EDMONTON INTERNATIONAL AIRPORT

EIA
we'll move you.

Edmonton Airports

Unaudited Condensed Quarterly Interim Financial Statements

For the Three and Six Months Ended June 30th, 2012

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, 2012 should be read in conjunction with the unaudited condensed interim 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 2011 Annual Report.

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

Edmonton Airports' recorded overall net earnings of $ 1.0 million for the six months ended June 30, 2012, which is a $3.8 million decrease from the 2011 net earnings of $4.8 million. During the six month period, Edmonton Airports experienced revenue growth of $12.4 million (17.8%) and increased expenses of $16.2 million (24.9%).

2. ALBERTA CAPITAL FINANCE AUTHORITY (ACFA)

On March 12, 2012 Edmonton Airports completed a change to its credit agreement with ACFA (Amended and Restated Credit Agreement). The Amended and Restated Credit Agreement now consists of three Credit Facilities.

Credit Facility 1 for $1.0 billion, by way of fixed rate loans, is to be used solely for the purposes of airport infrastructure expenditures at EIA. Credit Facility 2, for $300 million, by way of fixed rate loans, is to be used firstly for the purposes of redeeming or purchasing for cancellation the Series A Bond and the Series B Bond. Once Series A and Series B Bonds are fully redeemed, any residual balance can be used for the same purposes as Credit Facility 1. Credit Facility 3, for $100 million, by way of fixed rate loans, is to be used solely for the purposes of funding capital expenditure projects, the general purpose of which projects are to construct or improve infrastructure in respect to buildings, airfield, land, roads, navigational aids and other assets required for the operation of EIA. The use of Credit Facility 3 reduces, dollar for dollar, the amount available to EIA under Credit Facility 1.

3. EDMONTON INTERNATIONAL AIRPORT ACTIVITY

Passenger volume, comprised of the total number of enplaned and deplaned passengers, is the main driver of certain Edmonton Airports revenue streams. These include Concession, Parking and car rentals, Airport Improvement Fee (AIF), and Police and security revenues. The following table outlines the seasonality component of passenger traffic at the Edmonton International and compares 2012 actual for January through June to the same period last year.

EIA
Enplaned/Deplaned
Passenger Traffic by Sector

	Three Months Ended June 30			Six Months Ended June 30		
	2012	2011	%	2012	2011	%
Domestic	1,269,671	1,205,303	5.3	2,420,268	2,274,733	6.4
Transborder	277,493	260,862	6.4	606,308	557,826	8.7
International	86,283	83,498	3.3	241,507	229,515	5.2
Total	**1,633,447**	**1,549,663**	**5.4**	**3,268,083**	**3,062,074**	**6.7**

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.

4. RESULTS OF OPERATIONS

The table below shows Edmonton Airports combined operating earnings for the three and six months ended June 30, 2012 with comparative figures for the same periods in 2011.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	$	$	$	$
Operating revenues				
Airside and general terminal	9,754	9,327	19,703	18,405
Parking and car rentals	8,900	8,620	17,769	16,805
Concession	2,604	2,119	5,099	4,262
Real estate leases	670	607	1,492	1,302
Other revenue	32	95	43	106
	21,960	**20,768**	**44,106**	**40,880**
Operating expenses				
Salaries and employee benefits	6,636	5,907	13,194	11,542
Services, maintenance, supplies and administration	4,838	5,034	9,967	10,000
Utilities, insurance and property taxes	3,048	2,581	5,859	5,167
Canada lease rent	3,366	2,802	6,733	5,604
	17,888	**16,324**	**35,753**	**32,313**
Operating earnings	**4,072**	**4,444**	**8,353**	**8,567**

The calculation of Operating earnings excludes Airport Improvement Fee and Police and Security revenues as well as Airport Improvement Fee collection costs, Police and Security, Interest and Amortization expenses.

4.1. Operating Revenues

Operating revenues for the six months ended June 30, 2012 were $44.1 million compared to $40.9 million for the corresponding period in 2011, an increase of $3.2 million (7.9%). The increase in operating revenues is primarily the result of increases in airside and general terminal rates of approximately 7.1%, increased aircraft movements, additional concession options in the Central Tower and Transborder area which opened in December of 2011 and February 2012 respectively, additional parking revenue from new parking lots and increased real estate revenue from new land leases signed in 2011.

4.2. Operating Expenses

Operating expenses for the six months ended June 30, 2012 were $35.8 million compared to $32.3 million for the corresponding period in 2011, an increase of $3.5 million (10.6%). The increase in operating expenses is primarily the result of increases in salaries and employee benefits due to the contractual increase in wages of 5%, an increase in the number of active employees and higher pension costs; an increase in property taxes due to an increase in assessed values from construction; and an increase in Canada lease rent resulting from the increase in revenues.

