

EDMONTON INTERNATIONAL AIRPORT

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Edmonton Airports

Unaudited Quarterly Interim Financial Statements

For the Three and Six Months Ended June 30th, 2009

EDMONTON
CITY CENTRE
AIRPORT

COOKING LAKE
AIRPORT

VILLENEUVE
AIRPORT

1. INTRODUCTION

The following commentary and analysis of the operating results and financial position of the Edmonton Regional Airports Authority (Edmonton Airports) for the six months ended June 30, 2009 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 2008 Annual Report.

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

On January 1, 2009, Edmonton Airports adopted the new accounting standard for Section 3064 – Goodwill and Intangible Assets. As a result of this new standard, certain software costs previously recorded as property, plant and equipment are now recorded as intangible assets.

Edmonton Airports' recorded overall net earnings of \$4.2 million for the six months ended June 30, 2009, a decrease of \$4.2 million over the 2008 net earnings of \$8.4 million. The decline in revenue and passengers continued during the second quarter as they declined by 2.7% and 4.3%, respectively. Increases in interest expense, amortization expense, salaries and employee benefits expense also contribute to the overall decrease in net earnings.

The global, Canadian, and Alberta economies continue to experience significant challenges and, while world markets have moved off their lows, considerable volatility remains in financial markets. This high level of uncertainty is hampering economic recovery and it now appears that the likelihood of seeing significant recovery prior to 2010 is diminishing.

Current oil and natural gas prices continue to negatively impact the economies of Alberta and the Greater Edmonton Region. Recent forecasts now indicate that crude prices will be in the \$60 USD to \$70 USD range at the end of 2009 and will rise to around \$75 USD by 2011. Extreme volatility still exists in commodity markets and forecast ranges vary widely. Future comments on economic growth expectations will likely impact prices and any sudden signs of recovery could result in a sharp spike in oil prices.

Inflation is nonexistent at the moment as declining consumer demand and lower energy costs have removed any upward pressure on prices. Inflation, as measured by the consumer price index (CPI), is expected to be -1.1% in 2009 and return towards the Bank of Canada's target rate of 2.0% in 2010. There is some concern that a sharp recovery could result in a spike in inflation, particularly with all the government stimulus that has been injected into the global economy.

Across the world and in Canada, the general expectation is for reduced passenger growth in 2009, and Edmonton Airports is reviewing its expectations for passenger growth in 2010. Edmonton Airports continues to monitor expenses and its capital program in response to decrease in passenger volumes.

2. AIRPORT IMPROVEMENT FEE (AIF)

Edmonton International Airport (EIA) is continuing its \$1 billion expansion to ensure the airport can keep pace with Edmonton and Northwestern Canada's economic development. The project is funded by the AIF, which is collected with airline tickets for departing passengers. On September 1, 2009, the AIF will increase by five dollars, to \$20 per ticket.

The airport, which was substantially renovated in 2000, is presently operating at 20% above capacity. The terminal, built to accommodate 5.5 million passengers a year, had nearly 6.5 million passengers use its facilities in 2008.

Although the terminal is over capacity and new space is required simply to accommodate current passenger numbers and air services, EIA is experiencing lower than forecasted passenger numbers as a result of the current global economic slowdown. This has required Edmonton Airports to increase the AIF earlier than previously planned.

Edmonton Airports identified spending efficiencies and cost-savings, and developed its non-aeronautical revenues in order to keep the AIF flat at \$15 per passenger. In fact, although the industry standard is to increase the AIF with new major capital projects, EIA has been able to defer an increase since 2002. From 2002 to 2008, Edmonton Airports has invested \$332.1 million at Edmonton International Airport, without an AIF increase.

Edmonton Airports continues to identify potential cost savings in the expansion project through value engineering and by taking advantage of cost savings due to the current economic conditions.

3. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

During the second quarter work continued on Phase II of the IFRS implementation project. This phase (which is to be completed by the end of the third quarter) consists of project set-up, component evaluation, and issue resolution. At the end of the second quarter project set-up has been completed and activities are now focused on the second and third elements of this phase. Currently the project is on time and on budget.

