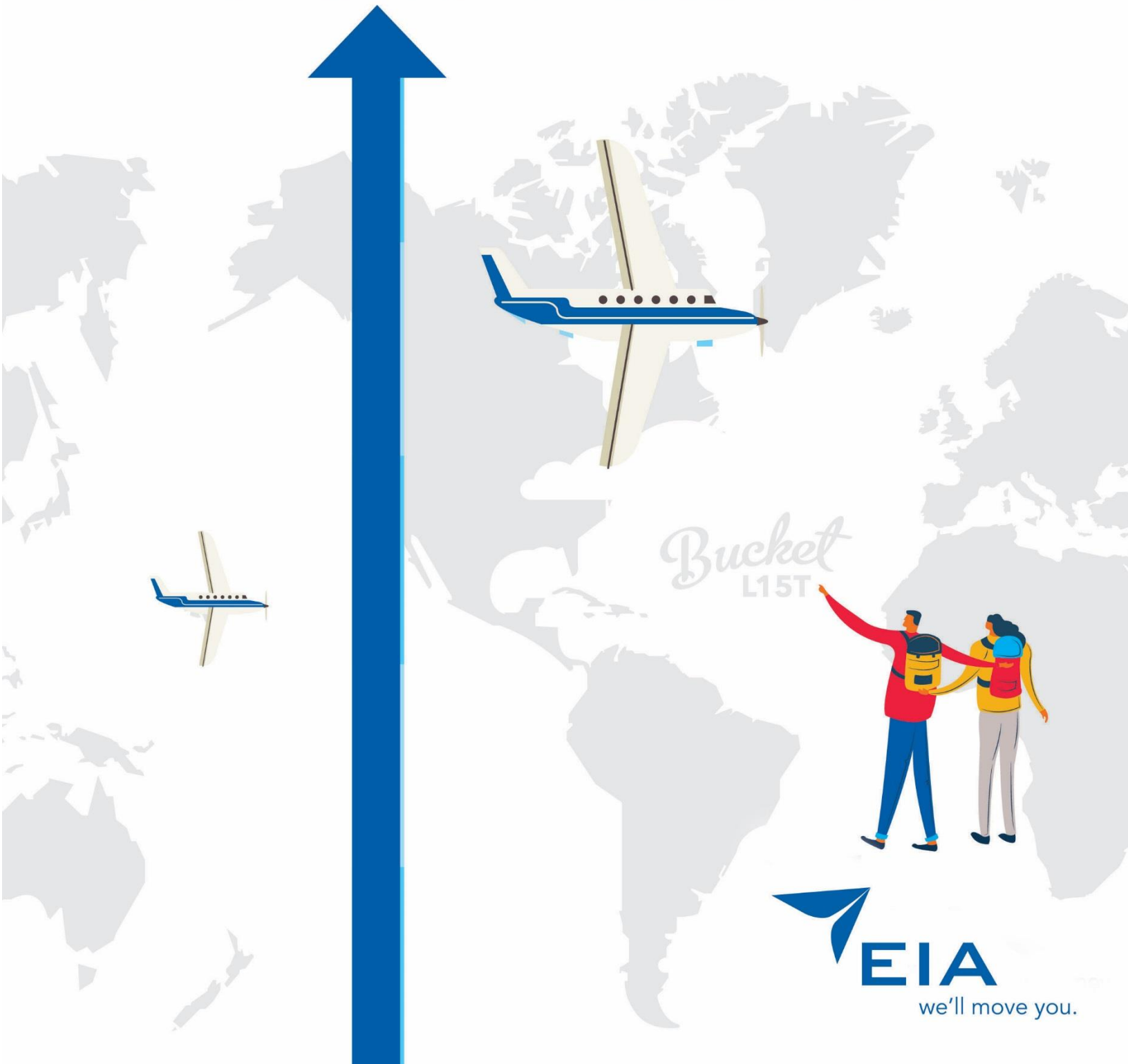




EDMONTON AIRPORTS'

2016 SECOND QUARTER REPORT

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016



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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 months ended June 30, 2016 and the audited financial statements, as well as the MD&A, for the year ended December 31, 2015. 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 Airport (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 2016 actual results for the three and six months ended June 30, 2016 to the same period last year.

