Edmonton Airports

Unaudited Condensed Interim Financial Statements

For the Three and Nine Months Ended September 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 nine months ended September 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 $14.4 million for the nine months ended September 30, 2013, which is a $13.9 million increase from the 2012 net loss of $0.5 million. During the period, Edmonton Airports experienced revenue growth of $8.2 million (6.4%) and increased expenses of $22.8 million (17.9%).

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 component of passenger traffic at the Edmonton International and compares the 2013 actual results for January through September to the same period last year.

Enplaned/Deplaned
Passenger Traffic by Sector

	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	%	2013	2012	%
Domestic	1,519,630	1,452,940	4.6	4,022,238	3,873,208	3.8
Transborder	274,782	249,647	10.1	920,170	855,955	7.5
International	55,908	56,247	(0.6)	299,126	297,754	0.5
Total	**1,850,320**	**1,758,834**	**5.2**	**5,241,534**	**5,026,917**	**4.3**

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. EDMONTON CITY CENTRE AIRPORT

On September 18, 2013, Edmonton City Council passed a final resolution indicating the closure of the Edmonton City Centre Airport is to be completed by November 30, 2013. At this time management is in the process of assessing the financial impact.

4. RESULTS OF OPERATIONS

The table below shows Edmonton Airports combined operating earnings for the three and nine months ended September 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 September 30		Nine Months Ended September 30	
	2013 $	2012 $	2013 $	2012 $
Operating revenues				
Airside and general terminal	10,568	9,817	31,248	29,257
Parking and car rentals	10,268	9,679	30,023	27,448
Concession	3,061	3,073	9,764	8,435
Real estate leases	1,125	1,240	2,840	2,732
Other revenue	24	23	222	66
	25,046	23,832	74,097	67,938
Operating expenses				
Salaries and employee benefits	7,546	5,940	22,351	19,134
Service, maintenance, supplies and administration	6,765	5,750	18,967	15,745
Utilities, insurance and property taxes	3,139	2,812	9,430	8,671
Canada lease rent	4,215	3,367	11,845	10,100
	21,665	17,869	62,593	53,650
Operating earnings	**3,381**	**5,963**	**11,504**	**14,288**

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.

4.1. Operating Revenues

Operating revenues for the nine months ended September 30, 2013 were $74.1 million compared to $67.9 million for the corresponding period in 2012, an increase of $6.2 million (9.1%). The increase in operating revenues is primarily the result of increased aircraft movements, additional concession operations, 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.

4.2. Operating Expenses

Operating expenses for the nine months ended September 30, 2013 were $62.6 million compared to $53.6 million for the corresponding period in 2012, an increase of $9.0 million (16.8%). 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 marketing cost for the launch of the New York City 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.

4.3. Operating Earnings

Operating earnings for the nine months ended September 30, 2013 were $11.5 million, $2.8 million lower than last year's operating earnings of $14.3 million (19.6%).

4.4. Net Loss

The net loss of $14.4 million as reported in the accompanying statements of Profit and Loss and Other Comprehensive Income for the nine months ended September 30, 2013 represents an increase of $13.9 million compared to the net loss of $0.5 million for the same period in 2012. The increase in the net loss 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.

5. 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. Growth Capital comprises projects that expand capacity, create new services and/or improve the passenger experience. The Commercial Real Estate Capital includes projects whose primary purpose is to generate financial returns, generate passenger growth and provide indirect support to airport operations. The Maintenance Capital is for projects related to the maintenance, repair and replacement of existing airport facilities and infrastructure.

The approved 2013 Growth Capital Plan for all airports is $50.0 million in planned capital expenditures. The Province of Alberta is funding up to $14.0 million for the Villeneuve runway extension of which $11.2 million in funds have been received and $9.4 million spent. The approved Commercial Real Estate Capital Plan for 2013 is $20.4 million in planned capital expenditures and the approved 2013 Maintenance Capital Plan is $13.3 million.

