AIRPORT CITY

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THIS IS WHAT HAPPENS WHEN WE

BLUE SKY

NASEEM BASHIR
BOARD CHAIR

BOARD CHAIR'S MESSAGE

Edmonton International Airport's (EIA) long-standing purpose and commitment to use our unique aviation assets to fuel the economic engine of the region was clearly visible in 2017.

Consider this: our latest economic impact study shows that EIA contributes $3.22 billion in total economic output to the Edmonton Metro Region economy. In 2017 alone, EIA supported nearly 26,000 full-time jobs from people working at the airport directly and from spin-off jobs throughout the region. Villeneuve Airport is also a major contributor to the region's rural economy, generating $61.86 million in economic output. What this means for the region is greater confidence and stability during difficult economic times.

This economic growth was fuelled by growing passenger numbers. Up 3.6 per cent from 2016, our passenger numbers reached 7.8 million as people continued to travel through EIA to their destinations. Whether that destination is Amsterdam or Abbotsford, Huatulco or Halifax, EIA lives up to our brand promise — *we'll move you*.

Perhaps one of the greatest demonstrations of confidence and economic optimism for our region and EIA during 2017 was the unparalleled amount of commercial development at our Airport City. Approximately 1.6 million square feet was under development, at a scale and pace unrivalled in North America.

While these developments are located at EIA, they drive benefit across our region. In 2018 alone, Airport City will create up to 2,000 new jobs for people living in communities all across the region. In fact, more than 40 per cent of our employees live outside of Edmonton, spreading our reach far and wide.

None of our success would be possible without this incredible team of dedicated employees and a highly skilled Executive Team. On behalf of the entire Board of Directors, I offer them my sincere thanks and appreciation. Their dedication to our community is admirable.

I also want to offer my thanks to my colleagues on the Board for their business acumen, commitment to continuous improvement and devotion to the region we're so lucky to serve.

This is a time of transition for our Board. I'm very honoured to have been elected to replace Maureen McCaw as Board Chair. Ms. McCaw made a significant contribution to the Board and to EIA as a whole during her tenure. Maureen ably chaired our organization through challenging economic conditions. Having reached her term limit, Ms. McCaw now leaves the Board with our gratitude.

Also retiring from the Board are Ms. Gail Stepanik-Keber and Mr. Ralph Young. Both brought a wealth of expertise and wisdom to the Board and will be missed.

I'm very pleased to welcome Doug Horner to the Board of Directors, who will represent Parkland County. Also new to the Board are Christopher Burrows and Carman McNary, both of whom have been appointed by the City of Edmonton. All three new Directors began four-year terms on January 1st, 2018. It's also my pleasure to welcome Mary Cameron back to the Board, who has been re-appointed by the federal government.

EIA has had the benefit of highly experienced and skilled board members since its inception. As Board Chair, I am committed to building on that strong foundation by ensuring the Board reflects the growing diversity of the communities we serve.

We know that board diversification enhances governance, innovative thinking and organizational performance. We will advance this initiative over the next several years.

Lastly, I want to offer my thanks to our communities, whose resilience and optimism have been our inspiration and fuel. Our goal in everything we do is to make EIA as strong as you are.

Naseem Bashir
Board Chair

TOM RUTH
PRESIDENT & CEO

PRESIDENT AND CEO'S MESSAGE

Edmonton International Airport's annual results can be looked to as a barometer for predicting outcomes in many industries in our beautiful province of Alberta, and more specifically within our Edmonton Metro Region. If that is the case, it is indeed inspiring to see growth return to EIA after a few tough economic years.

In 2017, we saw passenger traffic grow 3.6 per cent from the previous year to reach 7.8 million people, which was driven by strong domestic and transatlantic growth. We also saw double digit increases on inbound international passengers, which stimulated hundreds of millions of dollars of visitor impacts on our economy. Another sign of returning strength to our economy was the numerous air service gains, including the announcement of Air Canada's daily, non-stop flight to San Francisco, Central Mountain Air's flight to Prince George and the "thickening" of frequencies from WestJet to Abbotsford and Kelowna. Additionally, Flair Airlines announced EIA as its main transfer hub.

Our counter-cyclical success in commercial development in recent years culminated in 1.6 million square feet of land simultaneously under construction in 2017, which by scope and pace is the largest of any North American airport. This transformational commercial development has led to thousands of new jobs in industries ranging from entertainment, retail, e-commerce, hospitality, cargo logistics, bio-pharma, manufacturing and many more. Our cargo facilities also followed this growth trend with more than 250,000 square feet of additional capacity in 2017.

Indeed, EIA has become an Airport City — an interconnected ecosystem of businesses, industries, retail outlets, entertainment and air service. Airport City is a place you visit and stay. Maybe you'll use the airport to fly to one of our more than 50 non-stop destinations, or maybe you'll come to have dinner, shop and visit Century Mile racetrack and entertainment centre. There's plenty to do and see at Airport City. And there's plenty more to come.

Villeneuve Airport continued to be an essential part of our business in 2017. As our region's primary general aviation airport, Villeneuve logged more than 62,000 aircraft movements in 2017, a 16 per cent increase from 2016. In addition, the ever-popular Edmonton Airshow at Villeneuve gave a special tribute to Canada's 150th birthday, and a record-breaking 40,000 people came out in full force for the festivities.

Our growth is for one purpose: to benefit our Edmonton Metro Region, and that includes our commitment to sustainability. We are conscious of our carbon emissions and are always looking for new ways to reduce the environmental impact of our operations. We want to walk with our stakeholders in this work and make decisions that will provide mutual benefit, now and in the future. Economic, social and environmental sustainability are essential ingredients to our success and are part of everything we do, at every level of our organization.

In closing, I want to thank several groups beginning with our dedicated EIA employees who worked so hard to achieve so many successes in the downturn, which will be a catapult for further successes as our economy recovers. Secondly, all the 6,000 (soon to be as many as 8,000!) employees who work harmoniously together in our airport community to achieve so much in good times and challenging times. Third, our airlines that provide the "air pipelines" that stimulate our economic opportunities. Fourth, our regional municipalities that are working so well together in a united forum to focus on growing our regional economy. And last, but not least, each of you in our community who are a huge part of our overall success as our region rebounds.

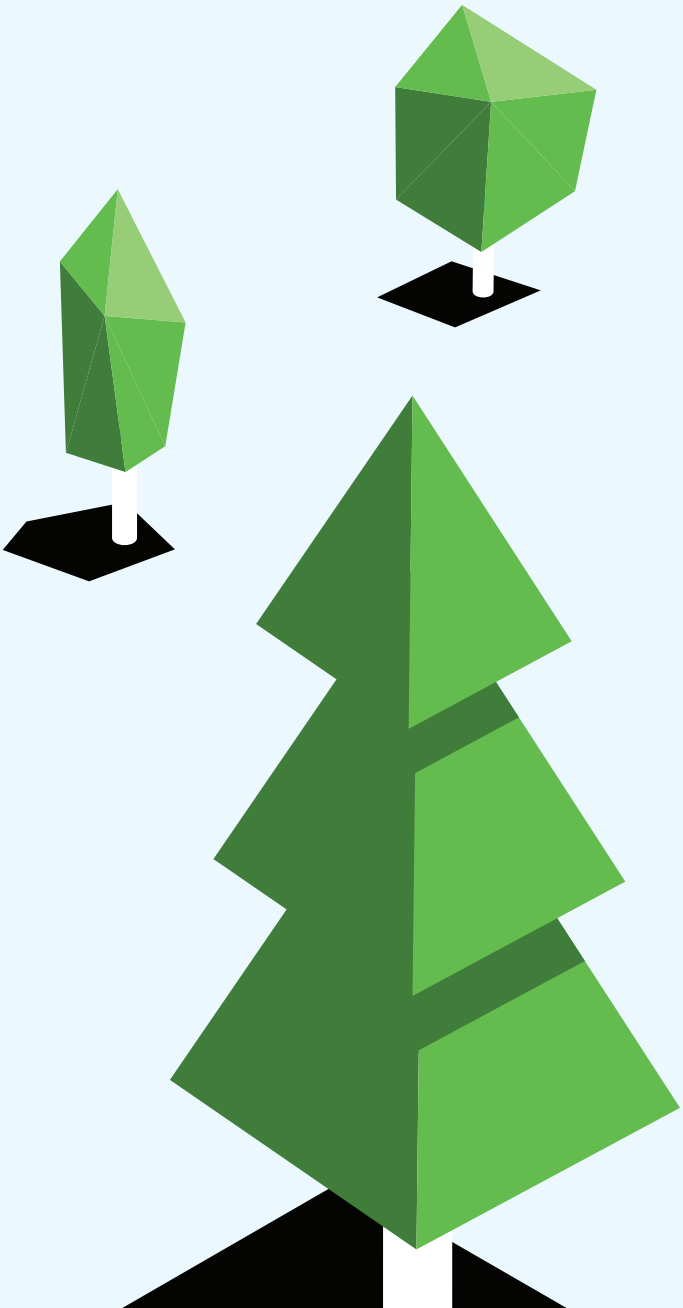
Tom Ruth
President and Chief Executive Officer

OUR IMPACT

EIA propels the Edmonton Metro Region economy, generating $3.2 billion in economic output and 26,000 jobs.

POSITIVE IMPACT THROUGH SUSTAINABILITY

We exist to support this region. That's why our corporate sustainability strategy is all about how we can make a difference to the people that matter to us: our employees, our passengers, our partners and our community. In other words, you. Our sustainability activities develop awareness and take action on economic, environmental and social issues through outreach and engagement. We want to make decisions that are beneficial for all, and so we have put our shoulder to the wheel to learn more about what our community needs, and what opportunities exist for us to continue to grow together. (See more in our 2017 Sustainability Report).



WE AIM TO LEAVE AN IMPRESSION

ECONOMY

EIA is an economic engine. In good times and bad, our role is to keep our region moving forward. We can't put it in park when the going gets tough. That's our time to rev the engine by attracting more flights to more places, more commercial development and more cargo. Because it all translates to better results for our region.

EIA is an economic engine. Our drive to create regional economic prosperity will never run out of fuel.

So, let's break it down. EIA's total economic output was about $3.2 billion in 2017 and it supported a total of 25,890 full-time equivalent (FTE) jobs. Fifty-eight per cent of EIA's total economic impact is the result of direct or spin-off activity associated with airport operations. Major capital projects represent 18 per cent, followed by the economic impact created by US and international visitors (13 per cent). Air cargo represents nine per cent. EIA directly impacts jobs to the tune of 10,170 FTEs. These jobs benefit communities beyond the City of Edmonton since about 40 per cent of EIA and Villeneuve Airport employees live in communities other than Edmonton.

Cargo moving through EIA also provides significant impact to the regional economy. Cargo shipped around the world via EIA connects regional business to international markets and enables regional business growth. The total impact of EIA's air cargo exports from EIA is almost $290 million, which supports almost 2,000 FTE jobs.

