



EDMONTON AIRPORTS'

2014 SECOND QUARTER REPORT

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014



MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis of Financial Results (MD&A) should be read in conjunction with the unaudited condensed interim financial statements and note disclosures of the Edmonton Regional Airports Authority (Edmonton Airports) for the three and six months ended June 30, 2014 and the audited financial statements, as well as the MD&A, for the year ended December 31, 2013. The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All amounts in the following MD&A are in Canadian dollars unless otherwise stated.

Edmonton Airports' financial statements reflect the combined results of operations of the Edmonton International Airport (EIA) and Villeneuve Airports (VA).

1. OPERATIONS

Passenger volume, comprised of the total number of enplaned and deplaned passengers, is the main driver of certain Edmonton Airports revenue streams. These include airside and general terminal, airport improvement fees (AIF), and police and security revenues. The following table outlines the components of passenger traffic at the EIA and compares the 2014 actual results for the three and six months ended June 30, 2014 to the same period last year.

Enplaned and Deplaned Passenger Traffic by Sector*

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---------------------------|-------------------------------|------------------|-------------|-----------------------------|------------------|-------------|
| | 2014 | 2013 | % | 2014 | 2013 | % |
| Domestic | 1,377,365 | 1,322,237 | 4.2% | 2,605,832 | 2,502,641 | 4.1% |
| Transborder | 332,077 | 292,936 | 13.4% | 714,217 | 645,388 | 10.7% |
| International | 91,810 | 87,928 | 4.4% | 266,761 | 243,218 | 9.7% |
| | 1,801,252 | 1,703,101 | 5.8% | 3,586,810 | 3,391,247 | 5.8% |
| General/Business aviation | 224,734 | 169,762 | 32.4% | 436,182 | 333,220 | 30.9% |
| Total | 2,025,986 | 1,872,863 | 8.2% | 4,022,992 | 3,724,467 | 8.0% |

*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.

2. FINANCIAL PERFORMANCE

Net Operating Results

| (in thousands) | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|---------|------------------|---------|
| | June 30 | | June 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| | \$ | \$ | \$ | \$ |
| Revenue | 48,707 | 44,796 | 96,619 | 89,395 |
| Expenses | 25,497 | 21,915 | 52,143 | 46,380 |
| EBITDA* | 23,210 | 22,881 | 44,476 | 43,015 |
| EBITDA margin % | 47.7% | 51.1% | 46.0% | 48.1% |
| Depreciation and amortization | 16,068 | 15,785 | 32,180 | 30,439 |
| Interest | 11,188 | 11,275 | 22,342 | 21,694 |
| Other (gain) loss | 3,644 | (79) | 3,519 | (99) |
| Net loss | (7,690) | (4,100) | (13,565) | (9,019) |

*EBITDA is defined as earnings before interest, taxes and depreciation. Edmonton Airports' earnings are exempt from federal and provincial income tax.

For the three months ended June 30, 2014, we experienced a net loss of \$7.7 million, which was \$3.6 million higher than the comparative period for the prior year. For the six months ended June 30, 2014, we experienced a net loss of \$13.6 million, which was an increase of \$4.6 million over the comparative period for the prior year.

The table above illustrates that revenue generated by Edmonton Airports was sufficient to cover operating and interest expenses which are the cash expenses of operations. Consistent with many infrastructure developments, Edmonton Airports' revenue was not sufficient to cover the non-cash expense of depreciation and amortization and will not be for several years as focus shifts to utilizing the increased capacity.

Revenue

| (in thousands) | Three Months Ended | | | Six Months Ended | | |
|------------------------------|--------------------|--------|----------|------------------|--------|----------|
| | June 30 | | | June 30 | | |
| | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Airport improvement fee | 19,208 | 18,480 | 728 | 38,412 | 36,541 | 1,871 |
| Parking and concessions | 14,871 | 13,677 | 1,194 | 28,679 | 26,458 | 2,221 |
| Airside and general terminal | 11,322 | 10,176 | 1,146 | 22,590 | 20,680 | 1,910 |
| Police and security | 2,118 | 1,836 | 282 | 4,574 | 3,803 | 771 |
| Real estate leases | 1,157 | 445 | 712 | 2,303 | 1,715 | 588 |
| Other revenue | 31 | 182 | (151) | 61 | 198 | (137) |
| | 48,707 | 44,796 | 3,911 | 96,619 | 89,395 | 7,224 |

For the three months ended June 30, 2014, we earned revenue of \$48.7 million which was an increase of 9% over the prior year.

For the six months ended June 30, 2014, we earned revenue of \$96.6 million which was an increase of 8% over the prior year.

The increase in revenue is driven mainly by passenger growth which is the main driver of revenues derived from the AIF, parking and concessions and airside and general terminal revenues.