4. EDMONTON INTERNATIONAL AIRPORT ACTIVITY

During the first two quarters of 2009, a total of 3,008,716 enplaning and deplaning passengers used Edmonton International, compared to 3,144,131 passengers for the same period in 2008 representing a decrease of 4.3%. By sector, Domestic passengers for the six months decreased by 8.7% when compared to 2008; while Transborder increased by 12.8%, and International passengers increased by 9.1%.

EDMONTON AIRPORTS Passenger Traffic by Sector

	Three Months Ended			Six Months Ended		
	June 30		%	June 30		%
	2009	2008		2009	2008	
Domestic	1,182,822	1,294,774	-8.6%	2,248,150	2,462,355	-8.7%
Transborder	235,053	221,104	6.3%	511,524	453,523	12.8%
International	77,916	71,837	8.5%	249,042	228,253	9.1%
Total	1,495,791	1,586,715	-5.7%	3,008,716	3,144,131	-4.3%

5. RESULTS OF OPERATIONS

The table below shows Edmonton Airports combined operating earnings for the three and six months ended June 30, 2009 with comparative figures for the same periods in 2008.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Operating revenues				
Airside and general terminal	8,782	9,327	17,747	18,934
Parking and car rentals	7,203	7,615	14,587	15,148
Concession	2,011	1,873	4,055	3,856
Real estate leases	907	852	1,847	1,687
Other revenue	27	16	42	31
	18,930	19,683	38,278	39,656
Operating expenses				
Salaries and employee benefits (see note 13)	6,035	5,809	12,318	11,180
Service, maintenance, supplies and administration	4,318	6,048	9,090	10,924
Utilities, insurance and property taxes	1,597	1,984	3,633	4,033
Canada lease rent	1,225	1,226	2,451	2,452
	13,175	15,067	27,492	28,589
Operating earnings	5,755	4,616	10,786	11,067

The calculation of Operating Earnings excludes AIF, Police and security, and Capital Contributions (included in Other revenue) revenues as well as AIF collection costs, Police and Security, Interest and Amortization expenses.

5.1. Operating Revenues

Operating revenues for the six months ended June 30, 2009 were \$38.3 million compared to \$39.7 million for the corresponding period in 2008, a decrease of \$1.4 million (3.5%). The decrease in operating revenues has been consistent with the 4.3% decrease in passenger activity for the period. Airlines continued switching to smaller aircrafts however; they maintained the same frequency of flights.

5.2. Operating Expenses

Operating expenses for the six months ended June 30, 2009 were \$27.5 million compared to \$28.6 million for the corresponding period in 2008, a decrease of \$1.1 million (3.8%). Salaries and employee benefits were \$1.1 million (10.2%) higher than 2008. This expected increase is due to the additional employees hired late in 2008 to assist with the increased activity of the capital expansion. Additionally the General Bargaining Unit personnel received their negotiated 4% wage increase. Service, maintenance, supplies and administration expenses realized a decrease of \$1.8 million (16.8%) in comparison to 2008. The decrease is due to the following reasons: expenditures relating to the branding project which occurred in 2008 and no expenses in 2009 (\$1.0 million), an increase in capitalized expenses (\$0.5 million) in relation to the on-going capital projects and the remaining portion is a result of efforts by management to decrease expenditures through budget roll backs and deferring of non-essential projects to future periods. Utilities, insurance and property taxes decreased by \$0.4 million (9.9%) when compared to 2008.

5.3. Operating Earnings

Operating earnings for the six months ended June 30, 2009 were \$10.8 million, a decrease of \$0.3 million over last year's operating earnings of \$11.1 million (2.7%). The decrease in operating earnings is primarily a result of a decrease in operating revenues (3.5%) in conjunction with the increase in salaries and employee benefits (10.2%).

5.4. Net Earnings

The net earnings of \$4.2 million for the six months ended June 30, 2009 represent a decrease of \$4.2 million compared to net earnings of \$8.4 million (50.0%) for the same period in 2008. The net earnings decrease resulted from the decrease in operating earnings of \$0.3 million combined with the expected increases in interest expense and amortization expense, \$1.3 and \$2.5 million, respectively. These increases were due to ongoing capital investment.