In June, the City of Edmonton, the City of Leduc, Leduc County and EIA signed the Inter-Jurisdiction Cooperation Accord. The aim of the Accord is to help EIA reach its full potential as a major economic driver, bringing benefits to the entire Edmonton Metro Region and, indeed, the province.

The formalization of this partnership provides an unprecedented opportunity for collaboration and innovation that will advance the region and EIA as global investment destinations. In this spirit, the Accord seeks to ensure maximization of the airport's role through decisions made about service provision, transportation linkages, infrastructure and land use planning. The collaborative model is based on the premise of shared costs for shared benefits, recognizing that all partners are beneficiaries of EIA's success.

EIA's purpose, as always, is to keep the region moving forward. As a key economic generator, we must always keep pace with the goals, expectations and aspirations the region has for its future. With more than 2,800 hectares of land, EIA is uniquely positioned among Canadian airports to become a commercial development powerhouse, creating greater economic stability and confidence in the region for years to come.

EIA IS AN ECONOMIC ENGINE. OUR DRIVE TO CREATE REGIONAL ECONOMIC PROSPERITY WILL NEVER RUN OUT OF FUEL.

DOING THE RIGHT THINGS NOW FOR A BETTER TOMORROW

SUSTAINABILITY

EIA is striving to align itself and its business strategies with federal, provincial, regional and municipal climate change goals and strategies. For carbon emissions within our control, we have committed to carbon-neutral growth between 2014 and 2022. But we want to go further. What we do, we do for our region. That's why, in addition to meeting our commitments, we'll also continue to align our sustainability initiatives with all three levels of government in a way that drives new technology implementation while promoting economic diversification and job creation.

You can see our progress in projects such as:

- LEED Gold certification for the 2012 terminal expansion and central tower
- EIA Wetland Treatment Facility, which processes spring runoff and storm water to remove chemicals (such as de-icing solution for jet planes) before the cleaner water enters a local creek
- Co-generation (2019), which will feature the installation of a combined heat and power system adjacent to the Central Utility Plant near the terminal, and is another way we'll reduce our carbon footprint
- Sponsorship of the Cities and Climate Change Conference in March 2018
- 2017 Corporate Knights Future 40 sustainable company

Financial sustainability

Considering our far-reaching financial impact is very important to us. As our sustainability story continued to unfold in 2017, we put effort into updating our corporate procurement policy to integrate sustainability. What we buy, and how we buy it, matters. We promote businesses that have similar values and, in turn, support our local community. This change was driven by extensive internal and external stakeholder consultation. The implementation of our new policy will support purchasing that provides the best long-term value for the region through the consideration of the financial, social and environmental impacts of what we buy.

Environmental sustainability

Sustainability is part of how we do, and how we think about, business. In particular, we are conscious of our greenhouse gas or carbon emissions. We have considered the work of international organizations, other airports and local government in the development of our plan to reduce our carbon output. We've categorized our carbon focus areas into:

- carbon we control
- carbon we influence
- monitoring and participating in change
- communicating our efforts

We remain committed to carbon neutral growth between 2014 and 2022. As we learn more about our carbon emissions, we do more about our energy use on site. In 2017, for example, we conducted an extensive energy management assessment with leaders throughout our airport to identify and develop an energy management plan that was conscious of our energy sources, our energy uses and gaps in our current processes. These insights formed the base of continued energy discussions that engage all employees.

We've also increased our relationship building with external stakeholders. Our 2017 Environmental Management Plan reached out to key partners, both at the airport and in the community, to understand how to best align our entire program and direct our efforts toward priority activities. (See flyeia.com/EnvironmentalManagementPlan to learn more.)

The City of Edmonton, one of our key government stakeholders, has been an important partner in discussions about climate change and carbon emissions. The City has increased its emphasis on climate change mitigation, planning, research and communication, and EIA has contributed to each area of this discussion over the last two years.

Where the wild things aren't

Sometimes the best way to leave an impact is to leave no impact at all. We're always looking for innovative ways to reduce our carbon footprint and be responsible stewards of the land around us. That means caring for the animals, too. The number one job at any airport is safety, and our Wildlife Safety Plan is a significant plank in our safety platform. Part of that work involves keeping birds away from air traffic and discouraging them from nesting near airside operations and flight paths.

In May, EIA added another environmentally friendly tool to its wildlife management tool kit in the form of Robird, a high-tech flying robot drone that mimics the flight of a falcon. The flight behaviour is so realistic and so indistinguishable from the real thing that other birds believe there is a natural predator in the area. The result is a safe airport and happy birds that live far away.

EIA is the first airport in the world to integrate a full suite of unmanned aerial system (UAS) services to our daily operations. Robird is the creation of Clear Flight Solutions (CFS) and AERIUM Analytics.

Social sustainability

We care about people, at and around our airport. For us, social sustainability means taking care of what matters the most: safety and security, our passengers and employees and our community.

One of our core corporate values is "safety and security first." That's why we invest in regular audits and updates to our programs and invest in training employees to ensure everyone knows they have an essential role to play in keeping our passengers, partners and airport community safe.

Safety and security

To ensure we're ready to keep people safe and secure, it's our responsibility to prepare for even the worst possible situations. That's why, in 2017, we held a full-scale crash-on airport exercise and five tabletop exercises ranging from crash-on airport to landside security lockdown. We worked with many partners and tested the responses of police, security, the Canadian Airport Transportation Safety Agency (CATSA) and United States Customs and Border Protection (USCBP). We also held a tabletop crash-on airport exercise at Villeneuve Airport.

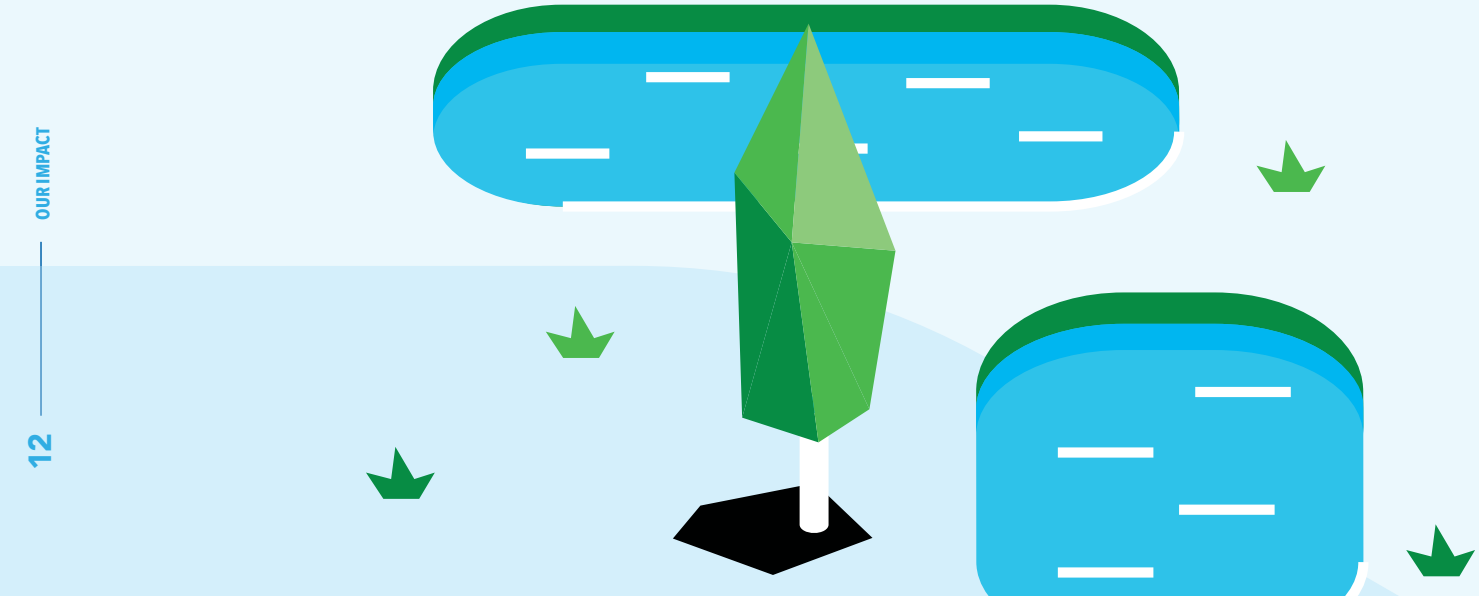
In addition, we provided approximately 25 participants with 'enhanced Emergency Operations Centre (EOC) training', improving our overall response to emergencies.

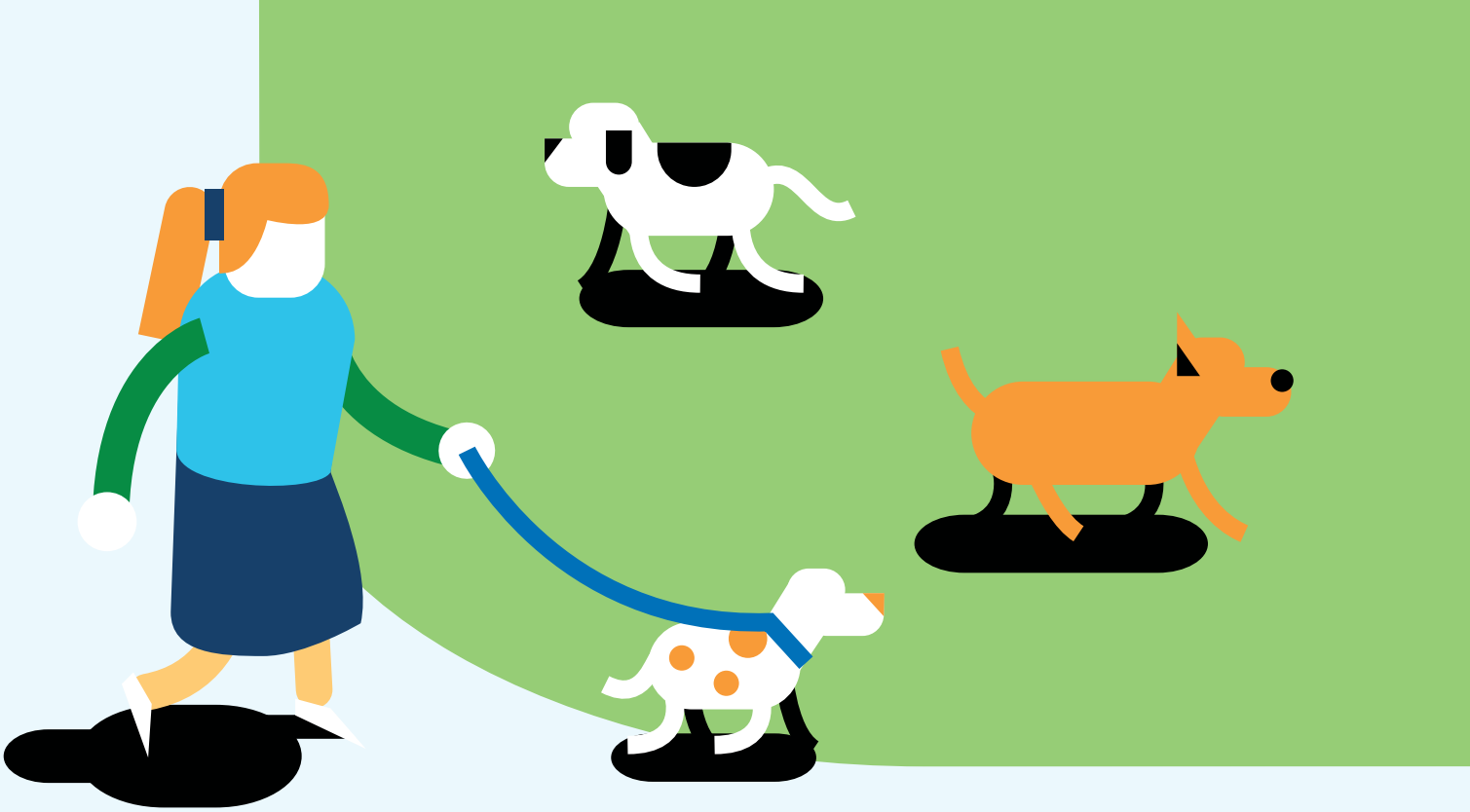
Active Shooter Awareness training was presented to 298 employees and tenants at EIA by the end of 2017. That's 1,166 total attendees since March 2015, when the program began.