AIF

For the three months ended June 30, 2014, AIF revenue was \$19.2 million, an increase of \$0.7 million (4%), year over year.

For the six months ended June 30, 2014, AIF revenue was \$38.4 million, an increase of \$1.9 million (5%), year over year.

The AIF is the primary source of funding Edmonton Airports uses to pay interest and principal on the bonds and debentures issued for Edmonton Airports' redevelopment and expansion. The increase in AIF revenue was the result of an 8% increase in the number of departing passengers at the Airport during the three and six months ended June 30, 2014 compared to the same periods in 2013.

Airside and general terminal (AGT)

For the three months ended June 30, 2014, AGT revenue was \$11.3 million, an increase of \$1.1 million (11%), year over year.

For the six months ended June 30, 2014, AGT revenue was \$22.6 million, an increase of \$1.9 million (9%), year over year.

Airside and general terminal (AGT) revenue is derived from airline activity. The increase was primarily driven by increased landing and terminal fees and increased general/business aviation activity.

Police and Security

For the three months ended June 30, 2014, police and security fee revenue was \$2.1 million, an increase of \$0.3 million (15%), year over year.

For the six months ended June 30, 2014, police and security fee revenue was \$4.6 million, an increase of \$0.8 million (20%), year over year.

Edmonton Airports recovers some police and security expenses through a per departing passenger charge to airlines.

Non-Aeronautical Commercial Operations

Edmonton Airports also earns revenue from non-aeronautical commercial operations, such as parking, concessions, ground transportation, and real estate.

For the three months ended June 30, 2014, non-aeronautical commercial operations revenue was \$16.0 million, an increase of \$1.9 million (13%), year over year.

For the six months ended June 30, 2014, non-aeronautical commercial operations revenue was \$31.0 million, an increase of \$2.8 million (10%), year over year.

Parking and Concessions

Revenues from parking and concessions totaled \$14.9 million for the three months ended June 30, 2014. This was an increase of \$1.2 million (9%), year over year.

For the six months ended June 30, 2014, revenues from parking and concessions totaled \$28.7 million which was an increase of \$2.2 million (8%), year over year. The change was primarily driven by increased revenues from car rentals and parking due to volume and rate increases and an increase in per passenger spend on concessions.

Real Estate

For the three months ended June 30, 2014, real estate revenue was \$1.2 million, \$0.7 million (160%) higher than the same period in 2013.

For the six months ended June 30, 2014, real estate revenue was \$2.3 million, \$0.6 million (34%) higher than the same period in 2013.

This increase was driven by higher industrial land lease revenue.

Expenses

| (in thousands) | Three Months Ended | | | Six Months Ended | | |
|--|--------------------|--------|----------|------------------|--------|----------|
| | June 30 | | | June 30 | | |
| | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Salaries and employee benefits | 7,349 | 6,756 | 593 | 15,321 | 14,805 | 516 |
| Services, maintenance, supplies and administration | 7,845 | 5,633 | 2,212 | 15,655 | 12,171 | 3,484 |
| Canada lease rent | 4,091 | 3,842 | 249 | 8,236 | 7,630 | 606 |
| Utilities, insurance and property taxes | 3,186 | 2,986 | 200 | 6,675 | 6,291 | 384 |
| Police and security | 1,822 | 1,574 | 248 | 3,921 | 3,260 | 661 |
| Airport improvement collection costs | 1,204 | 1,124 | 80 | 2,335 | 2,223 | 112 |
| | 25,497 | 21,915 | 3,582 | 52,143 | 46,380 | 5,763 |

For the three months ended June 30, 2014, expenses were \$25.5 million which was \$3.6 million (16%) higher, year over year.

For the six months ended June 30, 2014, expenses were \$52.1 million which was \$5.8 million (12%) higher, year over year.

This increase was primarily driven by an increase in salaries and benefits, services, maintenance, supplies and administration expenses, utilities, police and security expenses and Canada lease rent.

Salaries and benefits

For the three months ended June 30, 2014, salaries and benefits expenses were \$7.3 million, an increase of \$0.6 million (9%), year over year.

For the six months ended June 30, 2014, salaries and benefits expenses were \$15.3 million, an increase of \$0.5 million (3%), year over year.

Salaries and benefits expenses increased mainly due to salary escalations over the previous year, completion of the expansion project which resulted in a decrease in the capitalization of salaries and benefits, net of lower variable pay in 2014 and pension expenses related to plans terminated in 2013.

Services, maintenance, supplies and administration

For the three months ended June 30, 2014, services, maintenance, supplies and administration expenses were \$7.8 million which was \$2.2 million (39%) higher, year over year.

For the six months ended June 30, 2014, expenses were \$15.7 million which was \$3.5 million (28%) higher, year over year.