6. GENERAL CAPITAL PLAN

The approved 2009 Capital Plan is approximately \$11.9 (March 31, 2009 – \$11.9) million in projects for all airports. To date \$7.3 million was approved and \$3.5 million has been spent on all projects including multi-year projects approved in prior years. The major component in the second quarter expenditures was \$0.5 million on the mobile fleet replacement and \$0.2 million on airfield electrical.

7. CAPITAL EXPANSION PLAN

The Board approved Capital Expansion Plan expenditures for 2009 is approximately \$202.4 (March 31, 2009 - \$169.1) million for all airports. For the six months ended June 30, 2009, \$62.9 million in projects have been approved and an additional \$46.1 million was spent on all projects. The major expenditures are \$28.0 million for terminal expansion and improvement, \$7.5 million for taxiway, apron expansion and roadway rehabilitation and \$1.2 million on mobile fleet replacement. The forecasted total expenditures for 2009 are to be approximately \$135.5 million.

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

As at June 30, 2009 with comparative figures at December 31, 2008

	Notes	June 30 2009 \$	December 31 2008 \$
Assets			
Current assets			
Cash in interest bearing accounts		19,388	20,832
Short-term investments		84,754	102,163
Accounts receivable	12	9,951	14,148
Prepaid expenses and other		5,717	3,726
		119,810	140,869
Interest bearing deposits		12,537	11,747
Deferred pension asset		5,597	5,597
Lessee receivable		305	368
Intangible assets	2, 5	796	412
Property, plant and equipment	6, 9	472,428	438,210
		611,473	597,203
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6 (b)	44,549	29,834
Current portion of long-term debt		9,195	8,837
Current portion of deferred revenue		1,250	1,248
		54,994	39,919
Tenants' security deposits		965	998
Deferred revenue		12,629	13,183
Long-term benefits payable		3,147	2,896
Long-term debt		413,410	418,128
		485,145	475,124
Contingencies	11		
Equity in property, plant and equipment			
Contributed capital	4	3,805	3,805
Equity in property, plant and equipment	4	122,523	118,274
		126,328	122,079
		611,473	597,203

See accompanying notes to interim financial statements

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

For the Six Months Ended June 30, 2009 with comparative figures for 2008

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenues					
Airport improvement fee	7, 12	9,607	9,895	19,266	19,684
Airside and general terminal	12	8,782	9,327	17,747	18,934
Parking and car rentals		7,203	7,615	14,587	15,148
Concession		2,011	1,873	4,055	3,856
Police and security		1,502	1,444	2,946	2,839
Real estate leases		907	852	1,847	1,687
Other revenue		298	283	582	566
		30,310	31,289	61,030	62,714
Expenses					
Amortization	5(b), 6(c)	7,527	6,393	15,109	12,603
Salaries and employee benefits	8, 13	6,035	5,809	12,318	11,180
Interest	9	4,717	4,676	10,574	9,259
Service, maintenance, supplies and administration		4,318	6,048	9,090	10,924
Utilities, insurance and property taxes		1,597	1,984	3,633	4,033
Police and security		1,402	1,375	2,777	2,704
Canada lease rent		1,225	1,226	2,451	2,452
Airport improvement fee collection costs		576	595	1,158	1,187
		27,397	28,106	57,110	54,342
Earnings before the undernoted		2,913	3,183	3,920	8,372
Other gains (losses)		285	(35)	329	13
Net earnings and comprehensive income		3,198	3,148	4,249	8,385
Equity in property, plant and equipment, Beginning of period		119,325	103,652	118,274	98,415
Equity in property, plant and equipment, End of period		122,523	106,800	122,523	106,800

