

Edmonton Airports

Unaudited Condensed Interim Financial Statements

For the Three and Six Months Ended June 30th, 2013

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, 2013 should be read in conjunction with the unaudited condensed 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 2012 Annual Report.

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

Edmonton Airports recorded an overall net loss of \$9.0 million for the six months ended June 30, 2013, which is a \$10.0 million decrease from the 2012 net earnings of \$1.0 million. During the period, Edmonton Airports experienced revenue growth of \$7.0 million (8.5%) and increased expenses of \$17.1 million (21.0%).

2. 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 the 2013 actual results 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		
	2013	2012	%	2013	2012	%
Domestic	1,322,237	1,269,671	4.1	2,502,641	2,420,268	3.4
Transborder	292,936	277,493	5.6	645,388	606,308	6.4
International	87,928	86,283	1.9	243,218	241,507	0.7
Total	1,703,101	1,633,447	4.3	3,391,247	3,268,083	3.8

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

3. RESULTS OF OPERATIONS

The table below shows Edmonton Airports combined operating earnings for the three and six months ended June 30, 2013 with comparative figures for the same periods in 2012.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
	\$	\$	\$	\$
Operating revenues				
Airside and general terminal	10,176	9,754	20,680	19,703
Parking and car rentals	10,098	8,900	19,755	17,769
Concession	3,579	2,604	6,703	5,099
Real estate leases	445	670	1,715	1,492
Other revenue	182	32	198	43
	24,480	21,960	49,051	44,106
Operating expenses				
Salaries and employee benefits	6,756	6,636	14,805	13,194
Service, maintenance, supplies and administration	5,633	4,838	12,171	9,967
Utilities, insurance and property taxes	2,986	3,048	6,291	5,859
Canada lease rent	3,842	3,366	7,630	6,733
	19,217	17,888	40,897	35,753
Operating earnings	5,263	4,072	8,154	8,353

The calculation of operating earnings excludes AIF and police and security revenues as well as AIF collection costs, police and security, interest, depreciation and amortization expenses.

3.1. Operating Revenues

Operating revenues for the six months ended June 30, 2013 were \$49.1 million compared to \$44.1 million for the corresponding period in 2012, an increase of \$4.9 million (11.1%). The increase in operating revenues is primarily the result of increased aircraft movements, additional concession options, additional car rental revenue from rental agencies exceeding the minimum guarantees, and increased real estate revenue from new land leases at the Edmonton International Airport.

3.2. Operating Expenses

Operating expenses for the six months ended June 30, 2013 were \$40.9 million compared to \$35.8 million for the corresponding period in 2012, an increase of \$5.1 million (14.2%). The increase in operating expenses is primarily the result of increases in salaries and employee benefits due to the increase in overtime, higher variable pay, severance costs and benefit costs; an increase in services, maintenance, supplies and administration costs primarily related to the launch of the NYC route; 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.

3.3. Operating Earnings

Operating earnings for the six months ended June 30, 2013 were \$8.2 million, \$0.2 million lower than last year's operating earnings of \$8.4 million (2.4%).

3.4. Net Income

The net loss of \$9.0 million for the six months ended June 30, 2013 represents a decrease of \$10.0 million compared to net earnings of \$1.0 million for the same period in 2012. The decrease in net earnings results from lower operating earnings, increases in depreciation and amortization expense due to additions to property, plant and equipment that came into service in 2012 and 2013, and higher interest expense due to five new debenture draws used to fund the capital program offset by higher AIF and police and security net revenues.

4. CAPITAL INVESTMENT

The Capital Plan for Edmonton Airports is comprised of three main areas: 1) Growth Capital 2) Commercial Real Estate Capital, and 3) Maintenance Capital.