Service, maintenance, supplies and administration expenses increased mainly due to increases in administration expenses. The increase in administrative costs was the result of air service development initiatives, increased contracted labour for parking operations and higher costs related to marketing consulting, printing, public relations, advertising and promotional materials.

Utilities, insurance and property taxes

For the three months ended June 30, 2014, utilities, insurance and property taxes expenses were \$3.2 million which was \$0.2 million (7%) higher, year over year.

For the six months ended June 30, 2014, expenses were \$6.7 million which was \$0.4 million (6%) higher, year over year.

This increase was driven by higher than expected consumption of electricity, water and natural gas. Property tax costs also increased in 2014.

Police and security

For the three months ended June 30, 2014, police and security expenses were \$1.8 million which was \$0.2 million (16%) higher, year over year.

For the six months ended June 30, 2014, expenses were \$3.9 million which was \$0.7 million (20%) higher, year over year.

The increase is primarily driven by a new security services provider in 2014 and increased security requirements.

Other Expenses

| (in thousands) | Three Months Ended | | | Six Months Ended | | |
|---|--------------------|--------|----------|------------------|--------|----------|
| | June 30 | | | June 30 | | |
| | 2014 | 2013 | Variance | 2014 | 2013 | Variance |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Depreciation and amortization | 16,068 | 15,785 | 283 | 32,180 | 30,439 | 1,741 |
| Interest | 11,188 | 11,275 | (87) | 22,342 | 21,694 | 648 |
| Loss on derecognition of property, plant and equipment | 3,572 | - | 3,572 | 3,572 | - | 3,572 |
| Other (gain) loss | 72 | (79) | 151 | (53) | (99) | 46 |
| | 30,900 | 26,981 | 3,919 | 58,041 | 52,034 | 6,007 |

For the three months ended June 30, 2014, other expenses were \$30.9 million which was \$3.9 million (15%) higher, year over year.

For the six months ended June 30, 2014, other expenses were \$58.0 million which was \$6.0 million (12%) higher, year over year.

This was driven primarily by the one-time loss for the derecognition of the moving walkways. Replacement is required to restore operational capability of the walkways and therefore, the parts have no further economic benefit. It is probable that the reimbursement of the costs to replace the assets will be recovered from a third party. There was also an increase in depreciation expense as a result of capital projects becoming available for use during the period.

Interest expense was higher, year over year, for the six month period as a result of less capitalized interest for the six months ended June 30, 2014.

3. CAPITAL PROJECTS

Edmonton Airports' capital projects are identified by airport and are broken into three main categories as follows:

Commercial Real Estate

Projects in this category include those that build the revenue capacity for Edmonton Airports, the funding for which will be approved as operating earnings grow, and cash flow becomes available. During the second quarter of 2014, the highway commercial development project continued as Edmonton Airports continues to prepare land for commercial development including land that will be leased to Ivanhoé Cambridge for the retail outlet destination. The work performed included electrical work and road paving.

Growth

Projects in this category include those that expand capacity, create new services and/or improve the passenger experience. This includes terminal leasehold improvements for new concessions, expanded apron and taxiway to serve airside developments, parking lot expansions and projects related to enhancing the passenger experience. The most significant projects in this category included the following:

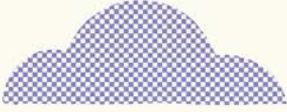
- The Cargo Facility Development project continued and the design for the fit out of the CBSA building for a cargo tenant and flight simulator was completed and rough grade for floor slabs began.
- Two projects to enhance passenger experience continued including the Revitalization of TB Check in Area (support Self Tagging) project and the Automated Tag Reader (ATR) Array for Inbound Baggage Racetracks project.

- A purchase order was issued to purchase a cargo main dock loader.
- The North General Aviation Taxiway project commenced as sub-grade preparation, culvert installation and backfill as well as the temporary electrical feed was completed. The granular base for the new access road has been constructed and the sub-grade is being reviewed by the contractor.
- Projects at Villeneuve Airport, including land servicing and the storm water management pond upgrade, are in the tender stage.
- Expansion of parking facilities was initiated and would include an additional gravel lot with projected completion by November 2014 and lighting completion by April 2015. Target opening date is Christmas 2014.
- Projects for the north terminal include the Airside Granite Panels Replacement project and the Interior Column Cladding project. Work performed has included installation of panels and completion of completion and deficiency work.

