily non-stop service to Los Angeles and Montreal. Cooperative marketing and promotional programs included trade missions to the destination cities, advertising, and development of community partnerships.

In addition, larger aircraft were allocated to the existing routes of Vancouver, Toronto, Ottawa, Winnipeg and Minneapolis/St. Paul.

A major step toward reaching our optimal service levels was Air Canada's announcement of five-times-weekly non-stop service to London, England. This seasonal service will commence in June, 2001.

Regional services

We continue to serve as a crucial hub for air service to the Canadian North. In 2000, three major carriers operated northern flights from the International Airport, which was complemented by service offered by five tier-three carriers operating from City Centre Airport. New regional routes in 2000 included WestJet Airlines' daily service to both Fort McMurray and Grande Prairie.

Charter services

Edmonton maintained excellent seasonal charter service to sunspot and the European destinations of Amsterdam, Frankfurt, London and Warsaw. In addition, Air Transat established new weekly seasonal non-stop service to Berlin.

Cargo

Edmonton Airports handled more than 33,860 metric tonnes of cargo in 2000, a 3.5% increase from 1999. This growth was tempered by airline restructuring and the resulting reduction in flight frequency and high passenger loads, which limited cargo space on many flights. Nevertheless, cargo growth was positive in a year when little industry growth was forecast.

In 2000, Edmonton Airports dedicated resources to the planning and design of an Air Cargo Logistics Centre at Edmonton International Airport. This initiative will provide a focus for future growth of the air cargo business with land dedicated for the development of new cargo handling terminals. A new freighter aircraft parking ramp to serve these facilities will be co-located. Edmonton Airports also initiated negotiations with a major courier company to be the lead tenant of the Air Cargo Logistics Centre.

Marketing activities

Edmonton Airports' marketing and promotional efforts aimed at developing both passenger and cargo markets included the *Fly Edmonton First* campaign, participation in major trade shows, production of the *Edmonton Airports Cargo Directory,* and presentations to and strategic meetings with existing airline partners and potential new carriers. To build both the passenger market and airline services to our community, Edmonton Airports also engaged in partnerships with organizations including Travel Alberta, Economic Development Edmonton/Edmonton Tourism, Alberta Economic Development, air carriers, and major tourist attractions such as West Edmonton Mall.

Airport Land

The focus of Edmonton Airports' long-term real estate program for the year 2000 was to increase revenue and enhance property management practices. Lease negotiations were successfully completed with a number of tenants at both Edmonton International and City Centre Airports, which resulted in significant gains in land and concession revenue.

2000 saw the completion of the $127 million second phase of the Air Terminal Redevelopment Project at Edmonton International Airport. Development activities related to the opening of the South Terminal included the completion of the Request for Proposals for providers of food and beverage services, duty free and financial outlets. Following lease negotiations with the successful service providers, permanent and temporary service outlets were installed in the South Terminal. Other activity at Edmonton International Airport included the planning and pre-engineering design of the Air Cargo Logistics Centre, and several airside and non-airside projects.

Three significant land development projects at Edmonton City Centre Airport will provide considerable support toward the long-term financial sustainability of the Airport and allow the facility to remain a

Development

a centre of excellence for corporate and general aviation. These are: development of Department of National Defence Armouries (DND Armouries), land leased to the Workers' Compensation Board (WCB), and lease of the air terminal building to Gibralt Capital Corporation.

The DND Armouries are located on the southeast corner of Edmonton City Centre Airport. Construction of this 7,215m^2 facility commenced in February and concluded in December. The armouries operate as a training and education facility for cadets and Canadian Forces Reservists and houses offices, storage, and modern training facilities.

WCB has committed to a long-term lease for approximately 32,000m^2 of land located on the west side of Edmonton City Centre Airport. This will be the future site of a 13,020m^2 rehabilitation centre. This WCB facility will include a treatment, therapy and assessment centre, and offices.

Gibralt assumed a long-term lease of the terminal building in July 2000 and has begun seeking tenants for the building. Tenant development of this facility will continue throughout 2001.

To ensure that appropriate lands are reserved for aviation development, a land cap has been established at Edmonton City Centre Airport which dictates that less than 9% of land is available to non-aviation, but aviation compatible purposes. This protects the long-term focus of this asset as an aviation and aerospace facility. As a result of the above referenced projects, less than 2% of airport lands remain available for non-aviation projects. Therefore, there will be an increased emphasis and reliance on aviation developments in future years.

In March of 2000, Edmonton Airports assumed ownership and management of Villeneuve Airport, a certified general aviation airport located on approximately 579 hectares of land in Sturgeon County. This premiere flight training facility complements Edmonton Airports' regional airport system and strengthens our general aviation portfolio of services and facilities.

General Aviation

Edmonton International Airport

In the first quarter of 2000, Edmonton Airports dedicated additional resources to the development of general aviation (GA). A new position and portfolio was created to focus Edmonton Airports' GA initiatives, and provide a central point of contact for our general aviation customers.

This new portfolio, led by the Manager of General Aviation Services, assumes the responsibility of developing GA business opportunities at all four airports managed by Edmonton Airports.

Edmonton International Airport experienced growth in general aviation in 2000, attributed largely to a healthy economy, and strength in the oil and gas sector. General aviation services are primarily based in the vicinity of "Apron 2," located at the North end of Edmonton International Airport, and home to Shell Aerocentre and Executive Flight Centre, the primary fixed based operators at Edmonton International Airport.

Services

City Centre Airport

With 87,569 passengers moving through its facilities in 2000 (an increase of 2% from 1999), Edmonton City Centre Airport is one of Canada's busiest and best-rated general aviation airports. The facility is a centre of excellence for small charters, private and corporate aircraft, flight training, military flight operations, industrial and medevac flights.

ATCO Frontec assumed the administration of City Centre Airport in January 2000. The transition proceeded smoothly, and resulted in cost efficiencies for Edmonton Airports.

In September of 2000, City Centre Airport received $345,000 through the Government of Canada's Airports Capital Assistance Program (ACAP). This capital was invested in fibre optic guidance signs for the runways and taxiways.

In late 2000, Edmonton Airports participated in workshops with GA businesses at City Centre Airport to identify issues and opportunities with respect to marketing the services, facilities and development opportunities at City Centre Airport. Edmonton Airports also worked with passenger air carriers at City Centre Airport to explore cooperative marketing opportunities to promote tier-three passenger services.

2000 was very successful in terms of lease revenue at the airport, which increased by 26% over 1999, supporting the long-term financial sustainability of the facility.

Cooking Lake Airport

Cooking Lake is a general aviation and floatplane base for small, privately owned aircraft supported by a number of GA businesses. It is located on 61 hectares of land adjacent to Cooking Lake in Strathcona County. Edmonton Airports — a member of the Cooking Lake Airport Condominium Association — is responsible for the maintenance of the Association's common lands. Cooking Lake's unique condominium structure allows tenants the opportunity to purchase land rather than lease land. In previous years, the sale of lots was extremely successful. In response to this demand, Edmonton Airports commenced planning for the development of additional lots.

Villeneuve Airport

As noted previously, Edmonton Airports assumed ownership of this facility in March. Villeneuve is the premiere training facility in the Edmonton region. The land at Villeneuve has been categorized and identified for different land uses including hangar development and industrial use.

Air Terminal

South Terminal Grand Opening

With the opening of the new $75 million South Terminal at the International Airport, Edmonton Airports ushered in a new era for air travellers and the Edmonton region. The dramatic new terminal was designed to create a positive and enduring impression of the Edmonton Capital region in the minds of our visitors — and what an impression it leaves! With floor to ceiling glass walls and metallic surfaces contrasting with warm wood trim and tile floor mosaics, the terminal's unique design reflects the culture, heritage and environment of the Edmonton Capital Region.