4.3. Operating Earnings

Operating earnings for the six months ended June 30, 2012 were $8.4 million, $0.2 million lower than last year's operating earnings of $8.6 million (2.5%).

4.4. Net Income

The net income of $1.0 million for the six months ended June 30, 2012 represents a decrease of $3.8 million compared to net income of $4.8 million for the same period in 2011. The decrease in net income results from increases in amortization due to the growth of property, plant, and equipment; interest expense from further borrowings; and AIF collection costs associated with higher AIF revenue. These were partially offset by higher operating earnings, higher AIF resulting from an increase in passenger traffic and the increase in the AIF rate per enplaned passenger to $25 from $20, and higher police and security revenue resulting from an increase in security contract costs.

5. CAPITAL INVESTMENT

The approved 2012 Expansion Capital Program is approximately $146.2 million for all airports. To date, $61.6 million has been spent on all projects, including multi-year projects approved in prior years. These projects included the terminal building expansion, central tower, central utilities plant and apron expansion ($50.6 million); land development and lot servicing ($1.4 million); capitalized interest ($5.3 million) and various other smaller expansionary projects ($4.3 million).

The approved Capital Sustaining Program for 2012 is approximately $12.5 million for all airports. For the six months ended June 30, 2012, $4.1 million was spent on all projects including multi-year projects approved in prior years. These projects included fleet replacement ($1.5 million), and various facility maintenance projects ($3.6 million).

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

As at June 30, 2012 with comparative figures at December 31, 2011

	Notes	June 30 2012 $	December 31 2011 $
Assets			
Current assets			
Cash and cash equivalents		78,400	97,175
Accounts receivable	*5*	27,437	14,763
Prepaid expenses and other		4,390	3,050
		110,227	114,988
Restricted deposits	*6*	27,013	21,387
Prepaid expense and lessee receivable		526	549
Property, plant and equipment	*6, 7*	970,077	926,295
Intangible assets	*8*	977	954
		1,108,760	**1,064,173**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*7 (b)*	66,198	73,970
Current portion of obligation under finance lease		25	23
Current portion of long-term debt	*6*	16,936	16,386
Current portion of deferred revenue		67	59
		83,226	90,438
Tenants' security deposits		1,276	1,159
Obligation under finance lease		36	49
Post-employment benefits		14,804	15,567
Long-term debt	*6*	892,839	841,349
		992,181	948,562
Contingencies	*11*		
Net Assets		116,579	115,611
		1,108,760	**1,064,173**

See accompanying notes to condensed quarterly interim financial statements

EDMONTON AIRPORTS
Statements of Comprehensive Income (000's of dollars)
Unaudited

For the Three and Six Months Ended June 30, 2012 with comparative figures for 2011

	Notes	Three Months Ended June 30 2012 $	Three Months Ended June 30 2011 $	Six Months Ended June 30 2012 $	Six Months Ended June 30 2011 $
Revenues					
Airport improvement fee	9,5	17,647	13,264	34,859	26,126
Airside and general terminal	5	9,754	9,327	19,703	18,405
Parking and car rentals		8,900	8,620	17,769	16,805
Concession		2,604	2,119	5,099	4,262
Police and security		1,670	1,529	3,403	2,942
Real estate leases		670	607	1,492	1,302
Other revenue		32	95	43	106
		41,277	**35,561**	**82,368**	**69,948**
Expenses					
Amortization	7 (c), 8(a)	14,145	8,448	24,244	17,393
Salaries and employee benefits	10	6,636	5,907	13,194	11,542
Interest	6	9,689	5,458	16,401	11,107
Services, maintenance, supplies and administration		4,838	5,034	9,967	10,000
Canada lease rent	3	3,366	2,802	6,733	5,604
Utilities, insurance and property taxes		3,048	2,581	5,859	5,167
Police and security		1,432	1,456	2,918	2,802
Airport improvement fee collection costs		1,073	807	2,119	1,594
		44,227	**32,493**	**81,435**	**65,209**
Earnings before the undernoted					
Other income		80	1	35	14
Net (loss) income		**(2,870)**	**3,069**	**968**	**4,753**
Other comprehensive income		-	-	-	-
Comprehensive (loss) income for the period		**(2,870)**	**3,069**	**968**	**4,753**

See accompanying notes to condensed quarterly interim financial statements

EDMONTON AIRPORTS
Statements of Changes in Net Assets (000's of dollars)
Unaudited

As at June 30, 2012 with comparative figures at June 30, 2011

	June 30 2012 $	June 30 2011 $
Net Assets – Beginning of period	115,611	113,102
Net Income	968	4,753
Other comprehensive income	-	-
Total comprehensive income – End of period	968	4,753
Net Assets – End of period	**116,579**	**117,855**

See accompanying notes to condensed quarterly interim financial statements

EDMONTON AIRPORTS
Statements of Cash Flows (000's of dollars)
Unaudited
For the Three and Six Months Ended June 30, 2012 with comparative figures for 2011