See accompanying notes to interim financial statements

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

For the Six Months Ended June 30, 2009 with comparative figures for 2008

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash provided by (used in):				
Operating activities				
Cash receipts from customers	30,192	29,904	64,479	60,416
Cash paid to employees and suppliers	(20,412)	(24,130)	(31,785)	(31,168)
Cash paid to the landlord	(1,226)	(1,226)	(2,584)	(2,534)
Interest received	260	607	838	1,328
Interest paid	(4,977)	(5,283)	(11,412)	(10,587)
	3,837	(128)	19,536	17,455
Financing activities				
Deferred pension charge	-	(611)	-	(611)
Capital contributions	-	-	194	-
Increase in (repayment of) tenants' security deposits	(17)	(30)	(33)	(37)
Repayments of long term debt	(2,453)	(1,601)	(4,360)	(2,232)
Proceeds of long term debt	-	40,000	-	40,000
	(2,470)	37,758	(4,199)	37,120
Investing activities				
Net proceeds (purchase) of short-term investments	13,827	(32,304)	17,408	(35,690)
Net purchase of interest bearing deposits	(11)	(83)	(790)	(188)
Loan repayments	32	30	63	60
Purchase of intangible assets	(302)	(6)	(539)	(126)
Purchase of property, plant and equipment	(15,638)	(11,314)	(32,959)	(28,285)
Proceeds on disposal of capital assets	36	38	36	38
	(2,056)	(43,639)	(16,781)	(64,191)
Decrease in cash	(689)	(6,009)	(1,444)	(9,616)
Cash in interest bearing accounts, beginning of period	20,077	13,648	20,832	17,255
Cash in interest bearing accounts, end of period	19,388	7,639	19,388	7,639

Notes to 2nd Quarter 2009 Interim Financial Statements

(000's of dollars unless otherwise stated)

1. INTERIM FINANCIAL STATEMENTS

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

As disclosed in the December 31, 2008 annual audited Financial Statements, on January 1, 2009, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Section:

"Goodwill and Intangible Assets", Section 3064. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (see Note 5). As a result of this new standard, certain software costs previously recorded as property, plant and equipment are now recorded as intangible assets. These costs are subject to amortization at rates consistent with the policy disclosed in the December 31, 2008 financial statements. Edmonton Airports has restated prior periods' financial statements for this change. The impact of this change on prior periods is as follows:

	December 31 2008
Restatement of prior year results	\$
Decrease in property, plant and equipment	
Cost	(937)
Accumulated amortization	525
Property, plant and equipment	(412)
Increase in intangible assets	
Cost	937
Accumulated amortization	(525)
Intangible assets	412

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.

Notes to 2nd Quarter 2009 Interim Financial Statements
(000's of dollars unless otherwise stated)

4. CAPITAL MANAGEMENT

Edmonton Airports' strategy, which is unchanged from 2008, is to comply 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 a reasonable cost.

As at June 30, 2009, Edmonton Airports was in compliance with the restrictions imposed on capital.

5. INTANGIBLE ASSETS

	June 30 2009 \$	December 31 2008 \$
Cost	1,475	937
Accumulated amortization	(679)	(525)
	796	412

- (a) Intangible assets are purchased software and software licenses.
- (b) For the period ended June 30, 2009, \$157 (June 30, 2008 - \$119) of the amortization expense is for intangible assets.

Notes to 2nd Quarter 2009 Interim Financial Statements
(000's of dollars unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	June 30 2009 \$	December 31 2008 \$
Terminal and facilities	620,293	572,726
Machinery and equipment	25,851	24,320
Office equipment under capital lease	535	535
	<u>646,679</u>	<u>597,581</u>
Less accumulated amortization	(174,251)	(159,371)
	<u>472,428</u>	<u>438,210</u>

- (a) At June 30, 2009, \$54,267 (December 31, 2008 - \$16,231) of property, plant, and equipment was under construction and not yet subject to amortization.
- (b) Included in accounts payable and accrued liabilities at June 30, 2009 is \$31,131 (December 31, 2008 - \$14,915) relating to unpaid capital expenditures.
- (c) For the period ended June 30, 2009, \$14,952 (June 30, 2008 - \$12,484) of the amortization expense is for property, plant and equipment.

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 redevelopment and expansion of the terminal facilities at the Edmonton International.