Redevelopment

When the South Terminal was officially unveiled to the public on December 9th, it marked both the completion of the second phase of the Air Terminal Redevelopment Project and the beginning of a new era of customer service. The world-class facility includes many operational enhancements that will greatly improve our ability to service both passengers and airlines:

- An expanded check-in area for all Air Canada flights is located in the South Terminal. This move paved the way for expanded facilities for other carriers including WestJet and Canada 3000 in the North Terminal;
- US Customs and Immigration has expanded and is now relocated to the Departures level of the South Terminal; and
- Canada Customs and Immigration facilities have relocated to the Arrivals level of the South Terminal. Expanded facilities now provide for simultaneous processing of the passengers of two wide body jets.

And more than this, the South Terminal goes the distance to make travellers' experiences at the International Airport more pleasurable and efficient by providing:

- an expanded *Meet and Greet* area;
- spacious, contemporary and comfortable passenger lounges;
- new baggage carousels;
- state-of-the-art flight information display screens;
- an improved public address system;
- a new 4,900ft^2 Air Canada Maple Leaf Lounge;
- an additional pedestrian access (second elevator bank and pedway bridge) to the South Terminal from the parkade; and
- expanded curbside access along the front of the South Terminal.

Airside improvements include a 120,000m^2 expansion to the apron for aircraft maneuvering and overnight parking facilities for aircraft. Other developments related to the 2000 phase of the project included significant improvements to airport roadways, most significantly the twinning of the main entrance road and associated landscaping.

Next steps

As construction of Phase II was completed, design of Phase III of the project was initiated. The centrepiece of this phase is Central Hall, which will connect the North and South Terminals. Central Hall will include centralized security processing and feature retail, food and beverage facilities and an observation deck. It will serve as the hub for all passenger and meeter/greeter activity. Construction of Central Hall will begin in 2001.

ATR financing

On October 31, we successfully completed placement of a $250 million bond issue to finance the ATR Project.
The bond issue, secured and arranged by lead underwriter RBC Dominion Securities and syndicate partners CIBC World Markets and BMO Nesbitt Burns, replaces the $150 million syndicated credit facility led by the Royal Bank of Canada.

The bond issue received a credit rating of A+ from Standard and Poor's and Canadian Bond Rating Services, A (high) from Dominion Bond Rating Service, and A1 from Moody's Investor Services, a reflection of the excellent financial management of the organization.

The bond's principal and interest will be serviced primarily through the existing Airport Improvement Fee, which is charged to all passengers departing the International Airport.

Stakeholder/Community Relations

A Community partner

As a community partner, Edmonton Airports participated in community programs, charities and events throughout 2000. Projects included:

- A Parade Program, including a float and mascot (Devon Days, Klondike Days, Leduc Black Gold Days)
- Airfest and CASCAR at Edmonton City Centre Airport
- Chamber of Commerce President's Ball
- Frontier Fever and Blatchford Field Air Hangar support at Fort Edmonton Park
- Reynolds-Alberta Museum Salute to Aviation
- Air Canada Dreams Take Flight
- Alberta Aviation Council
- Corporate Challenge
- The Fringe Festival
- Taxi Cab Appreciation Day
- Success By Six: Cows in the City
- Read in Week with local schools
- United Way Charity Drive
- Cops for Cancer
- STARS Fun Run
- Junior Achievement Luncheon and Dinner
- Canadian Airlines sponsored Run for the Cure

In addition, Edmonton Airports committed to a supporting role in the 2001 World Championships in Athletics. Our financial support and contributions to the transportation logistics and marketing of this event earned Edmonton Airports Gold Level Friend sponsorship status. Through our support of the 2001 ITU Triathlon World Championship, Edmonton Airports has earned silver level sponsor recognition.

Our efforts toward tourism development involve strategies to develop inbound passenger volumes to support the expansion of existing and new air services. Edmonton Airports is a driving force in groups such as the Edmonton Capital Region Tourism Partnership and Travel Alberta. Activities range from attending major international tourism forums to partnering with major tour operators in Britain and Germany to promote the 2001 Championships and Edmonton as a gateway to the Rocky Mountains and the North. In addition, Edmonton Airports has formed strategic partnerships with regional, provincial and national organizations for marketing our region in each of our US hubs connected by non-stop air service.

Environment

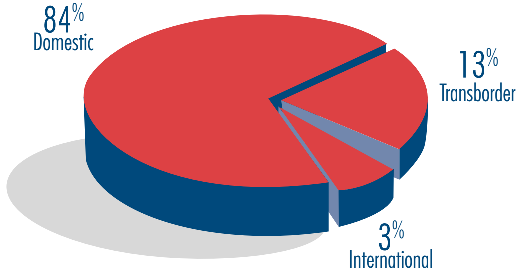
Edmonton Airports has taken a proactive approach to the management of aircraft noise and the concerns of surrounding communities. The Noise Advisory Committee functioned as a forum for information exchange between the Airport and local communities, and as an education vehicle on airport operations and aircraft noise. The Committee reviewed noise concerns and recommended a noise abatement procedure for Runway 12 departures.

The noise abatement procedure was accepted by Canadian Aviation Regulatory Advisory Council and approved by Transport Canada. This procedure requires aircraft departing from Runway 12 to avoid turns over Leduc, resulting in lower levels of aircraft noise for the community.

Throughout 2000, Edmonton Airports continued to act as a partner in land use planning for areas surrounding the International Airport. To this end, the Airport Vicinity Protection Area Regulation, regulated by the provincial government, protects the operational integrity of the airport. It ensures that only compatible land uses locate around the airport so that the use, enjoyment and security of the surrounding property is not jeopardized by normal airport operations.

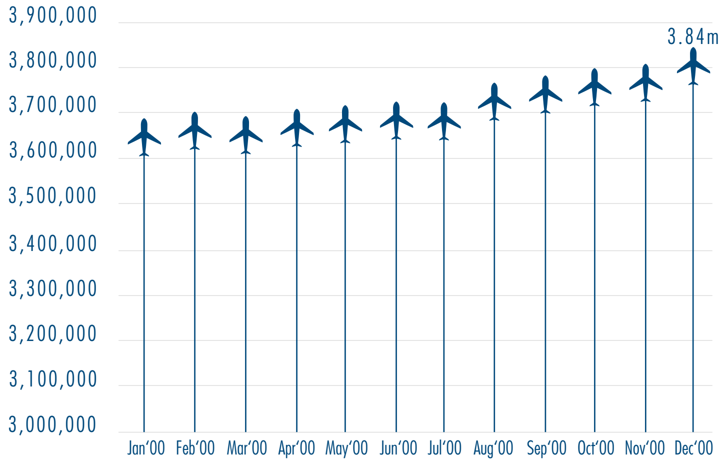
Airport Activity Report

2000 Passengers by Sector



Passenger Numbers at Edmonton International Airport

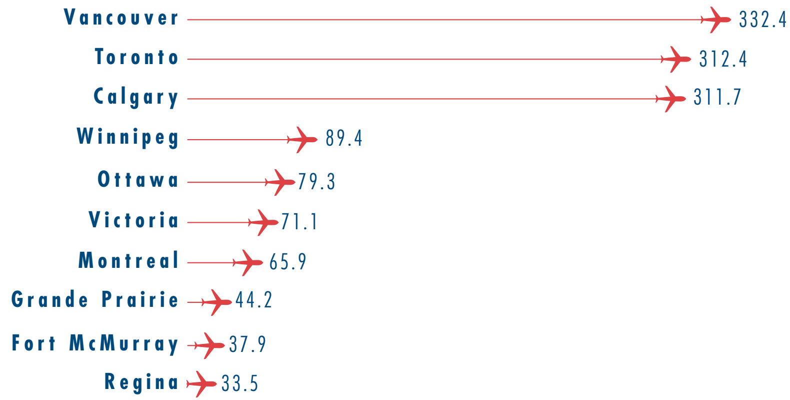
Chart depicts rolling 12-month total. For example, August 2000 includes total passengers for the period of July '99 to August '00. The 2000 passenger number for Edmonton International Airport was 3.9% higher than 1999. This number represents a domestic passenger increase of 1.4%, transborder (US) increase of 18.2% and international increase of 25.3%.