The approved 2013 Growth Capital Plan is approximately \$37.6 million for all airports including the prior year approved carried forward budgeted amount of \$6.7 million. To date \$12.3 million in additional capital has been approved in the first six months of 2013. The Province of Alberta is funding up to \$14.0 million for the Villeneuve runway extension and is offset by some project deferrals and scope reductions, resulting in a total of \$50.0 million in planned capital expenditures this year. Further, \$22.1 million has been spent on all projects to June 30, 2013 including multi-year projects approved in prior years.

The approved Commercial Real Estate Capital Plan for 2013 is \$17.4 million including the prior year approved carried forward budgeted amount of \$10.6 million. To date \$3.0 million in additional capital has been approved in the first six months of 2013, \$20.4 million has been planned and \$4.0 million has been spent on all projects including multi-year projects approved in prior years.

The approved 2013 Maintenance Capital Plan is approximately \$16.4 million for all airports. Approximately \$3.1 million in maintenance projects were reassessed and deferred into future years resulting in expected expenditures in this category of \$13.3 million for the year. To date, \$4.8 million has been spent on all projects including multi-year projects approved in prior years.

The following are the most significant Maintenance projects included in the capital plan as at June 30, 2013 (in millions of dollars):

- Runway Rehabilitation \$ 6.7
- Aircraft Rescue Fire Fighting Vehicle Replacement \$ 1.1
- Common Use Terminal Equipment – Life Cycle Replacement \$ 0.7

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

As at June 30, 2013 with comparative figures at December 31, 2012

	Notes	June 30 2013 \$	December 31 2012 \$
Assets			
Current assets			
Cash and cash equivalents		72,385	75,998
Accounts receivable	5	19,624	18,201
Prepaid expenses and other		4,945	3,197
		96,954	97,396
Restricted deposits			
Prepaid expense and lessee receivable		481	504
Property, plant and equipment	6, 7	1,007,534	1,006,691
Intangible assets	8	743	1,014
		1,138,038	1,137,763
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7 (b)	49,190	57,235
Current portion of obligation under finance lease		29	27
Current portion of long-term debt	6	18,087	17,502
Current portion of deferred revenue		56	38
		67,362	74,802
Tenants' security deposits			
Deferred capital contributions	7 (f)	1,432	1,269
Obligation under finance lease		9,615	-
Post-employment benefit		8	23
Long-term debt	6	13,081	17,066
		955,061	944,105
		1,046,559	1,037,265
Contingencies	12		
Net Assets		91,479	100,498
		1,138,038	1,137,763

See accompanying notes to interim financial statements.

EDMONTON AIRPORTS

Statements of Profit or Loss and Other Comprehensive Income (000's of dollars) Unaudited

For the three and six months ended June 30, 2013 with comparative figures for 2012

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2013 \$	2012 \$	2013 \$	2012 \$
Revenues					
Airport improvement fee	9, 5	18,480	17,647	36,541	34,859
Airside and general terminal	5	10,176	9,754	20,680	19,703
Parking and car rentals		10,098	8,900	19,755	17,769
Concession		3,579	2,604	6,703	5,099
Police and security		1,836	1,670	3,803	3,403
Real estate leases		445	670	1,715	1,492
Other revenue		182	32	198	43
		44,796	41,277	89,395	82,368
Expenses					
Depreciation and amortization	7 (c), 8 (a)	15,785	14,145	30,439	24,244
Interest	6	11,275	9,689	21,694	16,401
Salaries and employee benefits	10	6,756	6,636	14,805	13,194
Service, maintenance, supplies and administration		5,633	4,838	12,171	9,967
Canada lease rent	3	3,842	3,366	7,630	6,733
Utilities, insurance and property taxes		2,986	3,048	6,291	5,859
Police and security		1,574	1,432	3,260	2,918
Airport improvement fee collection costs		1,124	1,073	2,223	2,119
		48,975	44,227	98,513	81,435
(Loss) earnings before the undernoted		(4,179)	(2,950)	(9,118)	933
Other income		79	80	99	35
Net (loss) income		(4,100)	(2,870)	(9,019)	968
Other comprehensive income		-	-	-	-
Comprehensive (loss) income for the period		(4,100)	(2,870)	(9,019)	968

See accompanying notes to interim financial statements.