Repetition and regular training are key components to being prepared for an emergency.

Investing in our talent makes our talent invested in us

We know all of our accomplishments are only possible because of our talented and dedicated employees. And our investment in our talent is central to everything we do. We celebrate people and the diversity of our workforce, recognizing that different backgrounds and skills make for a stronger team and, ultimately, a better passenger experience. As we set our sights for long-term growth that benefits our community, we continue to expand the opportunities for our employees to develop and realize their full potential. Training, both on the job and external, allows our people to learn and grow so they can advance and realize their own aspirations. We partnered with the University of Alberta and undertook an employee leadership training program for various levels of leadership within the organization.





Our people speak openly and honestly in our engagement surveys, and our 2017 survey reinforced that they care, with an 87 per cent participation rate. Our people are clearly motivated to participate and excel.

Caring counts in all ways, always

Our company boasts 300 employees, who represent communities all across the region. We care about the region because we are the region. We serve the communities in which we live. That's just one of the reasons we feel strongly about giving back to the region we're so lucky to serve.

Support your local short story dispenser

Launched in 2009, our local musicians program has become a passenger experience mainstay, and has been embraced by passengers and employees alike. Through this program, local musicians have the chance to play original music for passengers post-security, get some exposure and practice, create some fantastic ambience and sell a CD or three.

And now, local authors can get in on the action, too, with our new short story dispenser. Yes, you read that right (write?). In 2017, EIA launched a unique passenger experience project that connects the local art scene to the world. We partnered with local author and curator Jason Lee Norman (editor of *40 Below: Edmonton's Winter Anthology*) to gather submissions of work from local writers.

The free-to-use short story dispensing machine also brings Edmonton's art scene to the world because every local piece collected can be distributed in other machines worldwide. Right now, about 100 stories by local authors are available in the dispenser library, with a mix of pieces from some of our non-stop European destinations added in (nice touch, hey?).

Local authors, including Alice Major (Edmonton's former Poet Laureate), Wendy McGrath and Steven Sandor, came to the launch event at EIA for an intimate reading of their short stories, printed right out of Canada's first short story dispensing machine.

Rover says, "Sit! … and relax!"

Travel can be stressful. If music doesn't soothe you and reading doesn't calm you, we've got another trick up our sleeve: EIA's Pet Therapy Program. Started in 2015, the Pet Therapy Program at EIA runs thanks to our partnership with the Pet Therapy Society of Northern Alberta. Not only is our Pet Therapy Program the first of its kind in a Canadian airport, we've also helped other airports start their own programs. Ten teams, with a combined total of 11 trained therapy animals – the dogs – come to the airport on a rotating schedule to put smiles on the faces of our passengers. The Pet Therapy Program has been featured on all the local news stations and has become a very "pup-ular" part of EIA life. It's just one of the many ways we strive to ensure our passengers have an exceptional experience while they're at the airport.

What's important to you is important to us

In 2017, EIA supported more than 90 causes, events and organizations in the Edmonton Metro Region, including the Servus Heritage Festival, the Edmonton International Street Performers Festival, the Ice on Whyte Festival, the Make-A-Wish Foundation, the Edmonton and Leduc Food Banks, the Boys and Girls Club, the Edmonton Folk Music Festival, the International Triathlon Union and the Ford Men's World of Curling Championships. For the first time, EIA was proud to host the National Indigenous Peoples' Day cultural showcase, which featured traditional dance, music and art.

We're also grateful for the generosity shown by our community and business partners who once again supported EIA's annual Charity Golf Classic, which raised $233,500 for Youth Empowerment and Support Services (YESS), Riseup Society Alberta and the Leduc and District Food Bank. Over the last seven years, the golf tournament has raised a combined total of more than $1 million for community groups.

We're here to make an impact on our region and leave an impression on the communities we serve. We exist to support business of all sizes, from the solo local musicians who play in the terminal to the industry partners building facilities of thousands of square metres. Every decision we make serves to fulfill our brand promise: *we'll move you.*

SMALL AIRPORT. BIG IMPACT.

As the region's main general aviation airport and reliever to EIA, Villeneuve Airport continued to help drive the regional economy in 2017, contributing over $60 million in direct economic output to the region and 235 FTE direct and spin-off jobs, including 60 at the site. It is the region's best-equipped secondary airport, with a manned control tower and instrument landing system.

In terms of aircraft movements, Villeneuve saw a significant jump in 2017, with 61,569 movements compared to 53,874 in 2016.

During 2017, the aircraft tie down area was expanded, and moved from the south side of the airport to the east. Nineteen more tie down stalls were added, bringing the total to 54. These additional tie downs now make new development in the south area of the airport possible by accommodating more aircraft parking and opening up land for additional aviation infrastructure and planning for the next phase of development.

BDK Properties completed construction of a 14,000-square-foot hangar, and Propworks Propeller Systems wrapped up construction of another 4,000-square-foot hangar at the Villeneuve Airport.

For three glorious days in August, Villeneuve once again opened the skies for the annual Edmonton Airshow, which was attended by a record 40,000 people. The two-day family event included the Royal Canadian Air Force Snowbirds as well as many other performers and displays. Recently, the 2017 Edmonton Airshow won "Outstanding Live Event over 10,000" at the Edmonton Event Awards. The 2018 event will run August 17 to 19.

EXPERIENCE AIRPORT CITY

What does it mean for EIA to be an Airport City? For us, it's all about "creating value within and driving value out." Creating value within means creating an experience for business and the community that makes EIA a destination in and of itself.


SHOPS &
RESTAURANTS
COMPANIES

Comprising more than 60 different companies, Airport City as a destination shifts EIA from being a waystation to being a value-driven economic ecosystem that supports those companies and drives value out by creating economic spin-off to the region. Our goal, as always, is to drive growth at the airport to support the development of regional businesses of all sizes.

What makes our Airport City an attractive destination is our focus on consumer retail and entertainment-focused commercial development growth. Commercial development supports air service by attracting new passengers and services, and provides revenue that is reinvested into the airport. In 2017, commercial development at the airport created over 1,000 construction jobs. And in 2018, we expect all those facilities to employ up to 2,000 new employees, having a direct impact on the regional economy. With more than $750 million of private investment at the airport since 2014, we expect commercial development to remain robust in 2018.

OUR GOAL, AS ALWAYS, IS TO DRIVE GROWTH AT THE AIRPORT.

PREMIUM OUTLET COLLECTION – EIA

THE REGION'S NEW RETAIL HUB

2017 saw the completion of a major road upgrade at the airport that included additional lanes between Queen Elizabeth II Highway to Airport Road as well as additional signal lights and lanes to Premium Outlet Collection - EIA. Construction on Ivanhoé Cambridge and Simon Property Group's $225-million, 585,000-square-foot retail outlet facility is near completion and is scheduled to open May 2nd, 2018. Premium Outlet Collection - EIA will offer consumers of all tastes and budgets access to more than 100 renowned brands.

CENTURY MILE RACING ENTERTAINMENT CENTRE

THE ODDS FAVOUR FUN

In September 2016, Century Casinos Inc. received approval from the Alberta Gaming and Liquor Commission to own, build and operate a $50 million horse racing facility at EIA. Century Mile will feature a one-mile horse racetrack, complete with barns, parking and a multi-level entertainment centre. When it opens, the entertainment centre will feature 550 slot machines, an off-track betting area and food and beverage outlets, as well as indoor and outdoor viewing areas.

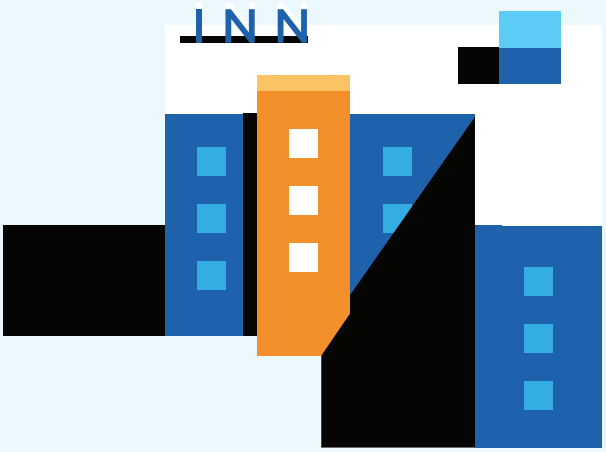
Century Mile will be located just off the Queen Elizabeth II Highway on the north side of Airport Road next to RedTail Landing Golf Club. Construction on Century Casinos' Century Mile Entertainment Centre is well underway, with the opening set for spring 2019.

COSTCO

WHOLESALE VALUE

Costco's popularity among consumers in the region is no secret. In fact, the Edmonton Metro Region was one of the first Canadian markets to welcome a Costco. From great value to food samples and amazing hot dogs to those awesome membership ID photos, Costco is a must-go destination for people in the region. That's why we were thrilled in November to announce that Costco would be constructing a 154,000-square-foot warehouse next to the Queen Elizabeth II Highway near the Premium Outlet Collection - EIA. The EIA Costco campus will include a gas station and a liquor store. More than 250 employees will be hired for this Costco location when it opens in late 2018. People travelling through can stop and shop at Costco, and then arrange with one of the cargo companies at EIA to ship their purchases home – or to any other location.

FAIRFIELD INN BY MARRIOTT



REST FOR THE WEARY TRAVELLER … AND SHOPPER

To be added to the growing Airport City family is the brand new Fairfield Inn by Marriott. Scheduled to open in early 2019, the Fairfield Inn by Marriott will feature 135 rooms and suites, a swimming pool, a hot tub, a fitness room, meeting rooms, a lobby bar and complimentary breakfasts. The hotel's concrete construction and airtight heating and cooling system will mean deep, restful sleep for guests.

The Fairfield Inn by Marriott is located in the heart of EIA's new retail and entertainment zone, so visitors to Airport City can extend their stay as they shop, dine, golf at RedTail Landing Golf Club and visit the Century Mile Entertainment Centre.