The 12-month rolling total ending December '00 (3.84m) was the highest in the history of Edmonton International Airport.

Top 10 Domestic Markets*

(Thousands of passengers)



Top 10 Transborder (US) Markets*

(Thousands of passengers)

*Source: Statistics Canada 1998


NORTHERN SKY AVIATION

What is ETEAM

ETeam comprises the 3000+ people who work at our airports. It is a coalition and partnership of 42 companies that have all signed up to the ambitious, but achievable, vision of making the customer's experience at Edmonton International Airport amongst the best in the world.

It's the people who check out a car rental vehicle for you. It's the faces that greet you when you check in for your flight. It's the retailers that help you pick out a souvenir. It's the cargo shippers who make sure your package gets there.

Our vision recognizes that customers perceive service providers at our airport as a collective community rather than individual organizations.

In 2000, Edmonton Airports and its partners at Edmonton International Airport developed ETeam, a united approach to customer service.

The management group concentrates its efforts in four areas:

Measurement

Identification of key measures used to track the success of ETeam's efforts: on-time performance, safety and security, courtesy of staff, and décor and atmosphere.

Workforce excellence

Development and implementation of a comprehensive program that ensures that all ETeam members have the skills they need to achieve the team's key measures.

Facilities, infrastructure and service

Identification and solution of issues related to the airport infrastructure that interfere with ETeam's ability to deliver outstanding service.

Communication

Promotion of a clear understanding of ETeam's objectives and activities amongst its members, and development of a community culture.

Energy. Enthusiasm. Excellence. Edmonton.

We are industry leaders in delivering outstanding airport and aviation services.

ETEAM

going the distance

Partners

Abco Maintenance • AerRianta International • Air Canada • Alberta Co-op Taxi • Alta Flights • Aviscar Budget Car Rental • Can Com Air • Canada 3000 Airlines • Canada Customs and Revenue Agency Canadian North • Canadian Scene • Cara Air Terminal Restaurants • Cara Airline Services Citizenship and Immigration Canada • Edmonton Airports • Executive Flight Centre • First Air Flight Tech Aviation • Hertz Canada • Horizon Air • Hudson General Aviation • Initial Security Laidlaw Transit • National Car Rental • Nav Canada • Northwest Airlines • PLH Aviation Protect Security • RCMP • Relay • Smithbooks • Spar Aerospace • Thrifty Car Rental • Travelex United States Customs Service • United States Immigration Service • Wackenhut of Canada • WestJet Airlines

Key Success Drivers

Each year, Edmonton Airports sets out key success drivers, which drive our business plan and set measurable objectives to gauge our performance. The 2001 key success drivers are outlined below.

Customer satisfaction

"To be an industry leader in creating, measuring and continuously improving customer value and satisfaction."

This reflects our focus on customer service and emphasizes the maintenance of overall levels of passenger and airside client satisfaction with airport facilities and services. Another component of this key success driver is to achieve and sustain optimal air service for our region.

Stakeholder/community relations

"To develop the relationships, partnerships, networks and reputation necessary to succeed."

This driver largely refers to our role as a supporter of and key player in the development of the Edmonton region. To this end, we are dedicated to effectively supporting the 2001 World Championships in Athletics and the 2001 ITU Triathlon World Championship. Another key element of this indicator is the implementation of the 2001 phase of the Stakeholder/Community Relations Strategic Plan.

Workforce excellence

"To ensure that all airport services are provided efficiently by a skilled and motivated workforce."

Edmonton Airports will complete a workforce analysis and use the outcome to ensure effective and efficient utilization of resources and a skilled and motivated workforce. In conjunction with ETeam, we will also complete the 2001 initiatives relating to Workforce Excellence.

Business innovation

"To develop an entrepreneurial, market-oriented and 'best practices' culture that sustains a competitive advantage."

Two primary goals associated with this driver are to exceed 2001 budget targets and to maintain our A (high) credit rating. We will also implement the Year 2001 phase of the Air Terminal Redevelopment Project, and in a related objective, work toward growing land revenue at Edmonton International Airport by 5.5%. An additional goal is the elimination of the operating deficit at City Centre Airport.

2000 financial review

Management Discussion and Analysis

The financial discussion should be read in conjunction with the audited financial statements on pages 27-35 of this report and refers to the combined financial results at Edmonton International Airport (EIA), Edmonton City Centre Airport (ECCA), Cooking Lake Airport and Villeneuve Airport. For the year ended December 31, 2000, Edmonton Airports generated net earnings of $7.1 million, compared to $12.9 million earned in 1999. Total revenues increased by $4.5 million, which was more than offset by an increase in expenses of $8.6 million. The largest expense increases were in interest and amortization expenses, which is consistent with the increased debt obligations and capital asset costs incurred as the Air Terminal Redevelopment (ATR) program at EIA advances.

Net earnings generated by Edmonton Airports must be applied toward its intended purposes as defined in the Regional Airport Authorities Act (Alberta). Edmonton Airports' intended purposes are to manage the airports for which it is responsible in a safe, secure and efficient manner, and to advance economic and community development by promoting airline and transportation service and an expanded aviation industry.

Revenue

In 2000, Edmonton Airports generated $57.3 million in total revenue, which was a $4.5 million increase over the 1999 total revenue of $52.8 million.

In 2000, Airside and General Terminal revenue totaled $15.9 million, which represents an increase of $0.6 million over 1999. The majority of this increase occurred at EIA as a result of additional aircraft landing fees from new scheduled non-stop service to Los Angeles, additional routes and frequencies from low-cost airlines, and the use of larger aircraft on existing services to Minneapolis, Ottawa, Vancouver, Toronto and Winnipeg. Increases in revenue from loading bridges, aircraft parking, and common-use check-in counters at EIA also contributed to growth in this revenue category. This growth materialized despite the merger and air service route rationalization of Air Canada and Canadian Airlines.

Concession revenue increased by $0.9 million in 2000 to a total of $13.5 million. The majority of the increase is related to increased revenue from parking operations at the EIA which can be attributed to growth in passenger activity as well as effective marketing of our newly branded parking products. Increases in passenger volume also resulted in growth in revenue from food and beverage outlets and other terminal concessions.

At EIA, originating passengers are charged a $10 Airport Improvement Fee (AIF) for the purpose of funding the Air Terminal Redevelopment Project. AIF revenue in 2000 was $16.6 million, increasing by $2.6 million over 1999. This increase is a result of the 3.9% increase in passengers in 2000 as well as the implementation of a single-rate AIF on January 5, 2000. Passengers travelling to a final destination in Alberta who had paid a $5 AIF in previous years are now charged $10 under the single-rate system.

In 2000, Canada Lease Capital Credit revenue increased by $0.2 million to $7.0 million. This revenue item reflects an annual inflation adjusted contribution by the Government as Canada, as landlord, to the necessary ongoing infrastructure maintenance at the Edmonton International Airport.

Expenses

In 2000, Edmonton Airports incurred total expenses of $48.0 million, an increase of $8.6 million over 1999 expenses of $39.4 million.

Amortization expense increased by $3.2 million. The increase in Amortization expense reflects the commencement of additional Amortization provisions required as a result of the significant capital additions put into service at EIA during 1999 and 2000.