Maintenance

Projects in this category include the maintenance of existing airport facilities and infrastructure. This includes system lifecycle replacements, paving programs, fleet replacement and capital restoration. In line with the objective of improving airport infrastructure, the most significant projects in this category included the following:

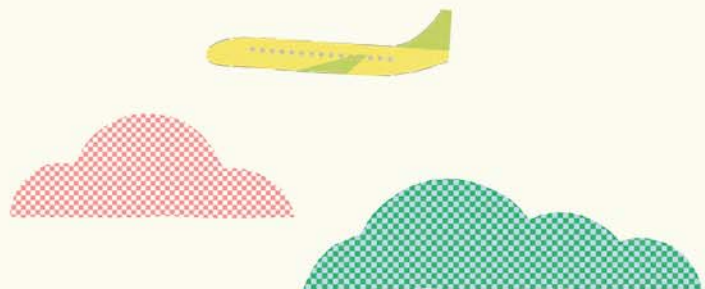
- For the Runway 12/30 Rehabilitation project, milling of the runway, trial batch testing and test strip paving, and removal of concrete panels have been completed. Existing concrete panel conditions are being reviewed with Golder Associates as well as surveying and review of pricing for other pavement rehabilitation areas.



EDMONTON AIRPORTS

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014



Condensed Interim Statements of Financial Position
As at June 30, 2014 and December 31, 2013
(unaudited, in thousands of dollars)

| | June 30, 2014 | December 31, 2013 |
|--|------------------|----------------------|
| | \$ | \$ |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | 36,056 | 28,259 |
| Accounts Receivable | 16,864 | 18,667 |
| Prepaid expenses and other | 7,217 | 3,886 |
| | 60,137 | 50,812 |
| Non-current assets | | |
| Restricted deposits | 32,713 | 32,518 |
| Prepaid expense and lessee receivable | 423 | 457 |
| Property, plant and equipment (note 3) | 981,880 | 1,010,185 |
| Intangible assets (note 4) | 1,247 | 806 |
| | 1,076,400 | 1,094,778 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 3(b)) | 21,562 | 35,823 |
| Deferred revenue | 168 | 3 |
| Deferred capital contributions | 207 | 0 |
| Obligation under finance lease | 23 | 22 |
| Current portion of post-employment benefits | - | 2,407 |
| Current portion of long-term debt (note 5) | 19,308 | 18,688 |
| | 41,268 | 56,943 |
| Non-current liabilities | | |
| Tenants' security deposit | 1,631 | 1,477 |
| Post-employment benefit | 3,966 | 3,553 |
| Long-term debt (note 5) | 956,025 | 945,730 |
| | 1,002,890 | 1,007,703 |
| Contingencies (note 6) | | |
| Commitments (note 6) | | |
| Net Assets | 73,510 | 87,075 |
| | 1,076,400 | 1,094,778 |

See accompanying notes to interim financial statements.

Condensed Interim Statements of Comprehensive Loss
For the three and six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------|------------------|---------|
| | June 30 | | June 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| | \$ | \$ | \$ | \$ |
| Revenues | | | | |
| Airport improvement fee | 19,208 | 18,480 | 38,412 | 36,541 |
| Parking and concessions | 14,871 | 13,677 | 44,077 | 26,458 |
| Airside and general terminal | 11,322 | 10,176 | 7,192 | 20,680 |
| Police and security | 2,118 | 1,836 | 4,574 | 3,803 |
| Real estate leases | 1,157 | 445 | 2,303 | 1,715 |
| Other revenue | 31 | 182 | 61 | 198 |
| | 48,707 | 44,796 | 96,619 | 89,395 |
| Expenses | | | | |
| Salaries and employee benefits | 7,349 | 6,756 | 15,321 | 14,805 |
| Services, maintenance, supplies and administration | 7,845 | 5,633 | 15,655 | 12,171 |
| Canada lease rent | 4,091 | 3,842 | 8,236 | 7,630 |
| Utilities, insurance and property taxes | 3,186 | 2,986 | 6,675 | 6,291 |
| Police and security | 1,822 | 1,574 | 3,921 | 3,260 |
| Airport improvement collection costs | 1,204 | 1,124 | 2,335 | 2,223 |
| | 25,497 | 21,915 | 52,143 | 46,380 |
| EBITDA | 23,210 | 22,881 | 44,476 | 43,015 |
| Other Expenses | | | | |
| Depreciation and amortization | 16,068 | 15,785 | 32,180 | 30,439 |
| Interest (note 5 (c)) | 11,188 | 11,275 | 22,342 | 21,694 |
| Loss on derecognition of property, plant and equipment (note 5(e)) | 3,572 | - | 3,572 | - |
| Other (gain) loss | 72 | (79) | (53) | (99) |
| | 30,900 | 26,981 | 58,041 | 52,034 |
| Net loss and total comprehensive loss for the period | (7,690) | (4,100) | (13,565) | (9,019) |

See accompanying notes to interim financial statements.

Condensed Interim Statements of Changes in Net Assets
As at June 30, 2014 and 2013
(unaudited, in thousands of dollars)

| | Six Months Ended June 30 | |
|---|-----------------------------|---------|
| | 2014 | 2013 |
| | \$ | \$ |
| Net assets - Beginning of period | 87,075 | 100,498 |
| Total comprehensive loss for the period | (13,565) | (9,019) |
| Net assets - End of period | 73,510 | 91,479 |

See accompanying notes to interim financial statements.