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	$	$	$	$
Cash provided by (used in):				
Operating activities				
Cash receipts from customers	36,785	32,717	69,830	66,118
Cash paid to employees and suppliers	(24,075)	(9,100)	(31,956)	(25,186)
Cash paid to the landlord	(2,968)	(2,752)	(6,853)	(11,631)
Interest received	322	371	661	730
Interest paid	(12,299)	(17,635)	(20,744)	(20,890)
Increase (decrease) in tenants' security deposits	164	(85)	117	(83)
Pension contributions	(955)	(1,095)	(1,547)	(1,283)
	(3,026)	**2,421**	**9,508**	**7,775**
Financing activities				
Principal payments under finance lease obligation	(6)	(6)	(11)	(10)
Repayments of long-term debt	(5,294)	(4,838)	(8,088)	(7,171)
Proceeds from long-term debt	30,000	50,000	60,000	100,000
	24,700	**45,156**	**51,901**	**92,819**
Investing activities				
Net purchase of restricted deposits	(5,570)	(50)	(5,626)	(110)
Loan proceeds	12	20	23	40
Proceeds on sale of property, plant and equipment	26	(11)	26	-
Interest paid capitalized to property plant and equipment	(1,213)	(3,797)	(5,259)	(6,930)
Purchase of property, plant and equipment	(30,311)	(55,500)	(69,348)	(106,751)
	(37,056)	**(59,338)**	**(80,184)**	**(113,751)**
Decrease in cash	(15,382)	(11,761)	(18,775)	(13,157)
Cash and cash equivalents – Beginning of period	93,782	105,971	97,175	107,367
Cash and cash equivalents – End of period	**78,400**	**94,210**	**78,400**	**94,210**

See accompanying notes to condensed quarterly interim financial statements

1. BASIS OF PRESENTATION

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the annual audited financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

2. SIGNIFICANT ACCOUNTING POLICIES

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

3. LEASE AGREEMENTS

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

4. CAPITAL MANAGEMENT

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

As at June 30, 2012, Edmonton Airports was in compliance with the restrictions imposed on capital.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit risk

The maximum exposure to credit risk is the carrying value of account and lease receivables on the statement of financial position. Edmonton Airports has a concentration of credit risk with two airlines which comprise approximately 76.5% (66.0% - 2011) of its airside and general terminal, and AIF revenue. In management's opinion, Edmonton Airports' is not exposed to significant credit risk from these airlines.

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. At June 30, 2012, the provision for impairment of accounts receivable was $0.3 million; this provision has not changed from December 31, 2011.

(000's of dollars unless otherwise stated)

Included in Accounts receivable at June 30, 2012 is an amount due from a tenant for the recovery of construction costs incurred by Edmonton Airports on behalf of the tenant as part of the facility expansion project at EIA.

At June 30, 2012, the aging analysis of trade receivables that are past due, but not impaired, is as follows:

	June 30 2012 $	December 31 2011 $
30 to 90 days	3,673	5,444
Greater than 90 days	489	1,767
	4,162	**7,211**

No other impairments have been identified within accounts receivable.

6. LONG-TERM DEBT

(a) Series A Bond

Interest Rate	Semi-annual Instalment $	Maturity Date	June 30 2012 $	December 31 2011 $
7.21%	Varying	November 1, 2030	229,672	231,692
Less unamortized transaction costs			4,415	4,544
			225,257	227,148
Less: Current Portion			4,388	4,115
			220,869	**223,033**

(b) Series C Bond

On March 12, 2012 the First Amending Agreement was amended (Amended and Restated Credit Agreement) in order for Edmonton Airports to finance the construction of non-expansion related infrastructure at EIA. The Amended and Restated Credit Agreement now contains three Credit Facilities.

Credit Facility 3, for $100 million, by way of fixed rate loans, is to be used solely for the purposes of funding capital expenditure projects, the general purpose of which are to construct or improve infrastructure in respect to buildings, airfield, land, roads, navigational aids and other assets required for the operation of the EIA. The use of Credit Facility 3 reduces, dollar for dollar, the amount available to EIA under Credit Facility 1.