Enplaned and Deplaned Passenger Traffic by Sector*

	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	%	2016	2015	%
Domestic	1,389,724	1,342,988	3.5	2,614,390	2,543,482	2.8
Transborder	219,436	296,505	(26.0)	507,070	663,590	(23.6)
International	101,275	117,172	(13.6)	283,864	307,041	(7.5)
	1,710,435	1,756,665	(2.6)	3,405,324	3,514,113	(3.1)
General/Business aviation	154,276	192,450	(19.8)	279,164	390,768	(28.6)
Total	1,864,711	1,949,115	(4.3)	3,684,488	3,904,881	(5.6)

*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 June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenue	50,101	51,578	100,502	104,529
Expenses	25,837	25,308	52,910	53,571
EBITDA*	24,264	26,270	47,592	50,958
EBITDA margin %	48.4%	50.9%	47.4%	48.8%
Depreciation and amortization	15,521	16,447	31,343	32,797
Interest	11,210	11,203	22,389	22,494
Other (gain) loss	(14)	(56)	(66)	(103)
Net loss	(2,453)	(1,324)	(6,074)	(4,230)

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

For the three months ended June 30, 2016, we experienced a net loss of \$2.5 million, which was an increase of \$1.1 million over the comparative period. The increased net loss was primarily due to lower EBITDA of \$2.0 million (8%) compared to the prior year. EBITDA was driven by lower revenue of \$1.5 million (3%) due to decreased passenger volumes. The decrease in revenue was partially offset by a decrease in depreciation and amortization expense of \$0.9 million (6%).

For the six months ended June 30, 2016 we experienced a net loss of \$6.1 million, which was an increase of \$1.8 million over the comparative period. The increased net loss was primarily due to lower EBITDA of \$3.4 million (7%) compared to the prior year. EBITDA was driven by lower revenue of \$4.0 million (4%) due to decreased passenger volumes. The decrease in revenue was partially offset by lower operating expenses of \$0.7 million (1.2%) and a decrease in depreciation and amortization expense of \$1.5 million (4%).

Revenue

(in thousands)	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Variance	2016	2015	Variance
	\$	\$	\$	\$	\$	\$
Airport improvement fee	21,464	21,813	(349)	43,119	44,646	(1,527)
Parking and concessions	13,524	14,468	(944)	27,256	29,364	(2,108)
Airside and general terminal	10,737	11,557	(820)	21,265	23,102	(1,837)
Police and security	2,966	2,528	438	5,934	5,035	899
Real estate leases	1,322	1,186	136	2,734	2,314	420
Other revenue	88	26	62	194	68	126
	50,101	51,578	(1,477)	100,502	104,529	(4,027)

For the three months ended June 30, 2016, we earned revenue of \$50.1 million which was a decrease of 2.9% over the prior year. The decrease in revenue is primarily due to decreased transborder and international passenger volumes unfavorably impacting AIF, parking, concession and airside and general terminal revenue streams.

For the six months ended June 30, 2016, we earned revenue of \$100.5 million which was a decrease of 3.9% over the prior year. The decrease in revenue was driven by the same factors as revenue earned in the second quarter and slightly lower than the total passenger decrease of 5.6%, year-over-year.

Airport Improvement Fee (AIF)

For the three months ended June 30, 2016, AIF revenue was \$21.5 million, a decrease of \$0.3 million (1.6%), year over year. 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 decrease in AIF has been driven by declining passenger volumes resulting from the slowdown of the resource sector. Due to the Fort McMurray wildfire evacuation, enplaned passenger volumes rose slightly in the second quarter narrowing the decrease when compared to the prior year. Terminal passenger volume was 2.6% less than the prior year, while AIF revenue was 1.6% less than the prior year.

For the six months ended June 30, 2016, AIF revenue was \$43.1 million, a decrease of \$1.5 million (3.4%), year over year. The decrease in AIF has been driven by declining passenger volumes resulting from the slowdown of the resource sector. Terminal passenger volume was 3.1% less than the prior year, while AIF revenue was 3.4% less than the prior year.