The hotel will employ approximately 800 people during the construction phase and 75 people upon completion.

BUT, WAIT! THERE'S MORE!

THE BURGEONING AIRPORT CITY

That's the spirit

Red Cup Distillery, a local company based in Vegreville, Alberta that produces "Authentic Alberta Moonshine," has now taken possession of their new facility at EIA and will be operational in the spring of 2018.

Best furry friends forever

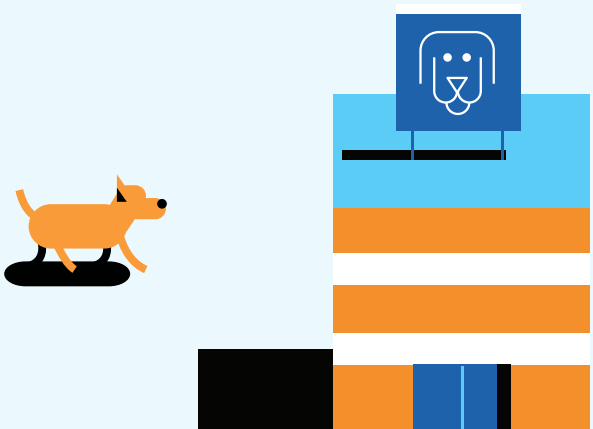
Starting in the fall of 2018, loving dog owners will be able to spoil their furry friends at Dogtopia, a dog daycare, boarding and spa facility. Whether you're travelling and need a place for pooch to stay or just want your pet tired out when you pick it up after work, Dogtopia is the ideal place for your canine best friend. Dogtopia is known for its exceptional care for dogs; it currently operates more than 60 locations in Canada and the United States.

Canadian North maintenance facility

In November 2017, Canadian North announced it would establish its own Manufacturing, Maintenance, Repair and Operations (MMRO) facility at EIA, which opened in the spring of 2018. The 90,000-square-foot hangar represents a multi-million dollar investment in hiring, equipment purchases and facility upgrades. The venture has been made possible thanks to the support of the Inuvialuit Development Corporation, Canadian North's parent organization. Once the facility is operational, Canadian North will be able to fulfill all the line maintenance, heavy maintenance and manufacturing requirements for its fleet.

More than 160 shops and restaurants

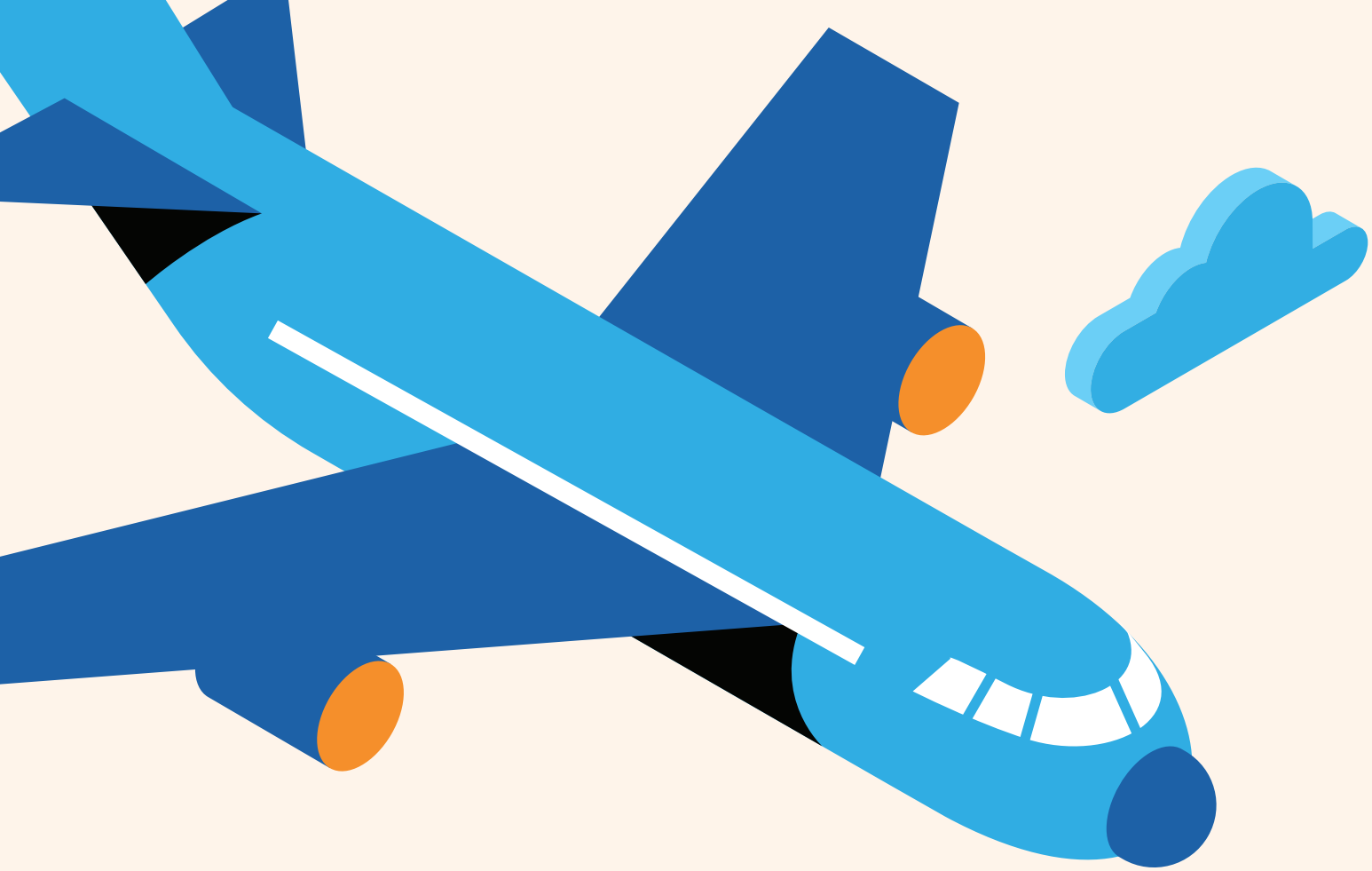
Whatever your budget or appetite, EIA spent 2017 planning for everyone. Airport City will add over 110 shops and restaurants to our current lineup of 60 in-terminal favourites, so there's a choice for every taste. As well, work began on building Delux Burger Bar, a full-service establishment, and on DLX2Go, a quick-service restaurant highlighting take-out with a to-go option, soon to be located by Gate 56. Anticipated opening of this new restaurant is April 2018.




NON-STOP DESTINATIONS
ABBOTSFORD
AMSTERDAM
HUATULCO
HOUSTON
KELOWNA
PRINCE GEORGE
REYKJAVIK
SAN FRANCISCO

TRANS-FORMING TRAVEL

Naturally, passenger travel and cargo form the core of our business at EIA. Non-aeronautical revenue from commercial development and parking are re-invested into the airport to improve air service and amenities. Greater investment in the airport translates into better air service options for the region, which, in turn, helps attract further investment to the region to support the overall economy.



MORE FLIGHTS TO MORE PLACES

AIR SERVICE

EIA saw several air service wins in 2017, including WestJet's new non-stop service to Huatulco, Mexico. The weekly service began in November, just in time for the peak seasonal travel season.

WestJet also increased non-stop service between Edmonton and Abbotsford from 11 to 13 flights per week, and between Edmonton and Victoria from 10 to 13 flights per week. The summer schedule of six daily flights between Edmonton and Kelowna was also extended through the winter.

In November, Air Canada announced the launch of a new daily, year-round, non-stop service from Edmonton to San Francisco. The introduction of the route was in response to the "young, entrepreneurial demographic" flourishing in the region. This particular route will offer start-up, tech and other innovation-focused businesses in the region direct access to California's Silicon Valley and Bay Area, as well as the global destinations available through the San Francisco hub.

In September, Flair Airlines, which uses EIA as its main transfer hub, announced the expansion of its route network by adding service to three more airports: Toronto Pearson Airport, Vancouver International Airport and Kelowna International Airport. Flair intends to be operating 13 aircraft by the spring of 2019. This service expansion means more options and greater flexibility for travellers.

In July, EIA also welcomed new Central Mountain Air non-stop service between Edmonton and Prince George, B.C. in response to considerable demand. Flights are operating six days a week.

This additional air service is great news for business and leisure travellers alike. The enhancements would not be possible without the continued support of these routes by people and businesses in the region.

We collaborate on developing air service priorities with Edmonton Global, Edmonton Economic Development Corporation, Edmonton Tourism, Edmonton Destination Marketing Hotels, our regional municipalities and regional businesses. This ensures we're targeting the air service the region wants and expects.

THE FUTURE OF AIR TRAVEL IS IN YOUR HANDS

EIA is training its sights on the digital transformation of passengers' airport experiences. Moving through an airport involves a series of processes. We're working with our airline partners in using technology to streamline some of those processes, to make the airport experience more efficient and easier to navigate.

Paperless travel, for example, is now possible as airlines offer digital boarding passes, which are recognized by the Canadian Air Transportation Security Agency (CATSA), for use with mobile phones. In addition, United States Customs and Border Protection (USCBP) has Automated Passport Control kiosks at the airport, while the Canada Border Services Agency (CBSA) has Primary Inspection Kiosks (PIK). The new PIK process streamlines the border security process and reduces waiting times by allowing passengers to complete their declaration forms from a paperless kiosk or from an app on a mobile phone.

REWARDS

Our focus on EIA *rewards* in 2017 remained strong as we continued to build a relationship with our customers.

The *rewards* program allows us to interact with passengers more directly to share information regarding the great things about the airport, including our over 50 non-stop destinations. Corporate customers, connecting passengers and local travellers receive customized offers each month that help make their travel experiences more enjoyable. For example, connecting passengers can receive complimentary access to the Plaza Premium Lounge, and corporate customers are offered enhanced parking benefits with Easy Parkade and Priority Valet service.

All passengers are eligible for the core program offerings, including guaranteed parking discounts, entry into the monthly contest for a flight for two to one of our featured destinations, premium Wi-Fi and new offers from our in-terminal businesses and partners every month. One of our most popular features is the "What's Happening" section, where we can keep our members informed of airport news. As our local entertainment and shopping offerings increase, this communication channel will become very important to EIA, whether a customer is flying or not.

24/7 MOVEMENT

CARGO

All EIA's cargo facilities operate within the Port Alberta Foreign Trade Zone (FTZ), which reduces trade barriers and enhances access to key Canadian markets. EIA is open 24 hours a day, seven days a week, with no curfews or operational or slot restrictions.

In 2017, EIA welcomed multiple new warehousing facilities, providing a combined total of 250,000 square feet of additional capacity on the ground.