Interest expense increased by $2.8 million in 2000 to $3.6 million. As with the increase in Amortization, the higher interest expense in 2000 reflects the conversion into operations of additional components of our ATR investments at EIA and is a function of the increase in debt, which corresponds with increased investment. Prior to the time when capital investments are actually put into service, the interest paid on the related debt is capitalized.

Utilities, Property Taxes and Insurance expenses grew by $0.3 million in 2000 to $2.9 million. Utility cost increases accounted for about half of the growth in this category. Property tax and insurance costs increased marginally during 2000.

Salaries and Employee Benefits expenses were $11.4 million in 2000, representing no increase over 1999. The normal increases in salaries and wages resulting from annual salary adjustments was offset by a five-week work stoppage from late July through the first week in September. While cushioning the normal annual effect on salary and benefit expenses, the work stoppage led to increased costs in Services, Maintenance, Supplies and Administration.

Services, Maintenance, Supplies and Administration expenses increased by $1.1 million in 2000 to $11.8 million. In addition to extra expenses incurred as a result of the work stoppage, there was growth in professional fees as a result of the acquisition of the Villeneuve Airport.

AIF collection costs totaled $1.3 million in 2000, which represents an increase of $0.3 million over 1999. This expense category includes internal administration costs associated with the AIF as well as the fee paid to the airlines for collecting the AIF on Edmonton Airports' behalf.

Canada Lease Rent payable to the Government of Canada increased by $0.8 million to $7.1 million in 2000. Edmonton Airports' lease agreement with the Government of Canada is based upon an amount per passenger up to a maximum annual volume (the passenger 'cap'). In 2000, this cap increased from 3,520,000 passengers to 3,590,000 passengers, resulting in approximately $0.6 million in additional rent. In addition to the per passenger rent, Edmonton Airports pays the Government of Canada participation rent on revenue over and above a threshold amount. Increases in total revenue above that threshold amount led to an increase in participation rent payable.

In 2000, Edmonton Airports wrote down capital assets at EIA having a total net book value of $1.9 million, $1.6 million of which was related to capital assets at EIA. The $1.6 million write-down at EIA is principally the result of the demolition of the portion of the North Terminal that previously held Canada and US Customs and Immigration Services. This area of the original terminal is required to complete the Central Hall connector between the North and South Terminal buildings. Other, less significant, redundant or demolished assets were also written off, most of which were associated with our recent major capital investments.

Edmonton City Centre Airport

The revenues and expenses reviewed above include operating revenues of $1.5 million and operating expenses of $1.6 million for Edmonton City Centre Airport. The operating loss of $132,000 compares favourably with the 1999 operating loss of $248,000 and corporate goal in 2000 of reducing the operating deficit to less than $150,000.

In 2000, Edmonton Airports wrote down capital assets at ECCA having a total net book value of $200,000. This write-down is the result of the demolition of a hangar, which was required to create space for construction of a new facility.

In 2000, Edmonton Airports spent $0.7 million on a capital project to complete the runway 12/30 pavement overlay. This project is funded through grants awarded through the Federal Government's Airports Capital Assistance Program (ACAP).

Investment and Financing Activities

Edmonton Airports invested $81.8 million in capital expenditures in 2000, $79.9 million of which was invested at EIA. The EIA investments included $71.9 million in expenditures as part of Phase II of the ATR program and $8.0 million in expenditures under sustaining capital and cost recovery capital programs. ATR program expenditures were almost exclusively for the construction and servicing of the South Terminal expansion and the associated apron expansion. Additional noteworthy ATR projects completed during the year included roadway and airport entrance improvements. Significant sustaining and cost recovery capital expenditures were for taxiway and runway repaving, stormwater management, terminal loading dock facilities and firehall renovations.

Edmonton Airports' plan for the redevelopment and expansion of the EIA terminal and related facilities was estimated to cost $300 million. Of the $300 million originally envisioned, Edmonton Airports Board of Directors has approved the implementation of projects totaling $236 million. The major elements of the approved projects include the construction of the parkade (completed in December 1998), expansion of terminal facilities to the southeast (completed in December 2000), construction of additional apron area (ongoing), and construction of the Central Hall which will join the South Terminal building to the original terminal. Construction of the Central Hall is scheduled to commence in 2001 and be substantially complete by the end of 2002. While some renovations to the original terminal building are being performed throughout all phases of the project, a large-scale renovation remains to be completed as Phase IV of the program. The exact scope and timing of Phase IV is to be determined by operational demands and affordability. To December 31, 2000, expenditures of $166.5 million (1999 - $94.6 million) had been incurred on approved ATR projects.

Edmonton Airports completed a $250 million revenue bond issue on October 31, 2000. This 30-year issue was offered at an interest rate of 7.214%. The net proceeds of the bonds were used to refinance indebtedness incurred in conjunction with Phase I and II of the ATR Project, to fund the initial deposits to required reserve funds, and to fund a capital expenditure pool for construction costs of remaining Phase II and III ATR project expenditures.

Edmonton Airports bond issue received credit ratings of A1, A+, A+ and A (high) from Moody's Investors Service, Standard & Poor's, Canadian Bond Rating Service, and Dominion Bond Rating Service respectively following thorough reviews of all aspects of Edmonton Airports' business operations, including our long-term financial plan.

Principal and interest on Edmonton Airports long-term bond issue will be paid principally through revenues from the Airport Improvement Fee, which was implemented on April 12, 1997. To December 31, 2000, Edmonton Airports has incurred capital expenditures and related financing costs of $191.0 million compared to collections of $50.8 million as shown in the table below.

AIF Reconciliation

As at December 31, 2000

	Cumulative
AIF revenue (net):	
AIF revenue	$ 55,137,135
AIF collection costs	(4,305,625)
	50,831,510
Expenditures:	
Qualifying capital expenditures	185,040,840
Related financing costs	5,882,439
	190,923,279
Excess of expenditures over AIF revenue (net)	$ (140,091,769)

At its inception, the Airport Improvement Fee was collected at service desks, kiosks and ATM machines located at the airport or through participating travel agents. Following the negotiation of a collection agreement with airlines serving Edmonton International Airport, the fee became included in the cost of airline tickets for travel commencing on or after January 5, 2000. The negotiated agreement stipulates the collection of a single-rate fee. In keeping with this stipulation, on January 5, 2000, Edmonton Airports began collecting a $10 fee from all originating passengers. Travellers with a final destination within Alberta had previously paid a $5 fee.

Future Utility Costs

Edmonton Airports also took a proactive approach to managing energy costs prior to the deregulation of the provincial power industry. In September of 2000, a partnership agreement was signed with a power provider which fixed the unit price of power at Edmonton International Airport for a five-year term. This agreement, in conjunction with government rebate programs, will assist Edmonton Airports greatly in managing future power costs. In addition to this partnership agreement, Edmonton Airports takes a proactive approach to utility conservation through design and management of all facilities.

Outlook

In preparing to go to the market for long-term financing in late-2000, Edmonton Airports conducted an extensive review and update of its long-term financial plan. This plan was presented to credit rating agencies and other members of the financial community and is the source of all forecasted information provided below. Based upon actual performance in 2000 and budget forecasts for 2001, Edmonton Airports is projected to remain well within this financial plan over the long-term.

During the early years of this 30-year financial plan, Edmonton Airports will experience a period of negative net earnings. Beginning in 2001, net losses will result from increases in interest and amortization expense related to the Air Terminal Redevelopment Project. Importantly, while net earnings are negative, operationally Edmonton Airports continues to generate operating profits and positive cash flow in each and every year. Over time, revenues increase and interest expense reduces correspondingly with debt reduction so that following the period of net losses, earnings return to the positive and continue to grow for the duration of the financial plan.