	June 30 2009 \$	December 31 2008 \$
Cumulative AIF revenues	285,223	267,115
Cumulative expenditures	(651,343)	(594,711)
	<u>(366,120)</u>	<u>(327,596)</u>

Notes to 2nd Quarter 2009 Interim Financial Statements
(000's of dollars unless otherwise stated)

8. BENEFIT PLAN EXPENSE

	Three Months Ended			Total \$
	June 30			
	Pension Plan \$	SERP \$	Long-term Benefit Plan \$	
Current service cost	390	54	65	509
Interest cost	317	11	25	353
Expected return on plan assets	(222)	-	-	(222)
Amortization of transitional surplus	(41)	-	-	(41)
Amortization of actuarial gain (loss)	69	5	(3)	71
Net benefit plan expense included in salaries and benefits expense 2009	513	70	87	670
Net benefit plan expense included in salaries and benefits expense 2008	541	62	55	658
	Six Months Ended			Total \$
	June 30			
	Pension Plan \$	SERP \$	Long-term Benefit Plan \$	
Current service cost	780	107	128	1,015
Interest cost	635	24	50	709
Expected return on plan assets	(571)	-	-	(571)
Amortization of transitional surplus	(83)	-	-	(83)
Amortization of actuarial gain (loss)	138	9	(7)	140
Net benefit plan expense included in salaries and benefits expense 2009	899	140	171	1,210
Net benefit plan expense included in salaries and benefits expense 2008	880	120	115	1,115

Notes to 2nd Quarter 2009 Interim Financial Statements
(000's of dollars unless otherwise stated)

9. INTEREST EXPENSE

	Three Months Ended June 30		Six Months Ended June 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Bond interest	4,333	4,376	8,681	8,765
Debenture Interest	2,114	780	4,241	1,567
Other interest and financing costs	123	145	175	311
Interest income and other	(292)	(607)	(810)	(1,328)
	6,278	4,694	12,287	9,315
Less: capitalized interest	(1,561)	(18)	(1,713)	(56)
	4,717	4,676	10,574	9,259

The capitalized interest in the three months ended June 30, 2009 is overstated by \$676. The \$676 pertains to interest that should have been capitalized but was expensed in the first quarter.

Edmonton Airports is in compliance with all of its debt covenants.

10. PASSENGER VOLUME SEASONALITY

Passenger volume, comprised of the total number of enplaned and deplaned passengers, is the main driver of certain Edmonton Airport's revenue streams. These include Concession, AIF, and Police and Security revenues. The following table outlines the seasonality component of passenger traffic at the Edmonton International and compares 2009 actual for January through June to the same period last year.

Month	Actual 2009	Actual 2008	Variance	%
January	493,541	502,166	(8,625)	-1.7%
February	492,286	508,349	(16,063)	-3.2%
March	527,098	546,901	(19,803)	-3.6%
First Quarter	1,512,925	1,557,416	(44,491)	-2.9%
April	526,066	518,527	7,539	1.5%
May	488,472	533,766	(45,294)	-8.5%
June	481,253	534,422	(53,169)	-9.9%
Second Quarter	1,495,791	1,586,715	(90,924)	-5.7%

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

Notes to 2nd Quarter 2009 Interim Financial Statements

(000's of dollars unless otherwise stated)

11. CONTINGENCIES

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

12. 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 proper 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 64% of its airside and general terminal and AIF revenue. In management's opinion the Canadian airlines are large and credit-worthy counterparties.

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. At June 30, 2009, the provision for impairment of accounts receivable was \$0.5 million; this provision has increased by \$0.4 million from December 31, 2008.

At June 30, 2009, the aging analysis of trade receivables that are past due but not impaired is as follows:

	June 30 2009	December 31 2008
	\$	\$
30 to 90 days	2,409	5,742
Greater than 90 days	912	1,841
	3,321	7,583

No other impairments have been identified within accounts receivable.

13. COMPARABLES

The 2008 salaries and employee benefits expense figure has been increased by \$497 due to a cut-off error between the first and second quarter. The 2008 first quarter salary and employee benefits expense has been increased by \$497 and the 2008 second quarter statements will reflect the offsetting decrease in salary and employee benefits expense.