Of the approved plan of $83.7 million, total expenditures of $52.5 million have been spent on all projects to September 30, 2013 including multi-year projects approved in prior years.

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

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

	Notes	September 30 2013 $	December 31 2012 $
Assets			
Current assets			
Cash and cash equivalents		65,701	75,998
Accounts receivable	*5*	16,426	18,201
Prepaid expenses and other		4,524	3,197
		86,651	97,396
Restricted deposits		32,420	32,158
Prepaid expense and lessee receivable		469	504
Property, plant and equipment	*6, 7*	1,008,512	1,006,691
Intangible assets	*8*	730	1,014
		1,128,782	**1,137,763**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	*7 (b)*	54,978	57,235
Current portion of obligation under finance lease		30	27
Current portion of long-term debt	*6*	18,227	17,502
Deferred revenue		29	38
		73,264	74,802
Tenants' security deposits		1,473	1,269
Deferred capital contributions	*7 (e)*	1,836	-
Obligation under finance lease		-	23
Post-employment benefit		14,143	17,066
Long-term debt	*6*	951,931	944,105
		1,042,647	1,037,265
Contingencies	*12*		
Net Assets		86,135	100,498
		1,128,782	**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 nine months ended September 30, 2013 with comparative figures for 2012

	Notes	Three Months Ended September 30 2013 $	Three Months Ended September 30 2012 $	Nine Months Ended September 30 2013 $	Nine Months Ended September 30 2012 $
Revenues					
Airport improvement fee	*5, 9*	19,144	19,026	55,685	53,885
Airside and general terminal	*5*	10,568	9,817	31,248	29,257
Parking and car rentals		10,268	9,679	30,023	27,448
Concession		3,061	3,073	9,764	8,435
Police and security		2,201	2,386	6,004	5,789
Real estate leases		1,125	1,240	2,840	2,732
Other revenue		24	23	222	66
		46,391	45,244	135,786	127,612
Expenses					
Depreciation and amortization	*7 (c), 8 (a)*	16,120	15,116	46,559	39,360
Interest	*6*	11,201	10,083	32,895	26,484
Salaries and employee benefits	*10*	7,546	5,940	22,351	19,134
Service, maintenance, supplies and administration		6,765	5,750	18,967	15,745
Canada lease rent	3	4,215	3,367	11,845	10,100
Utilities, insurance and property taxes		3,139	2,812	9,430	8,671
Police and security		1,889	2,044	5,149	4,962
Airport improvement fee collection costs		1,149	1,142	3,341	3,233
		52,024	46,254	150,537	127,689
Loss before the undernoted		(5,633)	(1,010)	(14,751)	(77)
Other gain (loss)		289	(436)	388	(401)
Net loss		(5,344)	(1,446)	(14,363)	(478)
Other comprehensive income		-	-	-	-
Comprehensive loss for the period		**(5,344)**	**(1,446)**	**(14,363)**	**(478)**

See accompanying notes to interim financial statements.

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

As at September 30, 2013 with comparative figures for 2012

	Nine Months Ended September 30	
	2013	2012
	$	$
Net assets – beginning of period	100,498	115,611
Comprehensive loss for the period	(14,363)	(478)
Net assets – end of period	**86,135**	**115,133**

See accompanying notes to interim financial statements.

EDMONTON AIRPORTS
Statements of Cash Flows (000's of dollars)
Unaudited
For the three and nine months ended September 30, 2013 with comparative figures for 2012