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

As at June 30, 2013 with comparative figures for 2012

	Six Months Ended June 30	
	2013	2012
	\$	\$
Net assets – beginning of period	100,498	115,611
Comprehensive (loss) income for the period	(9,019)	968
Net assets – end of period	91,479	116,579

See accompanying notes to interim financial statements.

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

For the three and six months ended June 30, 2013 with comparative figures for 2012

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
	\$	\$	\$	\$
Cash provided by (used in):				
Operating activities				
Cash receipts from customers	50,124	36,785	87,845	69,830
Cash paid to employees and suppliers	(21,429)	(24,075)	(37,627)	(31,956)
Cash paid to the landlord	(4,648)	(2,968)	(10,993)	(6,853)
Interest received	351	322	706	661
Interest paid	(17,142)	(12,299)	(23,282)	(20,744)
Increase in tenants' security deposits	141	164	163	117
Pension contributions	(89)	(955)	(1,111)	(1,547)
	7,308	(3,026)	15,701	9,508
Financing activities				
Proceeds from capital contributions (Note 7 (f))	11,200	-	11,200	-
Principal payments under finance lease obligation	(7)	(6)	(13)	(11)
Repayments of long-term debt	(7,699)	(5,294)	(10,688)	(8,088)
Proceeds from long-term debt	-	30,000	20,000	60,000
	3,494	24,700	20,499	51,901
Investing activities				
Net purchase of restricted deposits	(85)	(5,570)	(168)	(5,626)
Loan proceeds	12	12	23	23
Proceeds on sale of property, plant and equipment	21	26	21	26
Interest paid capitalized to property, plant and equipment	(302)	(1,213)	(1,403)	(5,259)
Purchase of intangible assets	(97)	-	(97)	-
Purchase of property, plant and equipment	(14,401)	(30,311)	(36,604)	(69,348)
Purchase of property, plant and equipment related to capital contributions (Note 7 (f))	(1,585)	-	(1,585)	-
	(16,437)	(37,056)	(39,813)	(80,184)
Decrease in cash	(5,635)	(15,382)	(3,613)	(18,775)
Cash and cash equivalents – beginning of period	78,020	93,782	75,998	97,175
Cash and cash equivalents – end of period	72,385	78,400	72,385	78,400

See accompanying notes to interim financial statements.

Notes to 2nd Quarter 2013
Condensed Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

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 do not include all the information and disclosures required in the annual audited financial statements, and should be read in conjunction with Edmonton Airports' annual audited financial statements as at December 31, 2012.

The condensed interim financial statements were approved for issue by the Audit Committee of the Board of Directors on August 2, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements follow the same accounting policies and methods in their application as the most recent annual audited financial statements for Edmonton Airports, except for the adoption IFRS 13 Fair Value Measurement and IAS 19R Employee Benefits effective as of January 1, 2013.

The net impact of adopting IAS 19R Employee Future Benefits was nil, however, the current service cost would increase by \$607, interest cost would increase by \$438, but would be offset by the recognition of expected return on plan assets in benefit expense of \$1,045.

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 the Debt Service Coverage Ratio, Gross Debt Service Coverage Ratio and Interest Coverage Ratio. Edmonton Airports is able to secure funding at the lowest possible cost by obtaining their financing through the Alberta Capital Finance Authority. As at June 30, 2013, 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 there are systems in place to effectively monitor and manage those risks with a view to the long-term viability of Edmonton Airports. The Board has established the Audit Committee, which reviews significant financial risks associated with future performance, growth and lost opportunities identified by management that could materially affect Edmonton Airports' ability to achieve its strategic or operational targets. The Board is responsible for confirming that management has procedures in place to mitigate identified risks.