Condensed Interim Statements of Cash Flows
For the three and six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | June 30 | | June 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| | \$ | \$ | \$ | \$ |
| Operating activities | | | | |
| Net loss for the period | (7,690) | (4,100) | (13,565) | (9,019) |
| Adjustments for: | | | | |
| Depreciation and amortization | 16,068 | 15,785 | 32,180 | 30,439 |
| Amortization of borrowing costs | 69 | 90 | 137 | 178 |
| (Gain)/loss on foreign exchange | 71 | (77) | (24) | (119) |
| (Gain)/loss on disposal of property, plant and equipment and intangibles | 3,571 | (1) | 3,541 | 21 |
| Post employment benefit expense | 741 | 1,079 | 1,721 | 1,778 |
| Finance costs - net | 10,949 | 11,398 | 21,903 | 21,462 |
| Post employment benefit contributions | (2,096) | (4,030) | (3,716) | (5,763) |
| Changes in working capital: | | | | |
| Accounts receivable | 3,355 | 1,730 | 1,803 | (1,282) |
| Prepaid expenses and other | (2,775) | (2,540) | (3,331) | (1,748) |
| Accounts payable and accrued liabilities | (153) | 452 | (3,187) | (1,627) |
| Deferred revenue | 141 | 9,157 | 165 | 9,633 |
| Tenants' security deposits | 33 | 141 | 154 | 163 |
| | 22,284 | 29,084 | 37,781 | 44,116 |
| Interest paid | (16,411) | (17,232) | (22,300) | (22,111) |
| Interest received | 239 | 351 | 439 | 706 |
| Net cash flows from operating activities | 6,112 | 12,203 | 15,920 | 22,711 |
| Cash flows from investing activities | | | | |
| Lessee receivable | 25 | 11 | 34 | 23 |
| Purchase of restricted deposits | (98) | (84) | (195) | (168) |
| Purchase of property, plant and equipment | (9,164) | (9,832) | (17,450) | (36,073) |
| Purchase of intangible assets | (648) | (33) | (734) | (192) |
| Proceeds on disposal of property, plant and equipment | - | 21 | 30 | 21 |
| Interest paid capitalized to property, plant and equipment | (354) | (301) | (708) | (1,403) |
| Net cash flows used in investing activities | (10,239) | (10,218) | (19,023) | (37,792) |
| Cash flows from financing activities | | | | |
| Repayment of finance lease | - | (6) | 1 | (13) |
| Repayment of long-term debt | (6,096) | (7,699) | (9,222) | (8,638) |
| Proceeds from long-term debt | - | - | 20,000 | 20,000 |
| Net cash (used in) from financing activities | (6,096) | (7,705) | 10,779 | 11,349 |
| Effect of exchange rate on cash and cash equivalents at the end of the period | (129) | 88 | 121 | 119 |
| Net increase in cash and cash equivalents | (10,352) | (5,632) | 7,797 | (3,613) |
| Cash and cash equivalents - beginning of period | 46,408 | 78,020 | 28,259 | 75,998 |
| Cash and cash equivalents - end of period | 36,056 | 72,388 | 36,056 | 72,385 |

See accompanying notes to interim financial statements.

Notes to the Condensed Interim Financial Statements For the six months ended June 30, 2014 and 2013 (unaudited, in thousands of dollars)

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. The Board of Directors of Edmonton Airports consists of a maximum of 15 members. Six Directors are appointed by the City of Edmonton, two by the Government of Canada (the Landlord) and one each by Leduc County, the City of Leduc, Parkland County, Strathcona County and Sturgeon County. The Board of Directors has the right to appoint two Directors which the Board of Directors has elected not to appoint. In accordance with the provisions of the Act, all of Edmonton Airports' surpluses are applied towards promoting its purposes and no dividends are paid out of the surpluses. Surpluses in these financial statements are described as net assets.

Edmonton Airports registered office and principal place of business is located at #1, 1000 Airport Road, Edmonton International Airport, T9E 0V3, Alberta, Canada.

Edmonton Airports' earnings are generated from airport-related operations and are exempt from federal and provincial income tax.

These unaudited condensed interim financial statements were authorized for issue by the Audit Committee of the Board of Directors on August 8, 2014.

4. BASIS OF PRESENTATION

These unaudited 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 unaudited 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, 2013. The accounting policies followed in these unaudited condensed interim financial statements are consistent with those of the previous year, except as described below.

5. SIGNIFICANT ACCOUNTING POLICIES ADOPTED JANUARY 1, 2014

Edmonton Airports has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in according with the applicable transitional provisions.