Of key interest to Edmonton Airports' creditors is the company's ability to service debt. Specifically, the security covenants of Edmonton Airports' revenue bond issue include the provision that Edmonton Airports must generate, at minimum, 1.00 times its annual Debt Service Amount in Free Cash Flow as measured by the Debt Service Coverage Ratio.

The following table summarizes revenue, expenses, and the Debt Service Coverage Ratio for the next five years as projected in Edmonton Airports' long-term financial plan.

Five-Year Financial Information

(all $ amounts expressed in millions)

	2001	2002	2003	2004	2005
Revenue (net of AIF collection costs)	$ 58.7	$ 60.2	$ 64.2	$ 67.1	$ 68.7
Operating Expenses	36.8	37.6	40.5	41.9	43.5
Earnings Before Interest and Amortization (Free Cash Flow)	$ 21.9	$ 22.6	$ 23.7	$ 25.2	$ 25.2
Debt Service Amount (net of interest income)	$ 17.6	$ 17.1	$ 18.1	$ 18.7	$ 18.9
Debt Service Coverage Ratio	1.25	1.32	1.31	1.35	1.33

Cash flow in excess of that required to service debt is reinvested in airport infrastructure through Edmonton Airports' ongoing capital program. The following table summarizes the infrastructure investment for the next five years as projected in Edmonton Airports' long-term financial plan. The aggregate amounts shown include both the annual amounts to be invested in sustaining capital as well as investment in the Air Terminal Redevelopment Project.

Capital Expenditures

(millions of dollars)

	2001	2002	2003	2004	2005
Estimated aggregate capital	$ 41.0	$ 30.5	$ 18.6	$ 7.1	$ 7.6

Accountability

Edmonton Airports' public accountability requirements with respect to planning, reporting, conduct and operational effectiveness are documented in its leases with the Government of Canada and the City of Edmonton, and the appropriate Provincial Legislation, including the Regional Airport Authorities Act. These agreements and legislation set out specific requirements with respect to such matters as business ethics, conflict of interest, audit, periodic performance reviews and disclosure. In addition to information included in the 2000 Management Discussion and Analysis, the following items are also required to be disclosed.

Director and Officer Compensation

The following chart summarizes the annual rates of compensation for the Directors of Edmonton Airports for 2000:

Directors' Compensation

The schedule of board remuneration during 2000 was as follows:

Annual Retainer:	
Chair	$ 19,000
Vice-Chair	$ 11,000
Committee Chairs	$ 9,000
Directors	$ 7,000
Meeting Fees:	
Board Meetings (4 hours or longer)	$ 500
Board Meetings (less than 4 hours)	$ 300
Board Committee Meetings (4 hours or longer)	$ 500
Board Committee Meetings (less than 4 hours)	$ 300

The total compensation paid to each director in 2000 was:

Director	Compensation
Enzo Barichello	$ 15,400
Margaret Bateman	$ 24,800
Peter Bidlock	$ 14,400
John Bowes	$ 15,000
David Foy	$ 18,100
John Friesen	$ 16,000
Sidney Hanson (Chair)	$ 35,600
Hal Irwin	$ 14,000
Herb Lede	$ 12,900
Allister McPherson	$ 17,300
Al Pasini	$ 16,800
Larry Prokop	$ 18,400
Glenn Rainbird (Vice-Chair)	$ 18,600
Gordon Riddell	$ 14,200

Changes to Edmonton Airports' Board of Directors during 2000 were as follows:

Re-appointed:	December 2000	John Bowes
	December 2000	David Foy
	December 2000	Hal Irwin
Term Completed:	December 2000	Herb Lede
Appointed:	December 2000	Dennis Foley (Effective January 1, 2001)

President & Vice-Presidents' Compensation

The base salary paid to each member of the Executive Team in 2000 was as follows:

Position	Incumbent	Base Salary
President and CEO	G. Scott Clements	$ 150,000
VP Finance and Corporate Services and Corporate Secretary	R. Cort Smith	$ 117,263
VP Airport Operations and Services	Raymond J. Off	$ 114,858
VP Marketing and Communications	Jim Meyer	$ 101,000

Total remuneration (including base salary and incentive pay) to the President and Vice-Presidents in 2000 was $674,206 (1999 - $681,489). Expenses reimbursed to Edmonton Airports President and Vice-Presidents during 2000 totaled $190,295 (1999 - $121,190).

Public Competitive Tendering

Edmonton Airports, in accordance with its lease with the Government of Canada, is required to report on all contracts in excess of $75,000 (in 1992 dollars) which were entered into during the year and which were not awarded on the basis of a public competitive tendering process. Such reporting shall identify the parties, amount and nature and circumstances of the contract and the reasons for not awarding the contract on the basis of a public competitive tendering process. During 2000, Edmonton Airports entered into more than 130 contracts that had a cumulative value of approximately $40 million. 95% of these contracts were awarded to local suppliers. Of these 130-plus contracts, Edmonton Airports entered into five contracts that were not awarded on the basis of a public competitive tendering process, the details of which are as follows:

2000 Sole Source Contracts over $75,000

Contractor	Contract Description	Contract Value
Chubb Security Systems	Supply & Install System - Phase 1	$ 753,271

- Chubb Security are uniquely qualified to provide a fully integrated security system for all aspects of Edmonton International Airport security functions, in a singular configuration. During the operational requirements stage, other significant providers of security systems were unable to demonstrate a capacity to efficiently cover the spectrum of requirements, even under simulated conditions.

Buckwold Western Ltd.	South Terminal Carpeting	$ 475,327

- Edmonton Airports developed a standard technical design for carpet through research and testing. The carpet can be produced by three mills in North America, all of which are owned by the same parent company.

CRS Brown Landscape Services	Landscaping for Entrance Road Project	$ 101,507

- This company successfully competed for related roadway projects and was concurrently providing groundside maintenance. Due to timing restraints and requirements, the additional work was awarded to this supplier.

Grinnell Fire Protection	Fire Alarm Modification (Code Upgrade)	$ 124,094

- The original Notifier Fire Alarm System in the SETE project was supplied by Grinnell Fire Protection. In order to match and maintain the SETE system, a negotiated contract was awarded to Grinnell. The tender quote was reviewed both by in-house staff as well as an independent contractor prior to award.

Murray Latta Machine Co.	Commuter Bridge/Walkway Relocation	$ 97,000

- Two other companies were invited to quote on this project, but due to time restraints, these companies would not have been able to complete the project.

Conflict of Interest

In accordance with the lease agreement with the Government of Canada and the Regional Airport Authorities Act, Edmonton Airports confirms that it has an appropriate Conflict of Interest Policy, and that it is in compliance with that policy.

Conclusion

Edmonton Airports confirms that we have in all material respects complied with the public accountability requirements documented in its leases with the Government of Canada and the City of Edmonton as well as with Provincial Legislation, including the Regional Airports Authorities Act.

2000 financial statements years ended december 31, 2000 and 1999

Report of Management

The financial statements of the Edmonton Regional Airports Authority (Edmonton Airports) are the responsibility of management and have been approved by the Board of Directors. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and include disclosures otherwise required by laws, regulations and agreements to which Edmonton Airports is subject. These financial statements also include amounts that are based on estimates and judgements which reflect currently available information. Edmonton Airports has developed and maintains accounting procedures and related systems of internal controls that are designed to provide reasonable assurance that its assets are safeguarded and that its financial records are reliable.

KPMG LLP, an independent firm of chartered accountants, has been appointed by the Board of Directors as external auditors of Edmonton Airports. The Auditors' Report to the Board of Directors, which describes the scope of their examination and expresses their opinion, is presented herein.

The Board of Directors has appointed an Audit Committee, whose members are not employees of Edmonton Airports. The Audit Committee meets with management and external auditors periodically to review any significant accounting, internal control and auditing matters. They also review and recommend the annual financial statements of Edmonton Airports to the Board of Directors for approval.