Airside and general terminal (AGT)

For the three months ended June 30, 2016, AGT revenue was \$10.7 million, a decrease of \$0.8 million (7.1%), year over year. Airside and general terminal revenue is primarily driven by the number of aircraft movements as well as the size of the aircraft. While overall passenger volume and movements continue to decrease compared with prior year, the decrease was offset by the Fort McMurray wildlife fire which resulted in an increase in passenger volumes over trend in the quarter. Fixed Base Operator operations continue to be impacted by the slowdown in the energy sector and therefore the resulting decrease in passenger volumes and movements has contributed to the decrease in AGT revenue.

For the six months ended June 30, 2016, AGT revenue was \$21.3 million, a decrease of \$1.8 million (8.0%), year over year. Airside and general terminal revenue is primarily driven by the number of aircraft movements as well as the size of the aircraft. Decreased passenger volumes and movements has been partially offset by increases in rates that became effective in the first quarter. In addition, Fixed Base Operator operations

continue to be impacted by the slowdown in the energy sector and therefore the resulting decrease in passenger volumes and movements has contributed to the decrease in AGT revenue

Police and Security

For the three months ended June 30, 2016, police and security fee revenue was \$3.0 million, an increase of \$0.4 million (17.3%), year over year.

For the six months ended June 30, 2016, police and security fee revenue was \$5.9 million, an increase of \$0.9 million (17.9%), year over year.

Edmonton Airports recovers some police and security expenses through a per departing passenger charge to airlines which increased by 15% effective in the first half of 2016. The increase in fees offset reduced funding from the federal government.

Non-aeronautical commercial operations

Edmonton Airports also earns revenue from non-aeronautical commercial operations, such as parking, car rentals, concessions, ground transportation, and real estate. For the three months ended June 30, 2016, non-aeronautical commercial operations revenue was \$14.8 million, a decrease of \$0.8 million (5.2%), year over year.

For the six months ended June 30, 2016, non-aeronautical commercial operations revenue was \$30.0 million, a decrease of \$1.7 million (5.3%), year over year.

Parking and Concessions

Revenues from parking and concessions totaled \$13.5 million for the three months ended June 30, 2016. This was a decrease of \$0.9 million (6.5%), year over year. The change was primarily driven by a decrease in revenues from parking due to declining passenger volumes and discounts intended to protect market share impacting the Value Park, jetSet and Parkade products.

Revenues from parking and concessions totaled \$27.3 million for the six months ended June 30, 2016. This was a decrease of \$2.1 million (7.2%), year over year. The change was a result of the same drivers experienced in the quarter.

Real Estate Leases

For the three months ended June 30, 2016, Real estate lease revenue was \$1.3 million, an increase of \$0.1 million (11.5%), year over year. This increase is driven primarily by an increase in land lease revenue, increased rental rates as well as revenue from new real estate developments such as the Ivanhoe Cambridge outlet center.

For the six months ended June 30, 2016, Real estate lease revenue was \$2.7 million, an increase of \$0.4 million (18.2%), year over year. The change was a result of the same drivers experienced in the quarter.

Expenses

(in thousands)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2016	2015	Variance	2016	2015	Variance
	\$	\$	\$	\$	\$	\$
Salaries and employee benefits	7,623	7,520	103	16,439	15,903	536
Services, maintenance, supplies and administration	7,689	7,384	305	15,374	16,077	(703)
Canada lease rent	4,212	4,370	(158)	8,460	8,959	(499)
Utilities, insurance and property taxes	2,811	2,767	44	5,570	6,048	(478)
Police and security	2,411	2,159	252	4,875	4,316	559
Airport improvement collection costs	1,091	1,108	(17)	2,192	2,268	(76)
	25,837	25,308	529	52,910	53,571	(661)

For the three months ended June 30, 2016, expenses were \$25.8 million which was \$0.5 million (2.1%) higher, year over year. This increase was primarily driven by an increase in services, maintenance, supplies and administration expenses, a one-time expense for salaries and employee benefits, and police and security offset by lower Canada lease rent.

For the six months ended June 30, 2016, expenses were \$52.9 million which was \$0.7 million (1.2%) lower, year over year. This decrease was primarily driven by decreases in services, maintenance, supplies and administration expenses, utilities, insurance and property taxes, and Canada lease rent. This was partly offset by a one-time expense for salaries and employee benefits and police and security expenses.