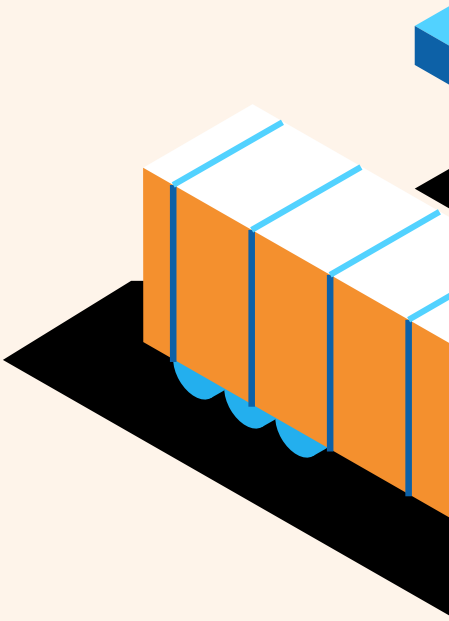
Aeroterm opened its new $10-million logistics distribution centre, which includes 50,000 square feet of airside flight kitchen and air cargo support facilities. Tenants in this new centre include Gate Gourmet, ATS, Sky Café and Swissport.

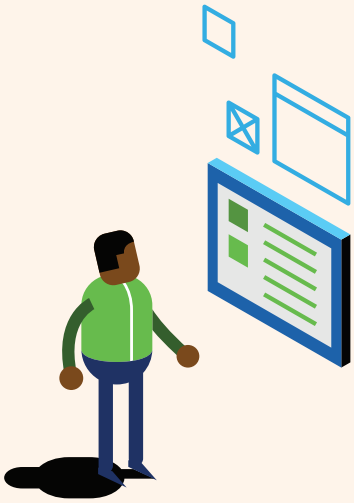
Construction also began on the new 25,000-square-foot Logistics Centre building by Runway Developments. The facility is earmarked for mixed-use cargo with leasing opportunities available for customs brokers, logistics companies and freight forwarders. The Logistics Centre is scheduled to open by spring 2018. Confirmed tenants include Flying Fresh Air Freight, Farrow and Livingston International.

EIA's cargo carriers – Air Canada, AF/KLM, Air North, Canadian North, Cargojet, DHL, FedEx, First Air, Icelandair and WestJet – help our regional businesses trade with the world. In 2017, their services were supplemented by the services of Nippon Cargo Airlines, Korean Air Cargo, Air Bridge Cargo and Atlas Air, all operating multiple transpacific and transatlantic charter services, which expanded EIA's role as an international cargo centre.

GROWING BUSINESS

EIA's land advantage means there's room for science and technology companies to establish roots and have room to grow.





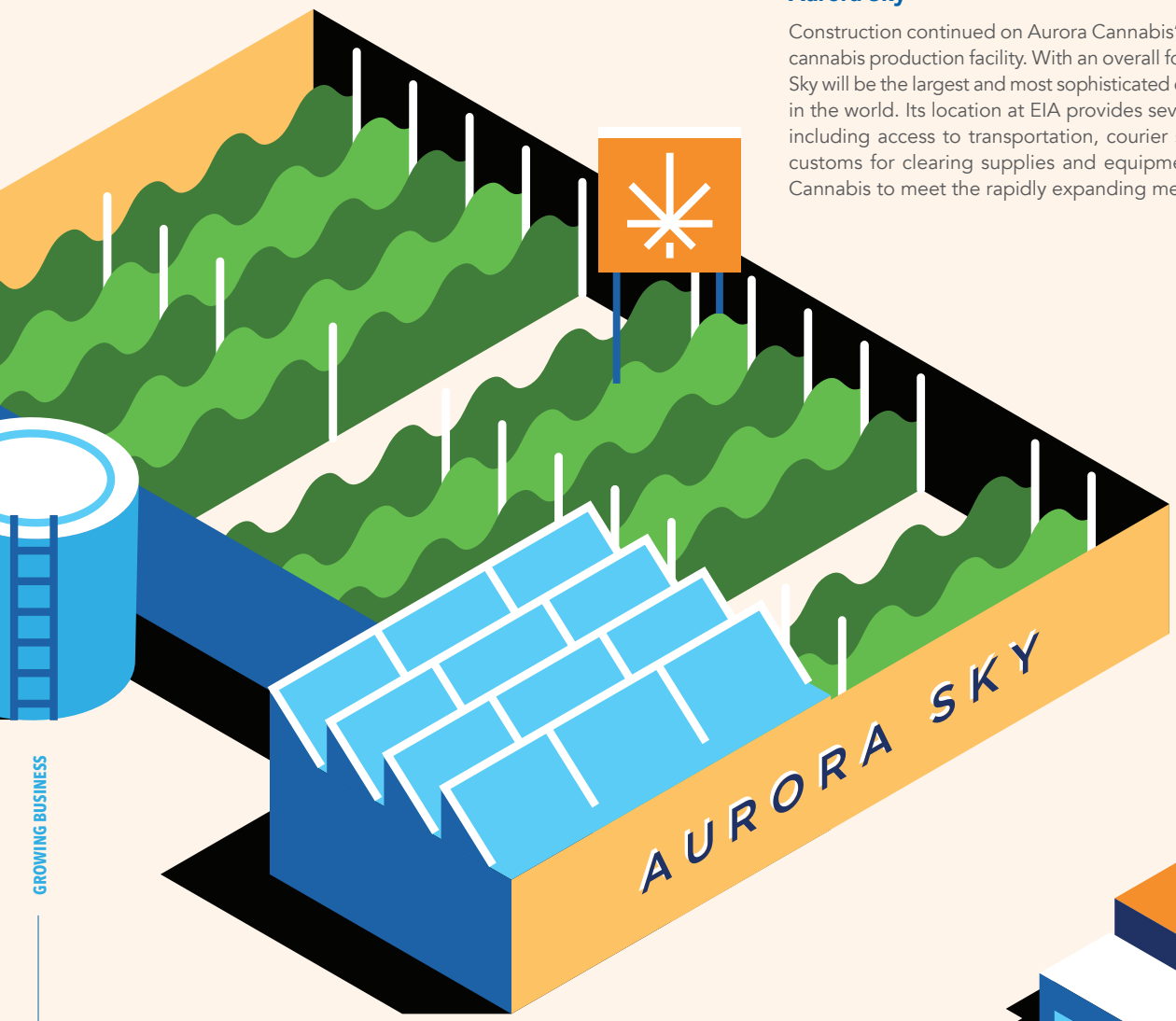
THE HOME OF INNOVATION IS AIRPORT CITY

INCUBATING TECHNOLOGY

Being within the Foreign Trade Zone, easy access to cargo operators and EIA's network of non-stop destinations makes Airport City the ideal place to maximize knowledge and technology transfer and gain a competitive edge. Fostering the success and growth of technology and business is important to EIA as it bolsters direct and spin-off economic benefits for the region, and helps position the Edmonton Metro Region globally as a knowledge and technology powerhouse.

Aurora Sky

Construction continued on Aurora Cannabis' new 800,000-square-foot cannabis production facility. With an overall footprint of 30 acres, Aurora Sky will be the largest and most sophisticated cannabis production facility in the world. Its location at EIA provides several strategic advantages, including access to transportation, courier services and international customs for clearing supplies and equipment, and positions Aurora Cannabis to meet the rapidly expanding medical cannabis market.



Alberta Aerospace and Technology Centre expansion

The Alberta Aerospace and Technology Centre (AATC), which opened at EIA in June 2015, is a partnership founded by Edmonton International Airport, Canadian North, Canadian Helicopters, the Edmonton Economic Development Corporation (EEDC) and the Government of Alberta to build a cluster of activity in aerospace and technology at the airport.

The AATC expanded in 2017 by adding a number of advanced technology company partners:

Promethean Labs is a space information start-up based in Edmonton. Founded in 2016, the company's mission is to solve big questions by providing regular and accessible satellite data for an affordable price. This year, Promethean Labs moved into the main terminal building at EIA as part of the AATC. They will be helping provide Alberta with a "smart economy" by supporting the forestry, mining and agriculture industries. They will also be measuring greenhouse gas emissions with precision satellite data.

AERIUM Analytics is a Canadian-owned and operated Unmanned Aerial Vehicle (UAV)-as-a-service. In 2017, AERIUM Analytics became a full member of the AATC. The goal of that partnership is to grow and develop UAV technologies in Alberta. By joining the AATC, AERIUM has more opportunity to promote their services and further develop UAV technology in the province. EIA is currently using AERIUM and Clear Flight Solutions' Robird drone to guide birds safely away from air traffic.

Absolute Combustion International (ACI) also became a full member of the AATC at EIA this year. The company will be continuing its research and development of their combustion technology, as well as identifying and creating innovative solutions for the aerospace industry. ACI's goal is to create devices that allow airports to cut emissions, decrease maintenance and increase the safety of their heating equipment. ACI will design, build and test a new 35 per cent more efficient heater for EIA's passenger boarding gates. Membership in AATC at the airport has given ACI the opportunity to participate in trade delegations to promote their home-grown technology, and has also created opportunities for the company with Canadian North Airlines.

Alberta Centre for Advanced Micro and Nano Technology Products (ACAMP) joined the AATC in the fall of 2017. ACAMP is an industry-led product development centre that advanced technology entrepreneurs rely on to move their innovations from proof-of-concept to manufactured products. ACAMP does this by providing access to multidisciplinary engineers and technology experts, and to specialized and unique equipment and industry smarts. The company also develops electronics hardware that integrates embedded systems, including sensors, firmware and control systems. As a member of AATC, ACAMP will help Alberta businesses enter and expand into the global advanced transportation and connected vehicle systems markets, which is estimated to grow into a $100 billion industry by 2030.

Alberta Motor Transport Association training facility

During the summer of 2017, the Alberta Motor Transport Association (AMTA) began construction of a new educational facility at EIA. Located near RedTail Landing Golf Club, the nearly 20,000-square-foot facility will feature a five-acre test-driving track and simulation trainer. The facility will allow AMTA to conduct all its commercial driver training in one convenient location.

PARKING AND GROUND TRANSPORTATION

In 2017, our parking bookings from marketing and sales activities increased by 33 per cent, generating an additional 25 per cent in revenue over 2016. As well, revenues in our three major public parking products saw an increase of 1.4 per cent over 2016.

We rolled out a new Commercial Vehicle Access Guideline that updated our access procedures to acknowledge Private Transportation Providers, and bring under license all prearranged shuttles and commercial operators that pick up their parties at EIA. This was done to ensure safety and high service levels for our passengers were maintained in the ever-evolving transportation industry. Licensing of, and the associated fee increase to, these operators led to an increase in ground transportation revenues of 23 per cent over 2016.

Throughout 2017, we continued to lay the ground work for an integrated transit network, better connecting EIA with the City of Leduc and the City of Edmonton to allow travellers and employees more options and accessibility for getting to and from the airport.

AWARDS AND ACCOLADES

What you'll hear from us, over and over, is that we give everything we've got to serve our passengers and our region. It's why we exist. And in doing that, we're always striving to do better than we did yesterday. We focus on diligence, doing the right things and being innovative. Sometimes we do it so well … folks "up and take notice."

Here's a list of a "few" of the awards we received last year for providing excellent service to our customers. Thanks for always inspiring us.