Notes to 2nd Quarter 2013
Condensed Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

Credit risk

The maximum exposure to credit risk is the carrying value of loans and receivables on the balance sheet. Edmonton Airports has a concentration of credit risk with two airlines which comprise approximately 77% (December 31, 2012 - 71%) 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 60 days. At June 30, 2013, the provision for impairment of accounts receivable was \$236 (December 31, 2012 - \$645).

At June 30, 2013, the aging analysis of trade receivables that are past due, but not impaired, is as follows:

	June 30 2013 \$	December 31 2012 \$
30 to 90 days	4,518	4,233
Greater than 90 days	282	1,049
	4,800	5,282

No other impairments have been identified within accounts receivable.

6. LONG-TERM DEBT

(a) Series A Bond and restricted deposits

Interest Rate	Semi-annual Instalment \$	Maturity Date	June 30 2013 \$	December 31 2012 \$
7.21%	Varying	November 1, 2030	225,284	227,577
			4,107	4,285
			221,177	223,292
		Less: current portion	4,966	4,671
			216,211	218,621

Notes to 2nd Quarter 2013
Condensed Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

(b) Series C Bond

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

Interest Rate	Semi-annual Instalment \$	Maturity Date	June 30 2013 \$	December 31 2012 \$
4.37%	755	December 15, 2026	15,276	15,688
4.50%	1,145	March 15, 2027	23,603	24,204
5.00%	398	June 15, 2027	7,953	8,148
4.89%	395	September 17, 2027	8,131	8,322
4.68%	1,552	June 16, 2028	33,167	33,924
4.55%	3,068	September 17, 2028	67,697	69,191
4.67%	1,245	December 15, 2039	37,656	38,014
4.54%	920	March 15, 2040	28,479	28,747
4.56%	1,845	June 15, 2040	56,969	57,503
4.00%	1,439	October 1, 2040	47,719	48,194
4.40%	2,112	December 15, 2040	67,008	67,633
4.41%	1,511	March 15, 2041	48,313	48,747
			441,971	448,315

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

4.16%	1,041	June 15, 2041	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	30,000
3.25%	488	June 15, 2042	30,000	30,000
3.26%	651	September 17, 2042	40,000	40,000
3.24%	324	December 17, 2042	20,000	20,000
3.42%	342	March 15, 2043	20,000	-
			751,971	738,315
Less: current portion			13,121	12,831
			738,850	725,484

Notes to 2nd Quarter 2013
Condensed Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

Interest Expense (Income)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
	\$	\$	\$	\$
Series A Bond interest	4,077	4,154	8,181	8,333
Series C Bond interest	7,665	6,925	15,241	13,678
Other interest and financing costs	117	165	237	197
Interest income and other	(282)	(342)	(562)	(548)
	11,577	10,902	23,097	21,660
Less: capitalized interest	302	1,213	1,403	5,259
	11,275	9,689	21,694	16,401

7. PROPERTY, PLANT AND EQUIPMENT

	June 30	December 31
	2013	2012
	\$	\$
Buildings	799,081	711,389
Runways, taxiways and apron surfaces	210,218	206,019
Parking facilities and lots	120,687	117,883
Other facilities	86,771	81,875
Roadway systems	41,267	40,893
Vehicles and maintenance equipment	21,428	20,127
Furniture and equipment	17,776	16,349
Computer hardware	17,264	10,283
Other equipment under finance lease	115	115
Construction work in progress	34,129	114,738
	1,348,736	1,319,671
Less: accumulated amortization	341,202	312,980
	1,007,534	1,006,691

- (a) At June 30, 2013, \$34,129 (December 31, 2012 - \$114,738) 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, 2013 is \$27,952 (December 31, 2012 - \$34,569) relating to unpaid capital expenditures.
- (c) For the period ended June 30, 2013, \$29,975 (June 30, 2012 - \$24,004) of the amortization expense is for property, plant and equipment.