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
	$	$	$	$
Cash flows from operating activities				
Net loss for the period	(5,344)	(1,446)	(14,363)	(478)
Adjustments for:				
Depreciation and amortization	16,120	15,116	46,559	39,360
Amortization of borrowing costs	67	65	245	194
Loss (gain) on disposal of property, plant and equipment and intangible assets	(348)	375	(326)	351
Post employment benefit	1,062	(1,621)	(2,923)	(2,384)
	11,557	12,489	29,192	37,043
Changes in working capital:				
Accounts receivable	3,198	7,200	1,775	(5,474)
Prepaid expenses and other	431	331	(1,292)	(987)
Accounts payable and accrued liabilities	16,992	24,032	30,636	32,657
Deferred revenue	(27)	(35)	(9)	(27)
Tenants' security deposits	41	(52)	204	64
Deferred capital contribution	(7,780)	-	1,836	-
	24,412	43,965	62,342	63,276
Interest paid	(11,505)	(10,375)	(33,760)	(27,324)
Interest received	304	292	865	840
Net cash flows from operating activities	13,211	33,882	29,447	36,792
Cash flows from investing activities				
Increase in restricted deposits	(94)	(73)	(262)	(5,697)
Purchase of property, plant and equipment	(20,858)	(42,703)	(50,429)	(104,756)
Purchase of intangible assets	(240)	(280)	(337)	(929)
Disposal of property, plant and equipment	4,714	384	4,756	384
Interest paid capitalized to property, plant and equipment	(354)	(1,065)	(1,757)	(6,324)
Net cash flows used in investing activities	(16,832)	(43,737)	(48,029)	(117,322)
Cash flows from financing activities				
Repayments of long-term debt and finance lease obligation	(3,063)	(2,928)	(11,715)	(11,028)
Proceeds from long-term debt	-	40,000	20,000	100,000
Net cash flows (used in) from financing activities	(3,063)	37,072	8,285	88,972
Net (decrease) increase in cash and cash equivalents	(6,684)	27,217	(10,297)	8,442
Cash and cash equivalents – beginning of period	72,385	78,400	75,998	97,175
Cash and cash equivalents – end of period	**65,701**	**105,617**	**65,701**	**105,617**

See accompanying notes to 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 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 November 8, 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 $839, interest cost would increase by $605, but would be offset by the recognition of expected return on plan assets in benefit expense of $1,444.

Effective September 30, 2013, Edmonton Airports changed the method of presentation of the statement of cash flows from the direct method to the indirect method. This change was implemented so that Edmonton Airports' reporting is more in line with Canadian financial reporting practices and has been prepared in accordance with IAS 7 Statement of Cash Flows.

The change in presentation has no financial impact other than the restatement of the September 30, 2012 statement of cash flows.

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 financing through the Alberta Capital Finance Authority. As at September 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.

(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 that comprise approximately 74% (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 September 30, 2013, the provision for impairment of accounts receivable was $279 (December 31, 2012 - $645).

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

	September 30 2013 $	December 31 2012 $
30 to 90 days	2,642	4,233
Greater than 90 days	211	1,049
	2,853	**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	September 30 2013 $	December 31 2012 $
7.21%	Varying	November 1, 2030	225,283	227,577
Less unamortized transaction costs			4,040	4,285
			221,243	223,292
Less: current portion			4,965	4,671
			216,278	**218,621**

(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	September 30 2013 $	December 31 2012 $
4.37%	755	December 15, 2026	15,276	15,688
4.50%	1,145	March 15, 2027	22,989	24,204
5.00%	398	June 15, 2027	7,953	8,148
4.89%	395	September 17, 2027	7,935	8,322
4.68%	1,552	June 16, 2028	33,167	33,924
4.55%	3,068	September 17, 2028	66,170	69,191
4.67%	1,245	December 15, 2039	37,656	38,014
4.54%	920	March 15, 2040	28,205	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	47,868	48,747
			438,915	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	-
			748,915	738,315
Less: current portion			13,262	12,831
			735,653	**725,484**

(000's of dollars unless otherwise stated)

Interest Expense (Income)	Three Months Ended September 30 2013 $	2012 $	Nine Months Ended September 30 2013 $	2012 $
Series A Bond interest	4,063	4,142	12,244	12,475
Series C Bond interest	7,696	7,201	22,937	20,879
Other interest and financing costs	100	97	337	294
Interest income and other	(304)	(292)	(866)	(840)
	11,555	11,148	34,652	32,808
Less: capitalized interest	354	1,065	1,757	6,324
	11,201	**10,083**	**32,895**	**26,484**