Scott Clements

G. Scott Clements
President and Chief Executive Officer

R. Cort Smith, CA
Vice President, Finance and Corporate Services

Auditors' Report

We have audited the balance sheets of Edmonton Regional Airports Authority as at December 31, 2000 and 1999 and the statements of earnings and equity in capital assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Edmonton, Canada
March 14, 2001

Balance Sheets

(000's of Dollars) • December 31, 2000 and 1999

	2000	1999
Assets		
Current assets:		
Cash in interest bearing accounts	$ 74,631	$ 6,255
Accounts receivable [note 3(a)(v)]	9,161	5,698
Consumable inventory	590	748
Prepaid expenses and other	154	297
	84,536	12,998
Deferred pension charge	–	9
Interest bearing deposits [note 6(a)]	52,186	–
Deferred financing costs [note 6(d)]	6,645	–
Capital assets (note 4)	203,730	134,475
	$ 347,097	$ 147,482

	2000	1999
Liabilities and Equity in Capital Assets		
Current liabilities:		
Accounts payable and accrued liabilities [note 4(b)]	$ 26,531	$ 19,706
Current portion of deferred revenue	55	–
Current portion of obligations under capital leases	99	40
	26,685	19,746
Tenants' security deposits	461	394
Deferred revenue (note 11)	1,699	–
Long-term benefit payable (note 9)	763	609
Accrued pension liability (note 9)	465	–
Obligations under capital leases (note 5)	638	729
Long-term debt (note 6)	250,000	66,760
	254,026	68,492
Equity in capital assets:		
Contributed capital [note 3(b)]	3,805	3,805
Equity in capital assets	62,581	55,439
	66,386	59,244
Contingencies [note 13]		
Commitments [note 14]		
	$ 347,097	$ 147,482

See accompanying notes to financial statements.

On behalf of the Board:

Sidney H. Hanson, Director

Glenn Rainbird, Director

Statements of Earnings and Equity in Capital Assets

(000's of Dollars) • December 31, 2000 and 1999

	2000	1999
Revenue:		
Airside and general terminal	$ 15,873	$ 15,258
Concession	13,492	12,561
Real estate	1,809	1,722
Police and security	2,604	2,535
Airport Improvement Fee (note 7)	16,584	13,982
Canada Lease Capital Credit [note 3(a)(iv)]	6,951	6,729
	57,313	52,787
Expenses:		
Salaries and employee benefits	11,359	11,351
Service, maintenance, supplies and administration	11,743	10,692
Utilities, insurance and property taxes	2,903	2,584
Interest [note 6(b)]	3,577	765
Amortization	9,968	6,756
Airport Improvement Fee collection costs	1,265	945
Canada Lease Rent [note 3(a)(iii)]	7,139	6,338
	47,954	39,431
Earnings before the undernoted	9,359	13,356
Write-off of unamortized capital assets [notes 4(e) and 4(f)]	(1,897)	(439)
Settlement of lawsuit [note 13]	(320)	–
Net earnings	7,142	12,917
Equity in capital assets, beginning of year:		
As previously reported	55,439	42,994
Adjustment to reflect change in accounting for long-term benefit payable [note 9(a)]	–	(472)
As restated	55,439	42,522
Equity in capital assets, end of year	$ 62,581	$ 55,439

Statements of Cash Flows

(000's of Dollars) • December 31, 2000 and 1999

	2000	1999
Cash provided by (used in):		
Operations:		
Cash receipts from customers	$ 48,055	$ 44,117
Cash paid to employees and suppliers	(23,385)	(24,273)
Cash receipts from the Landlord	409	853
Interest received	1,570	57
Interest paid	(4,963)	(922)
	21,686	19,832
Financing:		
Proceeds from long-term debt	250,000	42,199
Repayments of long-term debt	(66,760)	(385)
Deferred financing costs	(6,645)	–
Obligations under capital lease	(33)	–
Increase in tenants' security deposits	67	17
	176,629	41,831
Investments:		
Acquisition of capital assets	(77,753)	(55,189)
Interest bearing deposits	(52,186)	–
Proceeds on disposal of capital assets	–	166
	(129,939)	(55,023)
Increase in cash	68,376	6,640
Cash (bank indebtedness), beginning of year	6,255	(385)
Cash, end of year	$ 74,631	$ 6,255

See accompanying notes to financial statements.

Notes to Financial Statements

(000's of Dollars) • Years ended December 31, 2000 and 1999

1. Nature of operations:

The Edmonton Regional Airports Authority ("Edmonton Airports") was incorporated on July 26, 1990 under the provisions of the Regional Airports Authorities Act (Alberta) (the "Act") for the purposes of managing the airports for which it is responsible in a safe, secure and efficient manner, and to advance economic and community development by promoting improved airline and transportation service and an expanded aviation industry. In accordance with the provisions of the Act, all of Edmonton Airports' surpluses shall be applied toward promoting its purposes and no dividends may be paid out of the surpluses. Surpluses in these financial statements are described as equity in capital assets. Six Edmonton area municipalities are Appointers for Edmonton Airports. These Appointers have the right to appoint eleven of Edmonton Airports' fifteen directors. Pursuant to the Amended Canada Lease described in note 3(a)(i), the Government of Canada has the right to appoint two of the directors. In addition, the Board has the right to appoint 2 directors. Edmonton Airports operates the Edmonton International Airport ("International Airport"), Edmonton City Centre Airport ("City Centre Airport"), Cooking Lake Airport and Villeneuve Airport.

2. Significant accounting policies:

(a) Basis of accounting:

The financial statements of Edmonton Airports are prepared in accordance with accounting principles generally accepted in Canada.

(b) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those reported. Amortization and Canada Lease Rent are the more significant expense items which reflect estimates.

(c) Consumable inventory:

The inventory of consumable supplies is recorded at the lower of average cost and estimated net realizable value.

(d) Lease of airport facilities:

The lease of the International Airport facilities from the Government of Canada (the "Landlord") and the lease of the City Centre Airport facilities from The City of Edmonton (the "City") are accounted for as operating leases.

(e) Deferred financing costs:

Deferred financing costs represent the unamortized cost of the issue of Series A bonds. Amortization is provided on a straight-line basis, over the term of the related debt and is included in interest expense for the year.

(f) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method at the following annual rates:

Asset	Rate
Terminal and facilities (excluding leased facilities)	5% - 10%
Machinery and equipment:	
Vehicles and maintenance equipment	12% - 20%
Furniture and equipment	20%
Computer hardware and software	33% - 50%
Shop tools and equipment	20%
Office equipment under capital lease	Over term of lease

(g) Revenue recognition:

Revenues are recorded when the services are performed, the facilities are utilized or the amounts are earned pursuant to the related agreements. Airport Improvement Fee ("AIF") revenue is recognized when departing passengers board their aircraft.

(h) Employee future benefits:

Edmonton Airports accrues its obligations under employee pension and benefit plans as the employees render the services necessary to earn the pension and other employee benefits and has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of expected plan investment performance, salary adjustments and retirement ages.
- For the purpose of calculating expected returns on plan assets, those assets are valued at fair market value.
- Transitional surplus is amortized on a straight-line basis over the average remaining service period of employees.
- The excess of the net actuarial gain/loss over 10% 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.

3. Lease agreements:

(a) International Airport:

(i) Amended Canada Lease:

Effective December 31, 1997, Edmonton Airports and the Landlord agreed to amendments to some of the financial components of the original sixty-year lease agreement dated July 31, 1992 for the International Airport (the "Amended Canada Lease"). The new terms provided for the adjustment of rent due for the years 1992 to 1995, required the accelerated repayment of the deferred rent payable and revised the calculation of rent for the ten year period 1996 to 2005.