- *IFRIC 21 – Levies* was adopted by Edmonton Airports, effective January 1, 2014. The interpretation clarifies that the obligating event giving rise to a liability to pay a government levy is the activity described in the relevant legislation that triggers payment of the levy. There was no impact as a result of this adoption.
- *IAS 36 – Impairment of Assets* was amended to include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less cost of disposal. Edmonton Airports has applied this amendment, effective January 1, 2014 and it had no impact upon application.

Notes to the Condensed Interim Financial Statements
For the six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

6. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Roadway systems | Parking facilities and lots | Runway, taxiways and apron surfaces | Other facilities | Vehicles and maintenance equipment | Furniture and equipment | Computer hardware | Office equipment under finance lease | Construction work in progress | Total |
|---------------------------------|----------------|-----------------|-----------------------------|-------------------------------------|------------------|------------------------------------|-------------------------|-------------------|--------------------------------------|-------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | | | | | | | |
| Balance at January 1, 2013 | 711,389 | 40,893 | 117,883 | 206,019 | 81,875 | 20,127 | 16,349 | 10,283 | 115 | 114,738 | 1,319,671 |
| Additions/ transfers | 103,950 | 3,347 | 3,904 | 14,737 | 4,049 | 2,563 | 1,362 | 9,478 | - | (73,112) | 70,278 |
| Disposals | (49) | - | - | (4,832) | (310) | (28) | (295) | (1,754) | - | - | (7,268) |
| Balance at December 31, 2013 | 815,290 | 44,240 | 121,787 | 215,924 | 85,614 | 22,662 | 17,416 | 18,007 | 115 | 41,626 | 1,382,681 |
| Balance at January 1, 2014 | 815,290 | 44,240 | 121,787 | 215,924 | 85,614 | 22,662 | 17,416 | 18,007 | 115 | 41,626 | 1,382,681 |
| Additions/transfers | 1,462 | 161 | 292 | 483 | 653 | 520 | 184 | 813 | - | 2,513 | 7,081 |
| Disposals | (4,063) | - | - | - | - | (397) | - | - | - | - | (4,460) |
| Balance at June 30, 2014 | 812,689 | 44,401 | 122,079 | 216,407 | 86,267 | 22,785 | 17,600 | 18,820 | 115 | 44,139 | 1,385,302 |

Notes to the Condensed Interim Financial Statements
For the six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

| | Buildings | Roadway systems | Parking facilities and lots | Runway, taxiways and apron surfaces | Other facilities | Vehicles and maintenance equipment | Furniture and equipment | Computer hardware | Office equipment under finance lease | Construction work in progress | Total |
|---------------------------------|----------------|-----------------|-----------------------------|-------------------------------------|------------------|------------------------------------|-------------------------|-------------------|--------------------------------------|-------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Depreciation | | | | | | | | | | | |
| Balance at January 1, 2013 | 147,762 | 11,289 | 33,528 | 60,298 | 30,870 | 13,986 | 8,989 | 6,187 | 71 | - | 312,980 |
| Depreciation for the year | 36,809 | 1,823 | 4,053 | 10,420 | 4,045 | 1,242 | 1,364 | 2,511 | 23 | - | 62,290 |
| Disposals | (49) | - | - | (579) | (187) | (28) | (177) | (1,754) | - | - | (2,774) |
| Balance at December 31, 2013 | 184,522 | 13,112 | 37,581 | 70,139 | 34,728 | 15,200 | 10,176 | 6,944 | 94 | - | 372,496 |
| Balance at January 1, 2014 | 184,522 | 13,112 | 37,581 | 70,139 | 34,728 | 15,200 | 10,176 | 6,944 | 94 | - | 372,496 |
| Depreciation for the period | 18,844 | 979 | 1,966 | 5,329 | 1,960 | 696 | 588 | 1,444 | 8 | - | 31,814 |
| Disposals | (491) | - | - | - | - | (397) | - | - | - | - | (888) |
| Balance at June 30, 2014 | 202,875 | 14,091 | 39,547 | 75,468 | 36,688 | 15,499 | 10,764 | 8,388 | 102 | - | 403,422 |
| Carrying amounts | | | | | | | | | | | |
| At December 31, 2013 | 630,768 | 31,128 | 84,206 | 145,785 | 50,886 | 7,462 | 7,240 | 11,063 | 21 | 41,626 | 1,010,185 |
| At June 30, 2014 | 609,814 | 30,310 | 82,532 | 140,939 | 49,579 | 7,286 | 6,836 | 10,432 | 13 | 44,139 | 981,880 |

Notes to the Condensed Interim Financial Statements
For the six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