2017 – Airports Council International (ACI)

- First Place for Video and Film Production – Curb To Gate Service April Fool's Video
- Honourable Mention for Promotional Items – My Friend Eddie holiday story

2017 – Airports Council International (ACI)

- Airport Carbon Accreditation Level 1 –
  Recognizes airport efforts to manage and reduce their CO2 emissions through independent assessment and verification.

2017 – Airports Council International (ACI)

- First Place for Best Retail Program
- Second Place for Best Food and Beverage Program

2017 – Alberta's Top 70 Employers

Awarded to EIA by MediaCorp Canada for our excellence in the following initiatives:

- New employees start at three weeks of paid vacation allowance and can schedule additional time off through a formal earned-days-off program.
- Employees are encouraged to prepare for the future with retirement planning assistance and contributions to a defined benefit or defined contribution pension plan (depending on employee group) – and retiring employees are assisted in the transition to life after work with phased-in work options.
- Ongoing employee development is supported through a variety of in-house and online training programs, including apprenticeship opportunities and subsidies for tuition and professional accreditation.
- Maternity leave top-up payments are provided to employees who are new mothers (up to 93 per cent of salary for 17 weeks), and an option is offered to extend their leave into an unpaid leave of absence.

2017 – ACE (Advertising Club of Edmonton) Awards

- Best Design – 2016 Annual Report
- Best Annual Report – 2016 Annual Report
- Best Copywriting – 2016 Annual Report
- Best Printing – 2016 Annual Report

2017 – Canadian Parking Association

- Marketing and Communications Award for the jetSet Promise Campaign

2017 – International Parking Institute

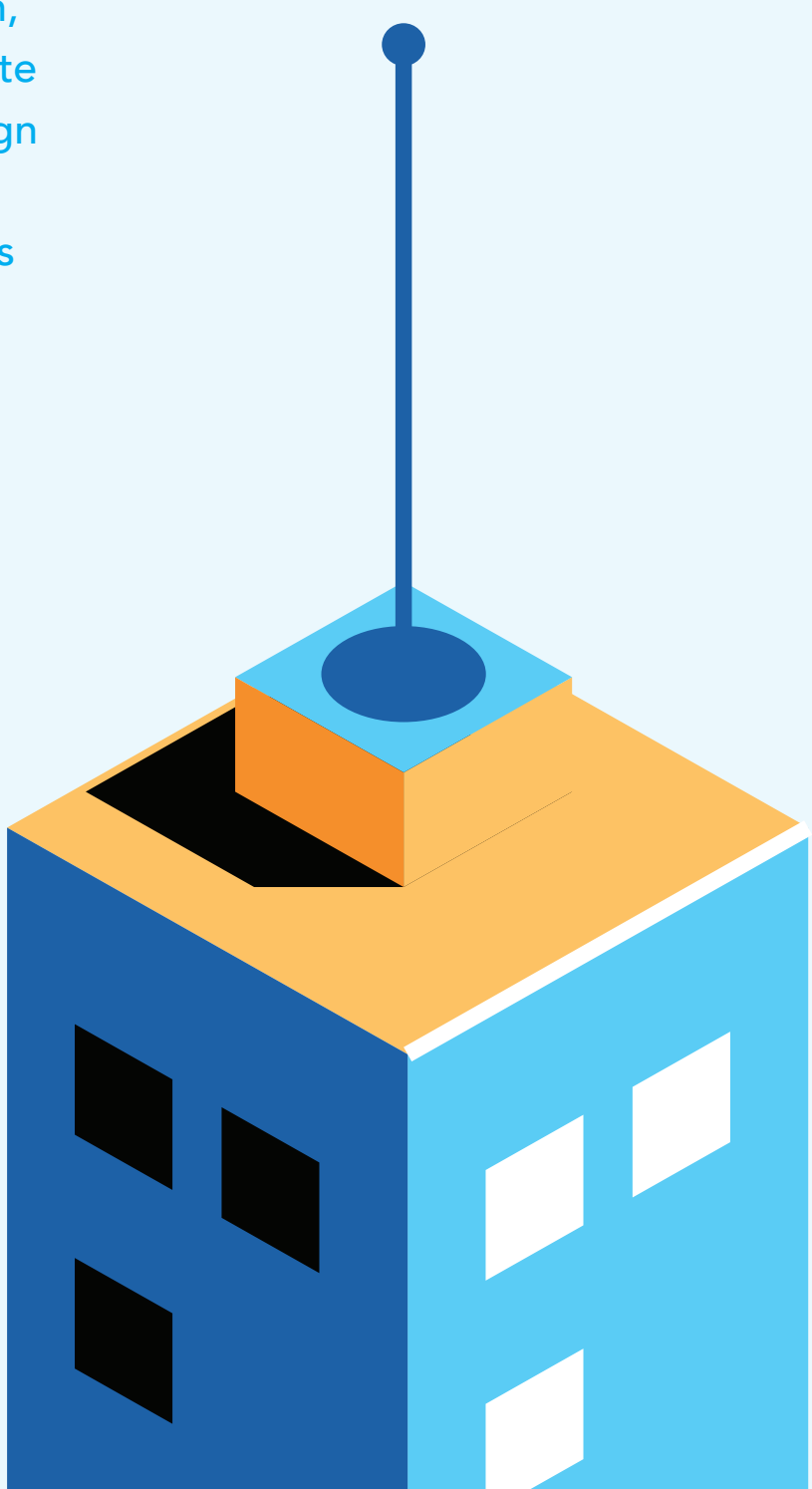
- Parking Matters Award for the jetSet Promise Campaign

INVEST IN YOUR SUCCESS

EIA is the place to be for investment. Why us? We've got room for you. Whether you're in commercial, retail, industrial, tech, agri-food, aerospace or pharma, we have the land to house your facility and amenities rarely seen in industrial parks. In addition, all EIA's cargo facilities operate within the Port Alberta Foreign Trade Zone, reducing trade barriers and enhancing access to key Canadian markets.

As we grow Airport City, our goal is support the growth and development of all our partners, because your success means success for businesses and communities throughout our region. That's why we're here. Everything we do at EIA is based on what's good for the communities we serve. We strive always to be an economic enabler – an engine powering the region's prosperity and ever moving it toward fulfilling its aspirations.

We're optimistic about the future and about the potential of Airport City to redefine what it is to be an airport. In everything we do, the expectations and hopes of our region will be our guides, and the region's pride in its airport our reward.



LEADING US FORWARD

NASEEM BASHIR

Board Composition

The Board of Directors of Edmonton Airports consists of a maximum of fifteen (15) members. Six (6) Directors are appointed by the City of Edmonton, two (2) Directors are appointed by the Government of Canada, and one (1) Director each is appointed by Leduc County, the City of Leduc, Parkland County, Strathcona County and Sturgeon County. The Board has two (2) at-large appointments that are used to fill any gaps in skills, experience or background. Currently, the desired skills, experience and background are represented on the Board and the Board has elected not to fill the two at-large positions.

Board Governance

The Board is responsible for the stewardship, strategic direction and oversight of the business and affairs of Edmonton Airports. In carrying out these responsibilities, the Board endeavours to maintain and seek continuous improvement in high standards of Board governance.

Some of the key governance functions of the Board include adopting and monitoring compliance with an ethics code, reviewing and approving Edmonton Airports' strategic plan, annual business plan and report on sustainability, Chief Executive Officer ("CEO") succession planning, and satisfying itself that management has identified the principal risks of the business and implemented appropriate systems to manage those risks.

In 2016, the Government of Canada announced that it was implementing a new process for all Federal board appointment and re-appointment opportunities. The new process is designed to address several key pillars announced by the Government with the objective of creating an open, transparent, gender balanced, ethnically diverse and merit-based selection process. One (1) Government of Canada board appointment was subject to the new process; however, due to delays in implementation of the process and posting of the position, the incumbent Federal Board appointee's term expired effective December 31, 2016, and the position remained vacant through 2017. Mary Cameron was re-appointed by the federal government early in 2018.

SUROMITRA SANATANI

CARMAN MCNARY

DALE KLEIN

TIM HOFSTRA

DOUG HORNER

JAY RAMOTAR

JOAN HERTZ

MURRAY HALES

MARY CAMERON

CHRISTOPHER BURROWS

BOB PETRYK

DARRELL JONES

BOARD CHANGES IN 2017

Naseem Bashir (City of Edmonton) was re-appointed to the Board effective January 1, 2017

Dale Klein (Sturgeon County) was re-appointed to the Board effective January 1, 2017

Tim Hofstra (Leduc County) was appointed to the Board effective January 1, 2017

Maureen McCaw (City of Edmonton) retired from the Board effective December 31, 2017*

Gail Stepanik-Keber (Parkland County) retired from the Board effective December 31, 2017*

One (1) Board appointment (Government of Canada) remained vacant through 2017**

- **Mary Cameron** was re-appointed to this position effective March 18, 2018

Ralph Young (City of Edmonton) retired from the Board effective December 31, 2017***

Carman McNary (City of Edmonton) was appointed to the Board effective January 2, 2018

Doug Horner (Parkland County) was appointed to the Board effective January 1, 2018

Christopher Burrows (City of Edmonton) was appointed to the Board effective January 1, 2018

* Retired after serving maximum permitted term for a Director (2 consecutive terms of 4 years each)

** New Government of Canada process implemented in 2016 requires all Federal Board appointment and re-appointment opportunities to be publicly posted and applied for, requiring incumbent appointee to step down from the Board effective December 31, 2016 and the position remained vacant throughout 2017

*** Resigned from the Board after serving two years of the second permitted term for a Director

BOARD MANDATE

1.1 Governance Principles and Guidelines

The Board will perform its overall stewardship responsibilities as a governance board rather than a management board and will have regard to:

(a) Edmonton Airports' guiding principles of vision, mission and core values;

(b) accountability to stakeholders and the community through appropriate transparent processes, disclosure practices and effective communication, including feedback mechanisms;

(c) national and international airport best practices; and

(d) Corporate Governance Guidelines as recommended by the Canadian Securities Administrators, Canadian Coalition for Good Governance and Institute of Corporate Directors.

1.2 Board Stewardship

The Board is responsible for the stewardship, strategic direction and oversight of the business and affairs of Edmonton Airports, including:

(a) satisfying itself that executive management of Edmonton Airports practice and create a culture throughout the organization that includes the core values approved by the Board and articulated in the strategic plan;

(b) adopting an ethics code and monitoring compliance with the Board approved Ethics Code, and satisfying itself that executive management of Edmonton Airports practice and create an ethical corporate culture;

(c) following a strategic planning process which takes into account among other things, the opportunities and risks of the business and sustainability, through the adoption and monitoring of the strategic plan and annual business plan;

(d) satisfying itself that executive management has identified the principal risks of the business and implemented appropriate systems to manage these risks;

(e) satisfying itself that executive management has contingency/emergency replacement plans in place for executive management and essential operational positions and succession plans in place for management;

(f) satisfying itself that executive management has adopted a communication policy for the stakeholders and community, which policy shall ensure effective measures for receiving feedback from the stakeholders and the community; and

(g) satisfying itself that executive management is monitoring internal controls and management information systems.