Notes to 2nd Quarter 2013
Condensed Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

- (d) Edmonton Airports disposed of property, plant and equipment in the period with accumulated depreciation of \$1,753 (December 31, 2012 –Nil).
- (e) Assets with a net book value of \$42 (December 31, 2012 - \$625) were disposed of for proceeds of \$21 (December 31, 2012 - \$34).
- (f) The Province of Alberta has committed to funding up to \$14.0 million for the runway extension at the Villeneuve Airport. To June 30, 2013, \$11.2 million has been received from the Province and \$1.6 million has been spent on this project.

8. INTANGIBLE ASSETS

	June 30 2013 \$	December 31 2012 \$
Software and software licenses	2,559	2,935
Less: accumulated amortization	1,816	1,921
	743	1,014

- (a) For the period ended June 30, 2013, \$464 (June 30, 2012 - \$240) of the amortization expense is for intangible assets.
- (b) Edmonton Airports disposed of intangible assets in the period with accumulated amortization of \$569 (December 31, 2012 - \$283).

9. AIRPORT IMPROVEMENT FEE

Effective April 12, 1997, Edmonton Airports implemented an AIF to fund certain capital expenditures and the related financing costs, including the redevelopment and expansion of the terminal facilities at the Edmonton International Airport.

	June 30 2013 \$	December 31 2012 \$
(cumulative from program inception)		
AIF revenue	543,766	507,225
AIF collection costs	(34,221)	(31,998)
	509,545	475,227
Less: cumulative capital expenditures and related financing costs	1,467,082	1,421,870
	(957,537)	(946,643)

Notes to 2nd Quarter 2013
Condensed Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

10. POST-EMPLOYMENT BENEFIT

	Three Months Ended June 30			Total \$
	Pension Plan \$	SERP \$	Long-term Benefit Plan \$	
Current service cost (employer portion)	469	50	133	652
Interest cost	338	19	49	406
Net benefit plan expense included in salaries and employee benefits expense 2013	807	69	182	1,058
Net benefit plan expense included in salaries and employee benefits expense 2012	858	99	86	1,043

	Six Months Ended June 30			Total \$
	Pension Plan \$	SERP \$	Long-term Benefit Plan \$	
Current service cost (employer portion)	786	101	183	1,070
Interest cost	567	37	68	672
Net benefit plan expense included in salaries and employee benefits expense 2013	1,353	138	251	1,742
Net benefit plan expense included in salaries and employee benefits expense 2012	1,316	163	178	1,657

Notes to 2nd Quarter 2013
Condensed Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

11. FAIR VALUES

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by Edmonton Airports:

	June 30 2013				December 31 2012			
	Level 1	Level 2	Fair Value \$	Carrying Value \$	Level 1	Level 2	Fair Value \$	Carrying Value \$
Financial Assets								
Restricted deposits	X		32,326	32,326	X		32,158	32,158
Accounts receivable	X		19,624	19,624	X		18,201	18,201
Prepaid expense and lessee receivable	X		481	481	X		504	504
Financial Liabilities								
Accounts payable and accrued liabilities	X		49,190	49,190	X		57,235	57,235
Tenants' security deposits	X		1,432	1,432	X		1,269	1,269
Obligation under financial lease including current portion	X		37	37	X		50	50
Long-term debt including current portion		X	1,026,651	973,148		X	1,058,307	961,607

The fair value of held-for-trading financial assets and liabilities which have been classified as level 1 of the fair value hierarchy has been calculated using the unadjusted quoted prices. The fair value of the long-term debt classified as level 2 of the fair value hierarchy has been calculated using the future cash flows (principal and interest) of the outstanding debt instruments, discounted at current market rates available to Edmonton Airports for the same or similar instruments.

Notes to 2nd Quarter 2013
Condensed Interim Financial Statements (Unaudited)
(000's of dollars unless otherwise stated)

12. CONTINGENCIES

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