- a) At June 30, 2014, \$44,138 (December 31, 2013 - \$41,626) of property, plant and equipment were under construction of which \$43,393 (December 31, 2013 - \$41,260) was for buildings, runways taxiways and aprons, and other facilities not yet subject to depreciation.
- b) Included in accounts payable and accrued liabilities at June 30, 2014 is \$3,842 (December 31, 2013 - \$15,125) relating to unpaid capital expenditures.
- c) At June 30, 2014, \$31,814 (June 30, 2013 - \$29,975) of property, plant and equipment depreciation was included in the statements of comprehensive loss.
- d) Property, plant and equipment includes \$708 (December 31, 2013 - \$2,227) in borrowing costs capitalized during the period. Borrowing costs were capitalized at a weighted average rate of its general borrowing of 4.84% (December 31, 2013 – 4.86%).
- e) Parts of moving walkways with a net book value of \$3,571, categorized as buildings, were derecognized as they require replacement to restore operational capability of the walkways and it has been determined that the parts have no further future economic benefit. It is probable that the reimbursement of the costs to replace the assets will be recovered from a third party.
- f) Assets with net book value of \$3,571 (December 31, 2013 - \$4,494) were disposed for proceeds of \$30 (December 31, 2013 - \$4,755).
- g) The Province of Alberta has committed to funding up to \$14,000 for the runway extension at the Villeneuve Airport. To June 30, 2014, \$13,190 has been received from the Province and \$12,983 in costs have been incurred.

Notes to the Condensed Interim Financial Statements
For the six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

7. INTANGIBLE ASSETS

| | Computer Software \$ | Construction work in progress \$ | Total \$ |
|---------------------------------|----------------------------|---|--------------|
| Cost | | | |
| Balance at January 1, 2013 | 2,935 | - | 2,935 |
| Additions/transfers | 615 | 44 | 659 |
| Disposals | (570) | - | (570) |
| | <hr/> | <hr/> | <hr/> |
| Balance at December 31, 2013 | 2,980 | 44 | 3,024 |
| | <hr/> | <hr/> | <hr/> |
| Balance at January 1, 2014 | 2,980 | 44 | 3,024 |
| Additions/transfers | 87 | 720 | 807 |
| Disposals | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Balance at June 30, 2014 | 3,067 | 764 | 3,831 |
| | <hr/> | <hr/> | <hr/> |
| | \$ | \$ | \$ |
| Amortization | | | |
| Balance at January 1, 2013 | 1,921 | - | 1,921 |
| Amortization for the year | 867 | - | 867 |
| Disposals | (570) | - | (570) |
| | <hr/> | <hr/> | <hr/> |
| Balance at December 31, 2013 | 2,218 | - | 2,218 |
| | <hr/> | <hr/> | <hr/> |
| Balance at January 1, 2014 | 2,218 | - | 2,218 |
| Amortization for the period | 366 | - | 366 |
| Disposals | - | - | - |
| | <hr/> | <hr/> | <hr/> |
| Balance at June 30, 2014 | 2,584 | - | 2,584 |
| | <hr/> | <hr/> | <hr/> |
| Carrying amounts | | | |
| At December 31, 2013 | 762 | 44 | 806 |
| At June 30, 2014 | 483 | 764 | 1,247 |
| | <hr/> | <hr/> | <hr/> |

- a) At June 30, 2014, \$764 (December 31, 2013 - \$ 44) of intangible assets were under construction and not yet subject to amortization.
- b) Intangible assets are purchased software and software licenses. During the period ended June 30, 2014, \$366 (June 30, 2013 - \$464) of intangible asset amortization was charged to the statements of comprehensive loss.

Notes to the Condensed Interim Financial Statements
For the six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

8. LONG-TERM DEBT

Total long-term outstanding

| | 2014 | 2013 |
|------------------------------------|----------------|----------------|
| | \$ | \$ |
| Series A Bond | 220,318 | 222,907 |
| Series C Bond | 758,850 | 745,483 |
| | <u>979,168</u> | <u>968,390</u> |
| Less current portion Series A Bond | 5,588 | 5,271 |
| Less current portion Series C Bond | 13,720 | 13,417 |
| Total current portion | <u>19,308</u> | <u>18,688</u> |
| Less unamortized transaction costs | 3,835 | 3,972 |
| | <u>956,025</u> | <u>945,730</u> |

a) Series A Bond and restricted deposits

| | | | 2014 | 2013 |
|------------------------------------|------------------------|-------------------|----------------|----------------|
| Interest Rate | Semi-annual Instalment | Maturity Date | \$ | \$ |
| 7.21% | Varying | November 30, 2030 | 220,318 | 222,907 |
| | | | <u>3,835</u> | <u>3,972</u> |
| Less unamortized transaction costs | | | 216,483 | 218,935 |
| | | | <u>5,588</u> | <u>5,271</u> |
| Less current portion | | | <u>210,895</u> | <u>213,664</u> |

Throughout the term, when the bonds are outstanding, Edmonton Airports is required to maintain a Debt Service Coverage Ratio on a rolling 12 months basis of 1.00:1 and a Gross Debt Service coverage Ratio of not less than 1.25:1. All covenants have been met.