Salaries and employee benefits

For the three months ended June 30, 2016, salaries and benefits expenses were \$7.6 million, an increase of \$0.1 million (1.4%), year over year. For the six months ended June 30, 2016, salaries and benefits expenses were \$16.4 million, an increase of \$0.5 million (3.4%), year over year. Of the \$16.4 million, \$0.5 million is related to a one-time expense related to the management decision to offer voluntary retirement to reduce salaries and benefits expenses in future years. Excluding this one-time expense, salaries and benefits expenses were \$15.9 million, effectively the same over prior year for the six month period.

For the three and six month period the increase was driven primarily by merit increases, compensation increases under the collective bargaining agreement and the implementation of a voluntary retirement program which employees were offered benefits in exchange for termination of employment. Salary and benefit escalations were offset by a reduction in overtime, external recruitment services and expenses related to management incentive compensation.

Services, maintenance, supplies and administration

For the three months ended June 30, 2016, services, maintenance, supplies and administration expenses were \$7.7 million which was \$0.3 million (4.1%) higher, year over year. The increase was driven by higher marketing costs related to air service development and building repairs and maintenances costs. The increase was partially offset by air service development grant funding, and a reduction in discretionary spending related to advertising, consulting and professional fees.

For the six months ended June 30, 2016, services, maintenance, supplies and administration expenses were \$15.4 million which was \$0.7 million (4.4%) lower, year over year. This was driven by a decrease in contracted services, fuel, consulting and professional costs that were partly offset by higher advertising and marketing costs related to air service development. The increase in marketing costs was partially offset by grant funding.

Also, favorable weather conditions in the first quarter caused lower than expected snow removal and associated costs.

Canada lease rent

Rent expense was \$4.2 million for the three months ended June 30, 2016 which was \$0.2 million (3.6%) lower, year over year. Rent expense was \$8.5 million for the six months ended June 30, 2016 which was \$0.5 million (5.6%) lower, year over year.

Canada lease rent expense is based on a percentage, on a progressive scale of "Airport Revenue" at Edmonton Airports, as defined in the Ground Lease. The decrease was primarily driven by lower year over year revenues due to reduce passenger volumes.

Utilities, insurance and property taxes

For the three months ended June 30, 2016, utilities, insurance and property taxes expenses were \$2.8 million which was consistent with the comparative period. For the six months ended June 30, 2016, utilities, insurance and property taxes expenses were \$5.6 million which was \$0.5 million (7.9%) lower, year over year. The decrease is primarily related to a new power contract signed in June of 2015 which locked in lower electricity rates.

Police and security

For the three months ended June 30, 2016, police and security expenses were \$2.4 million which was \$0.3 million (11.7%) higher, year over year.

For the six months ended June 30, 2016, police and security expenses were \$4.9 million which was \$0.6 million (13.0%) higher, year over year. The increase is a result of an increase in contracted labour rates and hours primarily driven by the loss of federal funding resulting in increased costs to EA also contributed to the year over year increase.

Airport improvement collection costs

For the three months ended June 30, 2016, airport improvement collection costs were \$1.1 million which was consistent with the prior year. For the six months ended June 30, 2016, airport improvement collection costs were \$2.2 million which was \$0.1 million (3.3%) lower with the prior year. This is driven by the decrease in AIF revenue resulting from the decrease in passenger volumes.

Other Expenses

(in thousands)	Three Months Ended			Six Months Ended		
	June 30			June 30		
	2016	2015	Variance	2016	2015	Variance
	\$	\$	\$	\$	\$	\$
Depreciation and amortization	15,521	16,447	(926)	31,343	32,797	(1,454)
Interest	11,210	11,203	7	22,389	22,494	(105)
Other (gain) loss	(14)	(56)	42	(66)	(103)	37
	26,717	27,594	(877)	53,666	55,188	(1,522)

For the three months ended June 30, 2016, other expenses were \$26.7 million which was \$0.9 million (3.2%) lower, year over year. For the six months ended June 30, 2016, other expenses were \$53.7 million which was \$1.5 million (2.8%) lower, year over year.

This decrease was primarily driven by a decrease in depreciation expense as a result of disposals and assets becoming fully depreciated during the last two quarters of 2015 and the first two quarters of 2016 offset by the addition of new capital assets.

Additionally, interest expense was lower, year over year, for the six month period as a result of a decrease in Series A and Series C bond interest, partly offset by a decrease in capitalized interest.