(ii) Lease term:

The Amended Canada Lease provides that Edmonton Airports will lease the International Airport for an initial term of sixty years ending 2052. A twenty year renewal option may be exercised by Edmonton Airports. At the end of the term, unless otherwise extended, Edmonton Airports is obligated to return control of the International Airport to the Landlord.

(iii) Payment of rent:

The Amended Canada Lease requires Edmonton Airports to calculate and pay rent annually ("Canada Lease Rent") to the Landlord utilizing formulas which take into account annual airport revenues, passenger volumes and operating costs.

(iv) Canada Lease Capital Credit:

The calculation of rent pursuant to the Amended Canada Lease provides for a deduction of base capital costs ("Canada Lease Capital Credit") from rent otherwise payable to the Landlord. The Canada Lease Capital Credit is intended to contribute to the annual capital expenditures required to maintain the leased International Airport facilities.

(v) Receivable from Landlord:

Accounts receivable include a net amount due from (to) the Landlord in connection with the Amended Canada Lease as follows:

	2000	1999
Canada Lease Rent payable	$ (7,139)	$ (6,339)
Canada Lease Capital Credit	6,951	6,730
Interest and other receivables	93	112
	$ (95)	$ 503

(b) City Centre Airport:

Edmonton Airports signed a lease agreement (the "City Lease") with the City, which provides that Edmonton Airports will lease the City Centre Airport facilities for a term of fifty-six years commencing April 1, 1996. At the end of the term in 2052, unless otherwise extended, Edmonton Airports is obligated to return control of the City Centre Airport to the City.

Pursuant to the City Lease, Edmonton Airports also received an "airport reserve fund" of $3,805 from the City to fund capital expenditures at the City Centre Airport. The receipt of these funds was recorded as contributed capital.

4. Capital assets:

2000	Cost	Accumulated amortization	Net book value
Terminal and facilities:			
Terminal building	$ 133,210	$ 10,237	$ 122,973
Parking facilities and roadway systems	36,308	4,799	31,509
Runway and apron surfaces	25,017	2,679	22,338
Other terminal and facilities	25,992	3,187	22,805
	220,527	20,902	199,625
Machinery and equipment:			
Vehicles and maintenance equipment	7,687	5,398	2,289
Furniture and equipment	2,007	1,640	367
Computer hardware and software	1,919	1,471	448
Shop tools and equipment	923	537	386
	12,536	9,046	3,490
Office equipment under capital lease	769	154	615
	$ 233,832	$ 30,102	$ 203,730

1999	Cost	Accumulated amortization	Net book value
Terminal and facilities:			
Terminal building	$ 74,918	$ 7,232	$ 67,686
Parking facilities and roadway systems	31,511	3,087	28,424
Runway and apron surfaces	22,455	1,377	21,078
Other terminal and facilities	14,363	2,137	12,226
	143,247	13,833	129,414
Machinery and equipment:			
Vehicles and maintenance equipment	7,306	4,154	3,152
Furniture and equipment	1,420	1,113	307
Computer hardware and software	2,560	2,099	461
Shop tools and equipment	1,212	840	372
	12,498	8,206	4,292
Office equipment under capital lease	769	–	769
	$ 156,514	$ 22,039	$ 134,475

(a) At December 31, 2000, $7,651 (1999 - $26,166) of capital assets were under construction and not yet subject to amortization.

(b) Included in accounts payable and accrued liabilities at December 31, 2000 is $18,912 (1999 - $15,546) relating to unpaid capital expenditures.

(c) Capital assets include $2,635 (1999 - $1,242) in interest capitalized during the year.

(d) Amortization of capital assets of $9,968 (1999 - $6,756) is included in amortization expense on the statement of earnings.

(e) Effective January 5, 2000, a number of airlines signed an agreement to collect the Airport Improvement Fee on behalf of Edmonton Airports. This made the capital assets totaling $439 related to the collection of the Airport Improvement Fee redundant and they were therefore written off in 1999.

(f) The commencement of construction of the new Central Hall facility in 2001 will result in the demolition of existing facilities with a net book value of $1,897. These amounts have been written off as of December 31, 2000.

(g) During 1999, capital assets at an aggregate cost of $769 were acquired pursuant to capital lease obligations. (2000 – Nil)

(h) In 1999, Edmonton Airports was approved for a capital grant of $682 under the Airports Capital Assistance Program. This infrastructure funding was used toward the pavement overlay of a runway at the City Centre Airport. The grant was applied against the cost of the upgrades in 2000.

5. Obligations under capital leases:

2001	$ 156
2002	156
2003	156
2004	156
2005	156
Thereafter	163
Total minimum lease payments	943
Less amount representing interest at 8.123%	(206)
Present value of net minimum capital lease payments	737
Current portion of obligations under capital leases	(99)
	$ 638

The obligations under capital leases are secured by specific items of office equipment with a net book value of $615 at December 31, 2000.

6. Long-term debt:

	2000	1999
7.214% Revenue bond, Series A payable in semi-annual installments with interest payable on May 1 and November 1 in 2001 and semi-annual payments of principal and interest in each year commencing May 1, 2002 until November 1, 2030	$ 250,000	$ –
Revolving credit facilities, interest payable monthly at the banker's acceptance rate	–	66,760
	250,000	66,760
Current portion of long-term debt	–	–
	$ 250,000	$ 66,760

(a) Bond issue:

Edmonton Airports completed a $250 million Revenue Bond issue effective October 2000. The bonds have an interest rate of 7.214% payable in semi-annual installments of interest payable on May 1 and November 1 in 2001 and semi-annual payments of principal and interest in each year commencing May 1, 2002 and until November 1, 2030. The net proceeds from the offering were used to retire the existing bank syndicate credit facility arranged by Edmonton Airports in connection with Phase I and II of the ATR Project; to fund a $9 million Debt Service Reserve Fund pursuant to the Master Trust Indenture ("Indenture"); and to fund the remaining construction of the Airport Terminal Redevelopment Project.

The bonds are secured by a first leasehold mortgage on the International Airport and related Amended Canada Lease; a security interest over all of the present and future personal property of Edmonton Airports including without limitation, all book debts, and sources of revenue and all assets and any reserve funds; and a floating charge over all of the other present and future property and assets of Edmonton Airports.

Edmonton Airports is required to maintain a $9 million Debt Service Reserve Fund and a $6 million Operating and Maintenance Contingency Fund pursuant to the terms of the Indenture. The Operating and Maintenance Contingency Fund can be satisfied by cash, Letter of Credit, or undrawn availability of the Royal Bank credit facilities described below. At December 31, 2000 the Interest Bearing Deposits include $9,130 of funds restricted to debt service requirements as well as $43,056 held in an interest bearing account for capital expenditures beyond 2001.

In addition to the bond issuance, Edmonton Airports maintains, with the Royal Bank of Canada, a $5 million revolving credit facility to support operations, and a $40 million term revolving loan for general corporate purposes and to assist in the interim financing of construction projects. As at October 31, 2000 and December 31, 2000, $6 million of the term revolving loan had been set aside for the Operating and Maintenance Contingency Fund.

(b) Interest expense (income):

	2000	1999
Revolving credit facilities	$ 4,736	$ 1,972
Bond interest	3,046	–
Term loan from the City	–	10
Canada lease	–	(17)
Interest income and other	(1,570)	42
	6,212	2,007
Less capitalized interest	(2,635)	(1,242)
	$ 3,577	$ 765

(c) The future annual principal payments required to retire the debt are as follows:

2001	$ –
2002	394
2003	649
2004	924
2005	1,222
Thereafter	246,811
	$ 250,000

(d) Deferred financing costs:

Costs of $6,645 incurred in arranging the long-term debt facility have been deferred. No amortization has been recorded as of December 31, 2000.