Notes to the Condensed Interim Financial Statements
For the six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

b) Series C Bond

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

| Loan # | Interest Rate | Semi-annual Instalment \$ | Maturity Date | 2014 \$ | 2013 \$ |
|--------|-----------------------|---------------------------|--------------------|----------------|----------------|
| 1 | 4.37% | 755 | December 15, 2026 | 14,425 | 14,854 |
| 2 | 4.50% | 1,145 | March 15, 2027 | 22,361 | 22,989 |
| 3 | 5.00% | 398 | June 15, 2027 | 7,549 | 7,754 |
| 4 | 4.89% | 395 | September 17, 2027 | 7,735 | 7,935 |
| 5 | 4.68% | 1,552 | June 16, 2028 | 31,600 | 32,393 |
| 6 | 4.55% | 3,068 | September 17, 2028 | 64,608 | 66,170 |
| 7 | 4.67% | 1,245 | December 15, 2039 | 36,913 | 37,289 |
| 8 | 4.54% | 920 | March 15, 20407 | 27,925 | 28,205 |
| 9 | 4.56% | 1,845 | June 15, 2040 | 55,863 | 56,422 |
| 10 | 4.00% | 1,439 | October 1, 2040 | 46,742 | 47,236 |
| 11 | 4.40% | 2,112 | December 15, 2040 | 65,717 | 66,369 |
| 12 | 4.41% | 1,511 | March 15, 20401 | 47,412 | 47,867 |
| 13 | 4.16% | 1,041 | June 15, 2041 | 50,000 | 50,000 |
| 14 | 3.70% | 926 | September 15, 2041 | 50,000 | 50,000 |
| 15 | 3.35% | 1,174 | December 15, 2041 | 70,000 | 70,000 |
| 16 | 3.41% | 512 | March 15, 2042 | 30,000 | 30,000 |
| 17 | 3.25% | 488 | June 15, 2042 | 30,000 | 30,000 |
| 18 | 3.26% | 651 | September 17, 2042 | 40,000 | 40,000 |
| 19 | 3.24% | 324 | December 17, 2042 | 20,000 | 20,000 |
| 20 | 3.42% | 342 | March 15, 2043 | 20,000 | 20,000 |
| 21 | 3.73% | 557 | March 17, 2044 | 20,000 | - |
| | | | | <u>758,850</u> | <u>745,483</u> |
| | Less: Current Portion | | | 13,720 | 13,417 |
| | | | | <u>745,130</u> | <u>732,066</u> |

Edmonton Airports is required to maintain an Interest Coverage Ratio of not less than 1.25:1 and net cash flows greater than zero as of the end of any fiscal quarter on a rolling four fiscal quarter basis. All covenants have been met.

Notes to the Condensed Interim Financial Statements
For the six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

c) Interest Expense

| | Three Months | | Six Months | |
|------------------------------------|---------------|--------|---------------|--------|
| | Ended June 30 | | Ended June 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| | \$ | \$ | \$ | \$ |
| Interest Expense (Income) | | | | |
| Series A Bond interest | 3,989 | 4,077 | 8,009 | 8,181 |
| Series C Bond interest | 7,692 | 7,665 | 15,282 | 15,241 |
| Other interest and financing costs | 100 | 117 | 198 | 237 |
| Interest income and other | (239) | (282) | (439) | (562) |
| | 11,542 | 11,577 | 23,050 | 23,097 |
| Less: capitalized interest | 354 | 302 | 708 | 1,403 |
| | 11,188 | 11,275 | 22,342 | 21,694 |

9. COMMITMENTS AND CONTINGENCIES

a) Commitments

At June 30, 2014, Edmonton Airports had outstanding capital commitments in the amount of \$22,505. (December 31, 2013 - \$6,674).

b) Contingencies

Edmonton Airports has been named as a defendant in certain lawsuits. The outcome of these actions is currently not determinable. In Edmonton Airports' opinion, these actions will not result in any material expense to Edmonton Airports. The cost of settlement, if any, will be accounted for in the period of settlement.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Edmonton Airports does not record any assets at fair value in the statements of financial position. The only financial instrument that has a fair value that does not approximate the carrying value in the statements of financial position is long-term debt. The fair value of the long-term debt is categorized as Level 2 of the fair value hierarchy as it is 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. The fair value of long term debt is determined on an annual basis and the most recent valuation is disclosed in the December 31, 2013 financial statements.

Notes to the Condensed Interim Financial Statements
For the six months ended June 30, 2014 and 2013
(unaudited, in thousands of dollars)

11. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform to the current year's presentation.