3. CAPITAL PROJECTS

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

Commercial Real Estate

Projects in this category include those that build revenue capacity for Edmonton Airports and are funded from operating earnings and cash flows that becomes available. \$1.1 million was spent on real estate projects during the second quarter of 2016.

During the current quarter, Ivanhoé Cambridge began construction on the retail outlet destination and, as part of the highway commercial project, Edmonton Airports is still in the process of improving the existing primary access point (Airport Perimeter Road) for entering and exiting the airport. This improvement is required for the development of the highway commercial and airport support lands south of the airport.

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. \$2.4 million was spent on growth projects during the second quarter of 2016.

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. \$4.2 million was spent on maintenance projects during the second quarter of 2016.



EDMONTON AIRPORTS'

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016



Condensed Interim Statements of Financial Position
As at June 30, 2016 and December 31, 2015
(unaudited, in thousands of dollars)

	2016	2015
	\$	\$
Assets		
Current Assets		
Cash and cash equivalents	24,865	39,073
Accounts Receivable	21,033	16,575
Prepaid expenses and other	7,766	5,421
	53,664	61,069
Non-current assets		
Restricted deposits	33,387	33,238
Prepaid expense and lessee receivable	475	366
Property, plant and equipment (note 3)	963,354	979,332
Intangible assets (note 4)	2,899	2,681
	1,053,779	1,076,686
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 3(b))	26,315	31,938
Deferred revenue	553	993
Current portion of long-term debt (note 5)	22,806	22,092
	49,674	55,023
Non-current liabilities		
Tenants' security deposit	1,754	1,692
Deferred Revenue (note 6)	11,251	11,230
Post-employment benefit	6,482	6,577
Long-term debt (note 5)	931,816	943,288
	1,000,977	1,017,810
Contingencies (note 6(b))		
Commitments (note 6(a))		
Net Assets	52,802	58,876
	1,053,779	1,076,686

Condensed Interim Statements of Comprehensive Loss
For the three and six months ended June 30, 2016 and 2015
(unaudited, in thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenues				
Airport improvement fee	21,464	21,813	43,119	44,646
Parking and concessions	13,524	14,468	27,256	29,364
Airside and general terminal	10,737	11,557	21,265	23,102
Police and security	2,966	2,528	5,934	5,035
Real estate leases	1,322	1,186	2,734	2,314
Other revenue	88	26	194	68
	50,101	51,578	100,502	104,529
Expenses				
Salaries and employee benefits	7,623	7,520	16,439	15,903
Services, maintenance, supplies and administration	7,689	7,384	15,374	16,077
Canada lease rent	4,212	4,370	8,460	8,959
Utilities, insurance and property taxes	2,811	2,767	5,570	6,048
Police and security	2,411	2,159	4,875	4,316
Airport improvement collection costs	1,091	1,108	2,192	2,268
	25,837	25,308	52,910	53,571
EBITDA	24,264	26,270	47,592	50,958
Other Expenses				
Depreciation and amortization	15,521	16,447	31,343	32,797
Interest (note 5 (c))	11,210	11,203	22,389	22,494
Other (gain) loss	(14)	(56)	(66)	(103)
	26,717	27,594	53,666	55,188
Net loss and total comprehensive loss for the period	(2,453)	(1,324)	(6,074)	(4,230)

See accompanying notes to interim financial statements.

Condensed Interim Statements of Changes in Net Assets
As at June 30, 2016 and 2015
(unaudited, in thousands of dollars)

	Six Months Ended June 30	
	2016	2015
	\$	\$
Net assets - Beginning of period	58,876	64,183
Total comprehensive loss for the period	(6,074)	(4,230)
Net assets - End of period	52,802	59,953

See accompanying notes to interim financial statements.