7. PROPERTY, PLANT AND EQUIPMENT

	September 30 2013 $	December 31 2012 $
Buildings	803,350	711,389
Runways, taxiways and apron surfaces	207,392	206,019
Parking facilities and lots	122,246	117,883
Other facilities	83,433	81,875
Roadway systems	41,726	40,893
Vehicles and maintenance equipment	22,283	20,127
Furniture and equipment	17,586	16,349
Computer hardware	17,348	10,283
Other equipment under finance lease	115	115
Construction work in progress	49,945	114,738
	1,365,424	1,319,671
Less: accumulated amortization	356,912	312,980
	1,008,512	**1,006,691**

(a) At September 30, 2013, $49,945 (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 September 30, 2013 is $ 28,597 (December 31, 2012 - $34,569) relating to unpaid capital expenditures.

(c) For the period ended September 30, 2013, $45,938 (September 30, 2012 - $38,914) of the amortization expense is for property, plant and equipment.

(000's of dollars unless otherwise stated)

(d) Edmonton Airports disposed of property, plant and equipment with a net book value of $4,428 (December 31, 2012 - $625) for proceeds of $4,754 (December 31, 2012 - $34).

(e) The Province of Alberta has committed to funding up to $14.0 million for the runway extension at the Villeneuve Airport. To September 30, 2013, $11.2 million has been received from the Province and $9.4 million has been spent on this project.

8. INTANGIBLE ASSETS

	September 30 2013 $	December 31 2012 $
Software and software licenses	2,703	2,935
Less: accumulated amortization	1,973	1,921
	730	**1,014**

(a) For the period ended September 30, 2013, $621 (September 30, 2012 - $446) of the amortization expense is for intangible assets.

(b) Edmonton Airports disposed of fully depreciated intangible assets in the period with accumulated amortization of $569 (December 31, 2012 - $283) for proceeds of $nil (2012 - $nil).

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.

	September 30 2013 $	December 31 2012 $
(cumulative from program inception)		
AIF revenue	562,910	507,225
AIF collection costs	(35,339)	(31,998)
	527,571	475,227
Less: cumulative capital expenditures and related financing costs	1,475,797	1,421,870
	(948,226)	**(946,643)**

(000's of dollars unless otherwise stated)

10. POST-EMPLOYMENT BENEFIT

	Three Months Ended September 30			
	Pension Plan	SERP	Long-term Benefit Plan	Total
	$	$	$	$
Current service cost (employer portion)	300	51	782	1,133
Interest cost	217	18	293	528
Net benefit plan expense included in salaries and employee benefits expense 2013	517	69	1,075	1,661
Net benefit plan expense included in salaries and employee benefits expense 2012	724	80	110	914

	Nine Months Ended September 30			
	Pension Plan	SERP	Long-term Benefit Plan	Total
	$	$	$	$
Current service cost (employer portion)	1,086	152	965	2,203
Interest cost	784	55	361	1,200
Net benefit plan expense included in salaries and employee benefits expense 2013	1,870	207	1,326	3,403
Net benefit plan expense included in salaries and employee benefits expense 2012	2,091	243	288	2,622

(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:

			September 30, 2013		December 31, 2012	
	Level 1	Level 2	Fair Value	Carrying Value	Fair Value	Carrying Value
			$	$	$	$
Financial Assets						
Restricted deposits	X		32,420	32,420	32,158	32,158
Accounts receivable	X		16,426	16,426	18,201	18,201
Prepaid expense and lessee receivable	X		469	469	504	504
Financial Liabilities						
Accounts payable and accrued liabilities	X		54,975	54,975	57,235	57,235
Tenants' security deposits	X		1,473	1,473	1,269	1,269
Obligation under financial lease including current portion	X		30	30	50	50
Long-term debt including current portion		X	1,111,963	970,158	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. There were no transfers between the level s of the fair value hierarchy during the period.

12. CONTINGENCIES

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

13. COMPARATIVE INFORMATION

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