7. 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 planned redevelopment and expansion of the terminal facilities (see note 14) at the International Airport. To December 31, 2000, cumulative expenditures of $190,923 (1999 - $114,958) exceeded cumulative net AIF revenue collected of $50,832 (1999 - $35,513) by $140,092 (1999 - $79,445).

8. Income taxes:

Edmonton Airports' income is generated from airport-related operations and is therefore exempt from income taxes.

9. Employee future benefits:

(a) Discussion of plans:

Edmonton Airports has a defined benefit pension plan covering all of its eligible employees. The benefits are based on years of service and the employees' highest three years’ earnings. Edmonton Airports also has a severance entitlement plan for eligible employees under the terms of the labour agreement. The plan provides a severance payment upon retirement or termination to eligible employees, under certain conditions. Edmonton Airports records the cost of this obligation based on an actuarial valuation.

In 1999, Edmonton Airports changed its method of recording the severance entitlement earned by employees and payable upon retirement or termination. Estimated severance payments in the future, formerly accounted for on a “pay as you go” basis, are now accrued as earned. The change was accounted for retroactively. This resulted in a long-term benefit payable and a decrease in equity in capital assets of $472 as at January 1, 1999.

Information about the plans is as follows:

	Pension Plan	Severance Entitlement Plan
Accrued benefit obligation:		
Balance, beginning of year	$ 8,900	$ 609
Current service cost	827	108
Interest cost	722	54
Benefits paid	(406)	(7)
Employees’ contribution	105	–
Balance, end of year	10,148	764
Plan assets:		
Fair market value, beginning of year	11,064	–
Annual return on plan assets	744	–
Employer contributions	96	–
Employees’ contributions	105	–
Benefits paid	(406)	–
Fair market value, end of year	11,603	–
Funded status – surplus (deficit)	1,455	(764)
Unamortized net actuarial costs	78	1
Unamortized transitional surplus	(1,998)	–
Accrued benefit liability	$ (465)	$ (763)

The significant actuarial assumptions adopted in measuring Edmonton Airports accrued benefit liability are as follows (weighted-average assumptions as of December 31):

	Pension Plan	Severance Entitlement Plan
Discount rate	7.5%	7.5%
Expected long-term rate of return on plan assets	7.5%	–
Rate of compensation increase	4.0%	–

(b) Edmonton Airports fiscal 2000 net benefit plan expense is as follows:

	Pension Plan	Severance Entitlement Plan
Current service cost	$ 827	$ 108
Interest cost	722	54
Expected return on plan assets	(822)	–
Amortization of transitional obligation	(166)	–
Net benefit plan expense included in salaries and benefits expense	$ 561	$ 162

10. Directors' and officers' remuneration and expenses:

This information is provided pursuant to the requirements of the Regulations, pursuant to the Act.

During the year ended December 31, 2000, Edmonton Airports provided its officers and directors remuneration and reimbursement of expenses in the following amounts:

2000	Remuneration	Expenses
To directors	$ 252	$ 27
To officers who are not directors	674	191
	$ 926	$ 218

1999	Remuneration	Expenses
To directors	$ 313	$ 18
To officers who are not directors	682	121
	$ 995	$ 139

11. Deferred revenue:

Deferred revenue arose in fiscal 2000 upon receipt of proceeds in respect of a prepayment of rent ($1,500) for a long-term lease at the City Centre Airport and an operating subsidy ($249) from the Landlord received when Edmonton Airports assumed the operation of the Villeneuve Airport. The deferred revenue relating to the long-term lease will be amortized to earnings using the straight-line method over the lease term of fifty-two years and the operating subsidy will be amortized into earnings to offset future losses from the operating activities at Villeneuve Airport.

12. Financial assets and financial liabilities:

Fair value:

The fair value of Edmonton Airports' cash in interest bearing accounts, interest bearing deposits, accounts receivable, accounts payable and accrued liabilities, and tenants' security deposits approximate their carrying amounts due to the immediate or short-term maturity of these financial instruments.

The fair value of long-term debt and obligations under capital leases approximates their carrying value. Fair value has been calculated using the future cash flows (principal and interest) of the actual outstanding debt instrument, discounted at current market rates available to Edmonton Airports for the same or similar instruments.

Credit risk:

A significant portion of Edmonton Airports' revenues is derived from airlines. At December 31, 2000 a significant portion of the accounts receivable balance (other than the amount due from the Government of Canada) is due from airlines.

13. Contingencies:

In prior years Edmonton Airports was named as a defendant in certain lawsuits. During 2000, one of the claims was settled for $320. The outcomes of the remaining actions are currently not determinable. In Edmonton Airports' opinion, these actions will not result in any significant expense to Edmonton Airports. Settlements, if any, will be accounted for in the period of settlement.

14. Commitments:

Edmonton Airports has planned a redevelopment and expansion of the EIA terminal facilities. The total cost of this project was estimated to be $300 million. Of the $300 million contemplated, Edmonton Airports Board of Directors has approved the implementation of projects totaling $236 million. The major elements of the approved projects include the construction of a parkade (completed in 1998), renovations to the existing terminal building, expansion of the terminal facilities to the southeast and construction of additional apron area (completed in 2000). To December 31, 2000, expenditures of $166,453 (1999 - $94,560) have been incurred on the approved projects, with approximately $9 million in costs remaining to complete Phases I and II.

Edmonton Airports has operating contracts for the provision of management, security, and janitorial services, electricity and rent. These contracts have annual commitments as follows:

2001	$ 6,952
2002	6,799
2003	4,875
2004	5,224
2005	5,992

Appointers, Board and Management

Appointer Representatives

The City of Edmonton
Mayor Bill Smith
Al Maurer, City Manager

City of Leduc
Mayor George Rogers
Kevin Robins, City Manager

Leduc County
Reeve Edward Chubocha
Larry Majeski, County Manager

Parkland County
Reeve Elsie Kinsey
Jim Simpson, County Commissioner

Strathcona County
Mayor Vern Hartwell
Bill Sutherland, Chief Commissioner

Sturgeon County
Deputy Reeve Gib Soetaert
Larry Kirkpatrick, County Commissioner

Transport Canada
D.W. (Dave) Murray
Regional Director General Prairie & Northern Region
Sandra Jackson
Regional Director, Programs Prairie & Northern Region

Board of Directors

Sidney H. Hanson, Chairman
Appointed by the Board

Glenn Rainbird, Vice Chairman
Appointed by the City of Edmonton

Enzo Barichello
Appointed by the City of Edmonton

Margaret Bateman
Appointed by the City of Edmonton

Peter Bidlock
Appointed by Strathcona County

John Bowes
Appointed by Sturgeon County

David Foy
Appointed by the City of Edmonton

John Friesen
Appointed by Parkland County

Harold D. (Hal) Irwin
Appointed by the Federal Government

Herb Lede
Appointed by Leduc County

Allister McPherson
Appointed by the City of Edmonton

Al Pasini
Appointed by the City of Edmonton

Larry Prokop
Appointed by the Federal Government

Gordon Riddell
Appointed by the City of Leduc

Management

Officers
G. Scott Clements
President and Chief Executive Officer

Raymond J. Off
Vice-President, Airport Operations and Services

Jim Meyer
Vice-President, Marketing and Communications

R. Cort Smith, Vice-President, Finance and Corporate Services and Corporate Secretary

Senior Management Team
Ted Chow, Executive Advisor

John Craig, Director, Real Estate Services

John Cordner, ATR Project Manager, DMJM Aviation

Angela Fong, Director, Human Resources and Corporate Planning

Board Secretary
Sophie Dowhaniuk

Legal Counsel
Ron Odynski, Ogilvie LLP, Edmonton

Auditors
KMPG LLP Chartered Accountants, Edmonton

Edmonton AIRPORTS

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Edmonton City Centre Airport
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