Condensed Interim Statements of Cash Flows
For the three and six months ended June 30, 2016 and 2015
(unaudited, in thousands of dollars)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Operating activities				
Net loss for the period	(2,453)	(1,324)	(6,074)	(4,230)
Adjustments for:				
Depreciation and amortization	15,521	16,447	31,343	32,797
Amortization of borrowing costs	71	72	143	142
(Gain)/loss on foreign exchange	(14)	(44)	(66)	(92)
(Gain)/loss on disposal of property, plant and equipment and intangibles	-	(14)	-	(12)
Post employment benefit expense	925	941	1,821	1,897
Finance costs - net	11,086	11,003	22,057	22,082
Post employment benefit contributions	(900)	(777)	(1,916)	(1,892)
Changes in working capital:				
Accounts receivable	(234)	832	(4,527)	1,799
Prepaid expenses and other	(2,694)	(2,982)	(2,345)	(3,270)
Accounts payable and accrued liabilities	(7,143)	(1,893)	(3,765)	(5,637)
Deferred revenue	(198)	(91)	(419)	1,717
Tenants' security deposits	(1)	38	62	38
	13,966	22,208	36,314	45,339
Interest paid	(16,252)	(16,338)	(22,577)	(22,705)
Interest received	124	200	332	412
Net cash flows from operating activities	(2,162)	6,070	14,069	23,046
Cash flows from investing activities				
Lessee receivable	(32)	9	(109)	19
Purchase of restricted deposits	(75)	(86)	(149)	(175)
Purchase of property, plant and equipment	(4,361)	(5,313)	(15,478)	(13,725)
Purchase of intangible assets	(754)	(598)	(1,366)	(1,267)
Proceeds on disposal of property, plant and equipment	-	14	-	14
Interest paid capitalized to property, plant and equipment	(95)	(368)	(340)	(723)
Net cash flows from investing activities	(5,317)	(6,342)	(17,442)	(15,857)
Cash flows from financing activities				
Repayment of long-term debt	(7,186)	(6,675)	(10,901)	(10,230)
Net cash from financing activities	(7,186)	(6,675)	(10,901)	(10,230)
Effect of exchange rate on cash and cash equivalents at the end of the period	14	44	66	92
Net (decrease) increase in cash and cash equivalents	(14,651)	(6,903)	(14,208)	(2,949)
Cash and cash equivalents - beginning of period	39,516	39,243	39,073	35,289
Cash and cash equivalents - end of period	24,865	32,340	24,865	32,340

See accompanying notes to interim financial statements.

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 9, 2016.

1. 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, 2015. The accounting policies followed in these unaudited condensed interim financial statements are consistent with those of the previous year, except as described below.

2. SIGNIFICANT ACCOUNTING POLICIES ADOPTED JANUARY 1, 2016

a) New and amended standards adopted in 2016

Edmonton Airports has adopted the following new and amended standard, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions.

- Clarification of acceptable methods of depreciation and amortization (Amendments to IAS 16 and IAS 38)
- Disclosure Initiative: Amendments to IAS 1

The adoption of the above amendments did not have any impact on the current or prior year financial statements.

b) Accounting standards issued but not yet applied

i) IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. Edmonton Airports is yet to assess IFRS 9's full impact.

ii) IFRS 15 Revenue Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized, as well as requiring entities to provide more informative, relevant disclosures in respect of revenue recognition criteria. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. Edmonton Airports is currently evaluating the impact of IFRS 15 on our financial statements.

iii) IFRS 16 leases

IFRS 16, published in January 2016, will replace IAS 17. IFRS 16 will bring most leases on-balance sheet for leases under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, all leases are to be capitalized by recognizing the present value of lease payments as both a financial asset and financial liability. The new standard effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been applied. Edmonton Airports is yet to assess IFRS 16's full impact.

iv) IAS 7 Statement of Cash Flows

IAS 7 has been revised to incorporate amendments issued by the International Accounting Standards Board (IASB) in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Edmonton Airports is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(unaudited, in thousands of dollars)

3. 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	Land	Construction work in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost											
Balance at January 1, 2015	820,836	45,536	127,686	238,318	85,982	23,906	17,076	18,886	4,080	50,573	1,432,879
Additions/ transfers	13,364	1,967	5,946	6,489	2,781	2,163	105	2,482		8,744	44,041
Disposals	-	-	-	(323)	(3)	(110)	(9)	(378)			(823)
Balance at December 31, 2015	834,200	47,503	133,632	244,484	88,760	25,959	17,172	20,990	4,080	59,317	1,476,097
Balance at January 1, 2016	834,200	47,503	133,632	244,484	88,760	25,959	17,172	20,990	4,080	59,317	1,476,097
Additions/transfers	2,355	4,988	-	67	31,883	660	1	145	-	(25,261)	14,838
Disposals	-	-	-	-	-	-	-	(58)	-	-	(58)
Balance at June 30, 2016	836,555	52,491	133,632	244,551	120,643	26,619	17,173	21,077	4,080	34,056	1,490,877

Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(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 \$	Land \$	Construction work in progress \$	Total \$
Depreciation											
Balance at January 1, 2015	221,216	14,992	41,660	80,623	38,532	16,218	11,331	9,104	-	-	433,676
Depreciation for the year	38,547	1,825	4,124	10,038	4,076	1,372	850	2,803	63	-	63,698
Disposals	-	-	-	(129)	-	(92)	(9)	(378)	-	-	(608)
Balance at December 31, 2015	259,763	16,817	45,784	90,531	42,608	17,498	12,172	11,529	63	-	496,765
Balance at January 1, 2016	259,763	16,817	45,784	90,531	42,608	17,498	12,172	11,529	63	-	496,765
Depreciation for the period	17,884	973	2,072	5,168	2,089	602	327	1,586	114	-	30,815
Disposals	-	-	-	-	-	-	-	(58)	-	-	(58)
Balance at June 30, 2016	277,647	17,790	47,856	95,699	44,697	18,100	12,499	13,057	177	-	527,522
Carrying amounts											
At December 31, 2015	574,437	30,686	87,848	153,953	46,152	8,461	5,000	9,461	4,017	59,317	979,332
At June 30, 2016	558,908	34,701	85,776	148,852	75,946	8,519	4,674	8,020	3,903	34,056	963,355

Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(unaudited, in thousands of dollars)

- a) At June 30, 2016, \$34,056 (December 31, 2015 - \$59,317) of property, plant and equipment were under construction of which \$23,561 (December 31, 2015 - \$57,256) was for parking and roadway systems, land servicing, and runways taxiways and aprons, not yet subject to depreciation.
- b) Included in accounts payable and accrued liabilities at June 30, 2016 is \$10,210 (December 31, 2015 - \$11,880) relating to unpaid capital expenditures.
- c) At June 30, 2016, \$30,816 (June 30, 2015 - \$32,206) of property, plant and equipment depreciation was included in the statements of comprehensive loss.
- d) Property, plant and equipment includes \$95 (June 30, 2015 - \$368) in borrowing costs capitalized during the period. Borrowing costs were capitalized at a weighted average rate of its general borrowing of 4.78% (June 30, 2015 – 4.81%).
- e) Assets with net book value of \$204 (December 31, 2015 - \$214) were disposed, there were no proceeds from these disposals (December 31, 2015 - \$13).

Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(unaudited, in thousands of dollars)

4. INTANGIBLE ASSETS

	Computer Software \$	Construction work in progress \$	Total \$
Cost			
Balance at January 1, 2015	3,831	821	4,652
Additions/transfers	2,754	(293)	2,461
Disposals	(955)	-	(955)
	<hr/>	<hr/>	<hr/>
Balance at December 31, 2015	5,630	528	6,158
	<hr/>	<hr/>	<hr/>
Balance at January 1, 2016	5,630	528	6,158
Additions/transfers	465	280	745
Disposals	(146)	-	(146)
	<hr/>	<hr/>	<hr/>
Balance at June 30, 2016	5,949	808	6,757
	<hr/>	<hr/>	<hr/>
	\$	\$	\$
Amortization			
Balance at January 1, 2015	2,802	-	2,802
Amortization for the year	1,630	-	1,630
Disposals	(955)	-	(955)
	<hr/>	<hr/>	<hr/>
Balance at December 31, 2015	3,477	-	3,477
	<hr/>	<hr/>	<hr/>
Balance at January 1, 2016	3,477	-	3,477
Amortization for the period	527	-	527
Disposals	(146)	-	(146)
	<hr/>	<hr/>	<hr/>
Balance at June 30, 2016	3,858	-	3,858
	<hr/>	<hr/>	<hr/>
Carrying amounts			
	<hr/>	<hr/>	<hr/>
At December 31, 2015	2,153	528	2,681
At June 30, 2016	2,091	808	2,899
	<hr/>	<hr/>	<hr/>

- a) At June 30, 2016, \$808 (December 31, 2015 - \$ 528) of intangible assets were under development and not yet subject to amortization.
- b) Intangible assets are purchased software and software licenses. During the period ended June 30, 2016, \$527 (June 30, 2015 - \$591) of intangible asset amortization was charged to the statements of comprehensive loss.

Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(unaudited, in thousands of dollars)

5. LONG-TERM DEBT

Total long-term outstanding

	June 30, 2016	December 31, 2015
	\$	\$
Series A Bond	208,470	211,719
Series C Bond	749,421	757,074
	<u>957,891</u>	<u>968,793</u>
Less: current portion Series A Bond	6,984	6,615
Less: current portion Series C Bond	15,822	15,477
Total current portion	<u>22,806</u>	<u>22,092</u>
Less unamortized transaction costs	3,269	3,413
	<u>931,816</u>	<u>943,288</u>

a) Series A Bond and restricted deposits

			June 30, 2016	December 31, 2015
			\$	\$
Interest Rate	Semi-annual Instalment	Maturity Date		
7.21%	Varying	November 1, 2030	201,486	211,719
			3,269	3,413
			<u>198,217</u>	<u>208,306</u>
Less current portion			6,984	6,615
			<u>191,233</u>	<u>201,691</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 three and six months ended June 30, 2016 and 2015
(unaudited, in thousands of dollars)

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 31, 2016 \$	December 31, 2015 \$
4.37%	755	December 15, 2026	12,606	13,075
4.50%	1,145	March 15, 2027	19,704	20,391
5.00%	398	June 15, 2027	6,679	6,904
4.89%	395	September 17, 2027	6,882	7,103
4.68%	1,552	June 16, 2028	28,240	29,109
4.55%	3,068	September 17, 2028	57,997	59,706
4.67%	1,245	December 15, 2039	35,322	35,734
4.54%	920	March 15, 2040	26,739	27,045
4.56%	1,845	June 15, 2040	53,498	54,110
4.00%	1,439	October 1, 2040	44,667	45,201
4.40%	2,112	December 15, 2040	62,960	63,672
4.41%	1,511	March 15, 2041	45,489	45,986
3.73%	557	March 17, 2044	50,000	19,439
3.36%	260	September 15, 2044	50,000	9,802
3.18%	266	December 15, 2044	70,000	9,797
			570,782	447,074

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

4.16%	1,041	June 15, 2041	30,000	50,000
3.70%	926	September 15, 2041	30,000	50,000
3.35%	1,174	December 15, 2041	40,000	70,000
3.41%	512	March 15, 2042	20,000	30,000
3.25%	488	June 15, 2042	20,000	30,000
3.26%	651	September 17, 2042	19,244	40,000
3.24%	324	December 17, 2042	9,702	20,000
3.42%	343	March 15, 2043	9,693	20,000
			749,421	757,074
Less: Current Portion			15,822	15,477
			733,599	741,597

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 three and six months ended June 30, 2016 and 2015
(unaudited, in thousands of dollars)

c) Interest Expense

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest Expense (Income)				
Series A Bond interest	3,837	3,869	7,728	7,772
Series C Bond interest	7,523	7,709	15,137	15,469
Other interest and financing costs	68	193	196	388
Interest income and other	(123)	(200)	(332)	(412)
	<u>11,305</u>	<u>11,571</u>	<u>22,729</u>	<u>23,217</u>
Less: capitalized interest	95	368	340	723
	<u>11,210</u>	<u>11,203</u>	<u>22,389</u>	<u>22,494</u>

6. DEFERRED REVENUE

	2016 \$	2015 \$
Deferred revenue	11,955	12,580
Less: amortized in the current period	<u>(151)</u>	<u>(357)</u>
	11,804	12,223
Less: current portion	<u>(553)</u>	<u>(993)</u>
	<u>11,251</u>	<u>11,230</u>

Notes to the Condensed Interim Financial Statements
For the three and six months ended June 30, 2016 and 2015
(unaudited, in thousands of dollars)

7. COMMITMENTS AND CONTINGENCIES

a) Commitments

At June 30, 2016, Edmonton Airports had outstanding capital commitments in the amount of \$43,997 (December 31, 2015 - \$12,596). On June 15, 2016, Edmonton Airports entered into a conditional agreement to lease and then purchase a building and specified tenant improvements upon completion of construction for a price of \$10,224 expected to close on January 1, 2017.

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.

8. 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, 2015 financial statements.