1.3 Board Responsibilities

Only the Board will:

(a) appoint or remove at-large directors;

(b) appoint or remove officers;

(c) appoint or remove the auditor;

(d) approve the responsibilities and compensation of the Board, Board Chair and Board Committees;

(e) review environmental, safety and security programs established by management, including standards, insurance coverage, and regulatory compliance;

(f) authorize the issuing of securities;

(g) authorize the raising of money by Edmonton Airports;

(h) approve the giving of financial assistance, directly or indirectly, by means of a loan, guarantee or otherwise;

(i) approve annual audited financial statements;

(j) approve corporate goals and objectives and assess corporate performance;

(k) select, evaluate and establish compensation for the President and CEO;

(l) plan President and CEO succession;

(m) approve Special Resolution matters, including;

- (i) amendment of Articles,
- (ii) sale, lease or exchange of all or substantially all of the assets of Edmonton Airports,
- (iii) the appointment of a Director as a director or officer of an Affiliate,
- (iv) the appointment of a Subsidiary director as a director or officer of an Affiliate,
- (v) requests of the Board to the reviewer appointed under section 29 of the *Regional Airports Authorities Act*,
- (vi) amendment, replacement or repeal of Bylaws,
- (vii) entering into an agreement to manage and operate an airport not previously managed and operated by Edmonton Airports,
- (viii) participation with Affiliates, and
- (ix) any material change to any Airport Master Plan.

1.4 Board Authorizations

The Board authorizes:

(a) the Audit Committee to approve quarterly unaudited financial statements and the annual audit plan;

(b) the President and CEO to manage all aspects of Edmonton Airports, consistent with all Board approved plans which authority includes the right of the President and CEO to delegate authority to other employees;

(c) the Board Chair to appoint ad hoc Committees to act on matters between Board meetings; and

(d) the Governance and Human Resources Committee to make determinations respecting disclosures made pursuant to the Conflict of Interest Rules that the disclosed interest would not materially or detrimentally conflict with the interests of Edmonton Airports or give rise to an appearance of a conflict of interest, or give direction respecting actions or processes to manage the disclosed interest.

1.5 Board Effectiveness

The Board, with support from Board Committees as required, will:

(a) meet at least four times per year;

(b) review appropriate and timely management reports;

(c) appoint an Audit Committee and Governance and Human Resources Committee with Board approved mandates;

(d) appoint a Special Committee with a Board approved mandate for a capital project or series of capital projects that could materially affect the credit or reputation of Edmonton Airports, as determined by the Board;

(e) conduct regular assessments of the Board, Board Committees, Board Chair, Board Committee Chairs and individual directors;

(f) annually review the Board Mandate and Workplan, Board Committee Mandates and Workplans, Terms of Reference for a Director, Director's Confirmation, Acknowledgement and Declaration, and position descriptions for the Board Chair, Board Committee Chairs, President and CEO, Corporate Secretary and Board Secretary to ensure clear delineation of responsibilities and expectations;

(g) establish a comprehensive director development program for directors consisting of director selection, orientation and continuing education;

(h) review size and makeup of the Board and participate in filling Board vacancies;

(i) directly engage advisors as required;

(j) meet "*in camera*" with the President and CEO at each meeting and as the Board at the beginning and end of each meeting to ensure independence from management; and

(k) require directors to annually sign a Directors' Confirmation, Acknowledgement and Declaration.

DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

Under National Policy 58-201 Corporate Governance Guidelines and the accompanying National Instrument 58-101 Disclosure of Corporate Governance Practices, published by the Canadian Securities Administrators, public companies are required to disclose their corporate governance practices. Although not subject to governance rules that apply to public companies, Edmonton Airports is committed to implementing corporate governance practices that are in alignment with practices required of public companies, adapting them to Edmonton Airports' status as a non-share corporation. The following is Edmonton Airports' disclosure of its Corporate Governance Practices.

Composition of the Board

Independence of Directors	All Edmonton Airports Directors are independent.
Independence of Board Chair	The Board Chair is an independent director. The Board Chair's role and responsibilities are described in the Board Chair's Position Description.

Attendance Record of each Director for 2017

Attendance - Board & Committee Meetings 2017

	Board	Audit Committee	Governance & Human Resources Committee
Naseem Bashir	4/4	4/4	1/1***
Murray Hales	4/4	4/4	
Joan Hertz	4/4	4/4	
Tim Hofstra	4/4	1/1*	1/1*
Darrell Jones	4/4	4/4	
Gail Stepanik-Keber	3/4		3/3
Dale Klein	4/4	4/4	
Maureen McCaw	4/4	4/4**	2/3
Robert Petryk	4/4		3/3
Jay Ramotar	4/4		3/3
Suromitra Sanatani	3/4	1/1*	2/3
Ralph Young	3/4		3/3

* Non-member – attended as part of Director orientation
** Non-member – attended as Board Chair
*** Non-member – attended as incoming Board Chair

Director Independence	
In Camera Meetings	In camera sessions are held at the beginning and end of every Board and Board Committee meeting in accordance with the Board and Board Committee Mandates.

Board Mandate	
Board Mandate	The Board has a written mandate that sets out its role and responsibilities. The text of the Board Mandate is set out herein.

Position Descriptions	
Position Descriptions	The Board has written position descriptions for the Board Chair, the Governance Committee Chair, the Audit Committee Chair, the President and CEO, the Corporate Secretary and the Board Secretary.

Orientation and Continuing Education	
New Director Orientation	The Director Development Program sets out an orientation program for new directors, which is designed to provide a comprehensive introduction to Edmonton Airports and the Board's governance policies and practices. The program includes, inter alia, orientation sessions with the Board Chair and the Governance Committee Chair (as requested), Corporate Secretary, President and CEO and Executive Management, as well as attendance at one meeting of each Board Committee in the new director's first year, and tours of the facilities operated by Edmonton Airports.
Director Continuing Education	The Policy for Director Development provides for funding for director development. The Director Development Program sets out a program for Continuing Education to expand a director's knowledge of the aviation industry, government policy, business risk, competition and governance.

Code of Business Conduct and Ethics	
Written Code of Business Conduct and Ethics	The Board has adopted a written Ethics Code applicable to Edmonton Airports' Directors, Officers, Executive Management and Employees. The Board monitors compliance of Directors by requiring Directors to annually sign the Director's Confirmation, Acknowledgement and Declaration Form.
Conflict of Interest Rules	The Conflict of Interest Rules that form part of the Ethics Code requires completion (annually) of a Personal Information Form and disclosure of all interests, activities, investments, memberships and appointments that Directors, Officers, Executive Management and Employees have become involved with that may materially or detrimentally conflict with the interests of Edmonton Airports or any interests that may reasonably be perceived as giving rise to an appearance of a conflict of interest. The Board implements appropriate processes to manage disclosed interests, such as requiring Directors who have a material interest in a transaction to recuse themselves from discussions concerning those transactions.

Nomination of Directors	
Nomination and Appointment of Directors	The Director Selection Process, which is a component of the Director Development Program, provides for a strategic, disciplined and transparent process to bring the skill sets and competencies required on the Board. The process consists of: 1. Gap analysis conducted by the Governance Committee to identify anticipated gaps in the skill sets and competencies set out in the skills matrix maintained by the Board; 2. Communication of selection criteria to the Appointer for the Appointer's consideration and in the case of Government of Canada appointment opportunities the appropriate criteria for insertion on the position posting advertisement. Where appropriate, the Board encourages the Appointer to utilize a search firm to assist in identifying candidates; 3. Meeting of the Governance Committee Chair and Board Chair, and where possible other Governance Committee members and with the candidate to communicate the skill set and competencies required, expectations of time commitment, and application of Conflicts of Interest rules. Meetings with the Board Chair and other Directors are arranged to get to know the candidate; 4. For Government of Canada appointee opportunities beginning in 2017, in addition to point 3 above, meeting of the Board Chair and representatives from Transport Canada and the Minister of Transportation as part of a screening committee to review the applications; and 5. Communication with the Appointer as to the suitability of candidates interviewed.
Nominating Committee	The Governance Committee's Mandate includes responsibility for reviewing the size and makeup of the Board and filling Board vacancies.
Nominating Committee Responsibilities, Powers and Operation	The Governance Committee's annual Workplan includes reviewing director skill sets and identifying gaps, reviewing size and makeup of the Board, and recommending competencies and skill sets to Appointers for Board vacancies.
Compensation	
Compensation Committee Responsibilities, Powers and Operation	The Governance Committee's Mandate includes responsibility for reviewing and recommending for Board approval the CEO evaluation process and compensation, Edmonton Airports' Compensation Philosophy, the Directors' Compensation Philosophy and Director Compensation Policy.
Other Board Committees	
Other Standing Committees	The Board's standing committees are the Audit Committee, Governance Committee. The Board has the ability to appoint special committees with Board approved mandates as required.
Board Assessments	
Assessments of the Board, Board Committees and Individual Directors	Assessments of the Board, Board Committees, the Board Chair, Board Committee Chairs and individual Directors (both self and peer) are conducted regularly. Assessment information may be collected and compiled through questionnaires or interviews or a combination of the two techniques and may be conducted with the assistance of external consultants. All assessment results are reviewed by the Governance Committee and the Board Chair. The Governance Committee is responsible for recommending and monitoring improvement based on assessment results.

STRATEGIC REPORTING

At Edmonton Airports we use a balanced scorecard to organize and set performance targets to achieve five key strategic objectives, listed below. For our 2018-2022 corporate scorecard, management has selected corporate targets to focus effort and increase awareness into the different details of our businesses while tracking areas of interest to our stakeholders. As an organization that operates for the benefit of the local region, we define our long-term success by improvements in all of the areas.

Long-term Strategic Objectives 2022

IMPROVE FINANCIAL SUSTAINABILITY

The financial section is focused on sustaining self-funded long-term business growth, and financial accountability measure issues like revenue growth, profit margins, budget and costs-savings. Sustainable financial management creates the stability needed for successful long-term planning.

ENHANCE PASSENGER EXPERIENCE

An exceptional passenger experience is a critical factor in differentiating EIA from other travel options and in creating preference and affinity. We will support this by placing passengers at the heart of our business model and developing products and services that meet their needs and exceed their expectations, while linking them to the business and leisure destinations of their choice. Since passengers are a core business driver for both airlines and airports, our attention to passengers supports our mutual success.

IMPROVE SOCIAL, ENVIRONMENTAL AND ECONOMIC SUSTAINABILITY

Our sustainability targets reflect our commitment to operating effectively and responsibly in the context of our neighbours, partners, stakeholders, and environment. We must responsibly manage our resources to advance our region's environmental stewardship, social well-being and economic prosperity. Our targets around job growth and carbon and emissions control represent key areas of focus. We will build skills in sustainability best practices, increase transparency in reporting and monitoring, engage stakeholders to ensure operations reflect their needs, and develop initiatives that resonate with airlines and regional interests.