(000's of dollars unless otherwise stated)

Fixed Rate Debentures, Series C Bonds payable in semi-annual instalments of principal and interest:

Interest Rate	Semi-annual Instalment $	Maturity Date	June 30 2012 $	December 31 2011 $
4.37%	755	December 15, 2026	16,091	16,486
4.50%	1,145	March 15, 2027	24,791	25,366
5.00%	398	June 15, 2027	8,338	8,523
4.89%	395	September 17, 2027	8,509	8,691
4.68%	1,552	June 16, 2028	34,663	35,386
4.55%	3,068	September 17, 2028	70,650	72,078
4.67%	1,245	December 15, 2039	38,364	38,707
4.54%	920	March 15, 2040	29,009	29,265
4.56%	1,845	June 15, 2040	58,025	58,536
4.00%	1,439	October 1, 2040	48,659	49,115
4.40%	2,112	December 15, 2040	68,244	68,842
4.41%	1,511	March 15, 2041	49,175	49,592
Fixed Rate Debentures, Series C Bonds payable in semi-annual instalments of interest only:				
4.16%	1,041	June 15, 2014	50,000	50,000
3.70%	926	September 15, 2041	50,000	50,000
3.35%	1,174	December 15, 2041	70,000	70,000
3.41%	512	March 15, 2042	30,000	-
3.25%	487	June 15, 2042	30,000	-
			684,518	630,587
Less: current portion			12,548	12,271
			671,970	**618,316**

Interest Expense (Income)	Three Months Ended June 30 2012 $	Three Months Ended June 30 2011 $	Six Months Ended June 30 2012 $	Six Months Ended June 30 2011 $
Series A Bond interest	4,154	4,222	8,333	8,466
Series C Bond interest	6,925	5,309	13,678	9,836
Other interest and financing costs	165	23	197	84
Interest income and other	(342)	(298)	(548)	(349)
	10,902	9,256	21,660	18,037
Less: capitalized interest	1,213	3,798	5,259	6,930
	9,689	**5,458**	**16,401**	**11,107**

(000's of dollars unless otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	June 30 2012 $	December 31 2011 $
Buildings	748,059	669,047
Runways, taxiways and apron surfaces	207,194	196,968
Other facilities	76,129	115,912
Parking facilities and lots	129,548	106,290
Roadway systems	46,281	49,508
Vehicles and maintenance equipment	17,785	17,528
Furniture and equipment	17,700	17,624
Computer hardware	10,386	12,419
Other equipment under finance lease	115	115
	1,253,197	1,185,411
Less: accumulated amortization	283,120	259,116
	970,077	**926,295**

(a) At June 30, 2012, $129,161 (December 31, 2011 - $467,808) 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, 2012 is $49,572 (December 31, 2011 - $56,194) relating to unpaid capital expenditures.

(c) For the period ended June 30, 2012, $24,004 (June 30, 2011 - $17,289) of the amortization expense is for property, plant and equipment.

8. INTANGIBLE ASSETS

	June 30 2012 $	December 31 2011 $
Software and software licenses	2,922	3,002
Less: accumulated amortization	2,005	2,048
	917	**954**

(a) For the period ended June 30, 2012, $240 (June 30, 2011 - $104) of the amortization expense is for intangible assets.

(b) Included in accumulated amortization at June 30, 2012 is $283 (December 31, 2011 - Nil) relating to disposal of fully depreciated intangible assets.

(000's of dollars unless otherwise stated)

9. AIRPORT IMPROVEMENT FEE

Effective April 12, 1997, Edmonton Airports implemented an Airport Improvement Fee ("AIF") to fund certain capital expenditures and the related financing costs, including the redevelopment and expansion of the terminal facilities at the Edmonton International. Effective January 1, 2012, the AIF increased from $20 to $25 per AIF eligible enplaning passenger departing from EIA.

	June 30 2012 $	December 31 2011 $
(cumulative from program inception)		
AIF revenue	470,972	436,035
AIF collection costs	(29,785)	(28,118)
	441,187	407,917
Less: cumulative capital expenditures and related financing costs	1,336,281	1,235,740
	(895,094)	**(827,823)**

10. POST-EMPLOYMENT BENEFITS

	Three Months Ended June 30			
	Pension Plan $	SERP $	Long-term Benefit Plan $	Total $
Current service cost (employer portion)	522	58	61	641
Interest cost	446	41	25	512
Expected return on plan assets	(110)	-	-	(110)
Net benefit plan expense included in salaries and employee benefits expense 2012	858	99	86	1,043
Net benefit plan expense included in salaries and employee benefits expense 2011	656	69	36	761

(000's of dollars unless otherwise stated)

	Six Months Ended June 30			
	Pension Plan	SERP	Long-term Benefit Plan	Total
	$	$	$	$
Current service cost (employer portion)	1,045	116	124	1,285
Interest cost	842	47	54	943
Expected return on plan assets	(571)	-	-	(571)
Net benefit plan expense included in salaries and employee benefits expense 2012	1,316	163	178	1,657
Net benefit plan expense included in salaries and employee benefits expense 2011	1,121	138	132	1,391

11. CONTINGENCIES

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

12. SUBSEQUENT EVENT

Edmonton Airports has entered into an agreement that will result in the transfer of ownership of the Cooking Lake Airport to the Cooking Lake Condo Association on October 1, 2012. The financial impacts associated with this transaction will not have a material effect on the future financial position of Edmonton Airports.