ENHANCE AIRLINE PRODUCTIVITY

This objective strategically aligns us with the interests of airlines, which are key partners and stakeholders. We will assure effective processes by creating corporate targets for operational excellence indicators such as safety and security performance, on-time departure, baggage wait times, security wait times and set targets on efficiency, and operational downtime averages.

IMPROVE EMPLOYEE ENGAGEMENT, PERFORMANCE AND WELL-BEING

Learning and growth covers the intangible drivers of future success such as human, organizational, and information capital, including skills, training, organizational culture, leadership, systems and databases. We are committed to increasing employee engagement by shifting to a more cohesive work environment, including improving work design, clarifying accountability, developing talent, integrating the way we work and enhancing the employee experience. These improvements will be made possible through exceptional leadership, and will reflect our achievement of this objective.

Our 2017 Performance

To support the achievement of our five-year strategic objectives we set annual targets, and review our performance towards those targets regularly. The MD&A reviews our financial performance and below you will find our 2017 performance results. The different developments and projects shown throughout the 2017 Annual Report show the different ways we have worked toward achieving our targets. This tracking of our trajectory, as well as the internal review of our initiatives, allows us to identify areas that require further improvements as well as set the new 2018-2022 targets.

ENHANCE PASSENGER EXPERIENCE

We have been able to maintain our Airport Service Quality Score at 4.36. ASQ is led by Airports Council International and is administered by airports all around the world. Our score is measured every quarter. We are able to review and analyze the categories to understand where improvement is needed. We were strategic in our management of expenditures, reducing funding for some projects but protecting core services, and placing a particular focus on weaker areas of ASQ. We improved seating and work spaces at some heavily used gates and also considered the different impacts to the security screening experience.

IMPROVE SOCIAL, ENVIRONMENTAL, AND ECONOMIC IMPACT

Every year we enhance our commitment to and measure of our sustainability. In 2017 we tracked our sustainability performance according to environmental and social indicators. On tracking environmental performance we tracked carbon emissions, as they are the area of interest internationally, nationally and locally. Emissions are also of particular interest in the aviation industry. In 2016, International Civil Aviation Organization (ICAO) set global industry targets of carbon neutral growth from 2020 onwards. We realize the benefit of aligning to these interests, and already aim for carbon neutral growth from 2014 onwards. We continue to learn about the intricacies and target impactors, and our calculations suggest that in 2014 our owned and controlled emissions were approximately 47,000 tCO2e. In 2017, we managed to achieve our target and even reduced emissions to 45,383 tCO2e. We worked to increase energy efficiency in 2017, and our emissions were also impacted by warmer than average temperatures.

We are tracking our social impact by the participation of employees in our volunteering program. In 2017, participation in the program increased to 55.3 per cent of Edmonton Airports employees.

ENHANCE AIRLINE PRODUCTIVITY

One of the impactful measures of airline productivity is the on-time performance. In 2017, we managed an average on-time departure rate of 86.8 per cent. This important metric impacts airline efficiency, as delays can increase costs in fuel and employee overtime. 88 per cent on-time departure rate represents the top performance in North America for airports with regular winter operations. We have the highest on-time performance rate for Air Canada and WestJet in comparison to other Canadian airports.

IMPROVE EMPLOYEE ENGAGEMENT, PERFORMANCE AND WELL-BEING

Our employees are the foundation of our business. An engaged workforce is critical in driving organizational success. In 2017, we remained focused on making improvements to the employee experience and maintained our engagement score of 69 per cent (the same as 2016). We continue to analyze the scores to understand the concerns that have impacted employee scores. We will focus our efforts on improving the key engagement drivers: innovation, professional growth and teamwork.

Ultimately, we know that none of our targets would be achievable without the expertise, engagement and commitment of our employees, working in a safe and secure environment. Through the engagement survey we have been able to review employee priorities and influencers and direct our responses where needed.

We are also committed to the occupational health and safety of our employees. Our Certificate of Recognition (COR) audit reflects our safety culture and we have continued to increase employee involvement through ongoing training, information sessions and email updates. Our 2017 COR score was 95.0 per cent. Our incident rates suggest that our messaging is being heard, and is also effective in reducing negative impacts to staff and property. Our incidents fell from 45 in 2016 to 39 in 2017. Incidents include near misses, property damage and minor injuries. This reflects our ongoing commitment to improving our safety and security systems, supervision and performance. Our strategic business units also track the safety performance of our contractors, and our Occupational Health and Safety Committee tracks and prepares incidents rates from all of our different safety management programs.

MD&A

2017 MANAGEMENT DISCUSSION AND ANALYSIS

ADVISORIES

The following Management Discussion and Analysis of Financial Results (MD&A) should be read in conjunction with the Financial Statements and note disclosures for the year ended December 31, 2017. 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. References to Edmonton Airports mean Edmonton Regional Airports Authority.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The disclosure found under the heading "Outlook" in this MD&A may contain forward-looking information that constitutes a financial outlook. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information.

Please refer to the Outlook section of this MD&A for further information on our forward-looking information including assumptions and estimates used in its development.

NON-GAAP AND ADDITIONAL GAAP MEASURES

Certain measures in this MD&A do not have any standardized meaning as prescribed by generally accepted accounting principles (GAAP), therefore, are considered non-GAAP measures. These measures are provided to enhance the reader's overall understanding of our financial performance or financial condition. They are included to provide readers with an alternative method for assessing our operating results in a manner that is focused on the performance of our ongoing operations and to provide a more consistent basis for the comparison between periods. Therefore, they may not be comparable to similar measures presented by other entities.

CORPORATE PROFILE

In 2017, Edmonton Regional Airports Authority (Edmonton Airports,"EA") operated Edmonton International Airport ("EIA") and Villeneuve Airport ("VA").

Our mandate, as defined in the Regional Airport Authorities Act (Alberta), is to manage these airports to ensure they are safe, secure and efficient. As well, we are expected to foster economic and community development by improving airline and transportation service and expanding the aviation industry. As a no-share, not-for-profit entity, the net earnings we earn are re-invested in the airports under our control so we can fulfill this mandate.

RECENT EVENTS

Certain events transpired in 2017 that impacted Edmonton Airports' operations or financial results or may impact future results.

- Flair Airlines took over operation of NewLeaf Travel Company resulting in additional domestic passenger services and a new Ultra-Low Cost Carrier (ULCC) option for Edmonton
- Century Casinos received approval for Century Mile Racing Entertainment Centre to be located at EIA; construction has begun on the facility with an anticipated opening in spring 2019
- Canadian North announced the launch of a multimillion-dollar aircraft maintenance facility opening in 2018 as part of its new 90,000-square-foot hangar at EIA
- Costco announced opening of a new warehouse store at EIA to open in late 2018, adding to the airport's inventory of new destination related developments
- A new Fairfield Inn by Marriott began construction, offering lodging options for those attracted to the region by the new Premium Outlet Collection – EIA and horse racing facility, which are under construction at EIA
- The City of Edmonton, Leduc County and the City of Leduc entered into a partnership agreement with EIA aimed at helping EIA reach its full potential as an economic driver for the Edmonton region. This agreement will help to facilitate investment and the continued growth of developments at EIA
- Central Mountain Air began service between Edmonton and Prince George operating flights six days a week and providing the northern B.C. community with a vital transportation link to Edmonton
- Air Canada announced its return to the US marketplace from Edmonton with daily service to San Francisco beginning May 1st, 2018, marking a critical link for Edmonton's growing technology sector
- The "Aurora Sky" facility, an 800,000-square-foot facility at EIA, is currently under construction, and is set to open in 2018

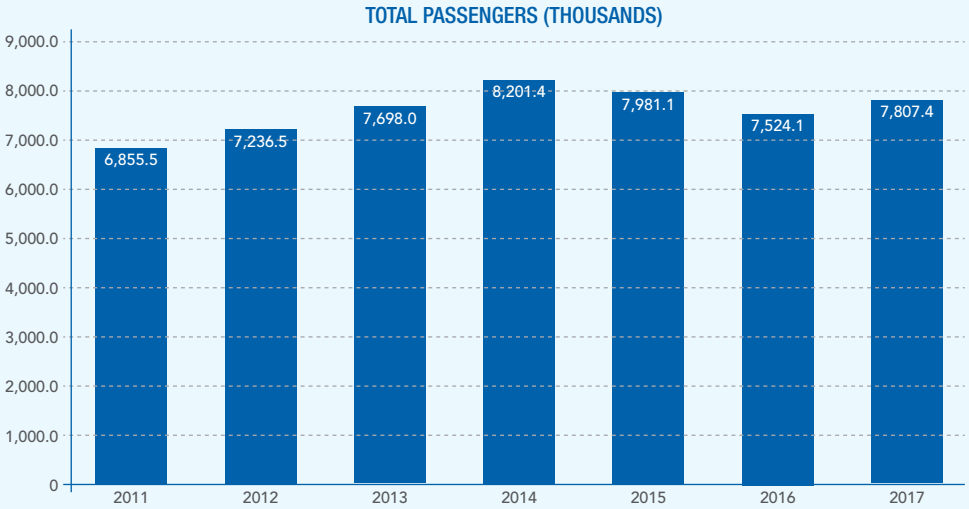
FINANCIAL SUSTAINABILITY

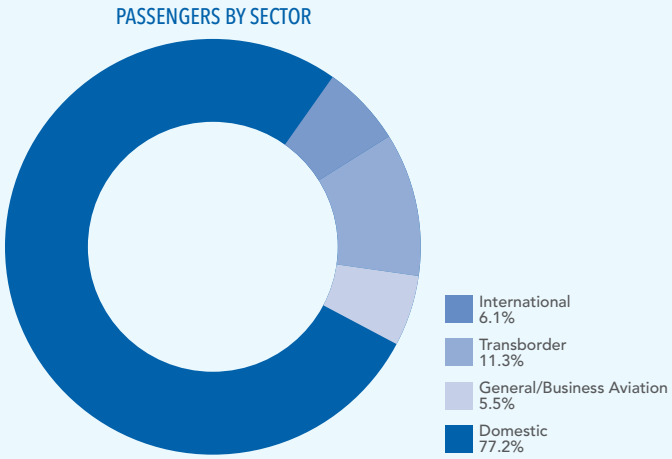
For 2017, Edmonton Airports had three financial targets used to monitor the organization's financial sustainability. The organization sets goals related to total revenue, EBITDA margin and airline cost per enplaned passenger. All key corporate financial metrics achieved or outperformed targets during the year as higher than anticipated passenger volumes drove aeronautical and AIF revenues above expectations. EBIDTA achieved target due to the increased revenues, providing the organization the ability to continue to invest in key strategic priorities without the need for additional debt and helping keep direct costs to airlines down, resulting in continued improvement in our airline cost per enplanement metric.

The following tables highlight Edmonton Airports' performance on our key financial sustainability indicators in 2017:

MEASURE	DECEMBER 31, 2017 RESULT	DECEMBER 31, 2016 RESULT
Revenue	$215.7 million	$206.1 million
EBITDA Margin	49.0%	48.6%
Airline Cost per Enplanement	$13.29	$13.74

PASSENGERS:



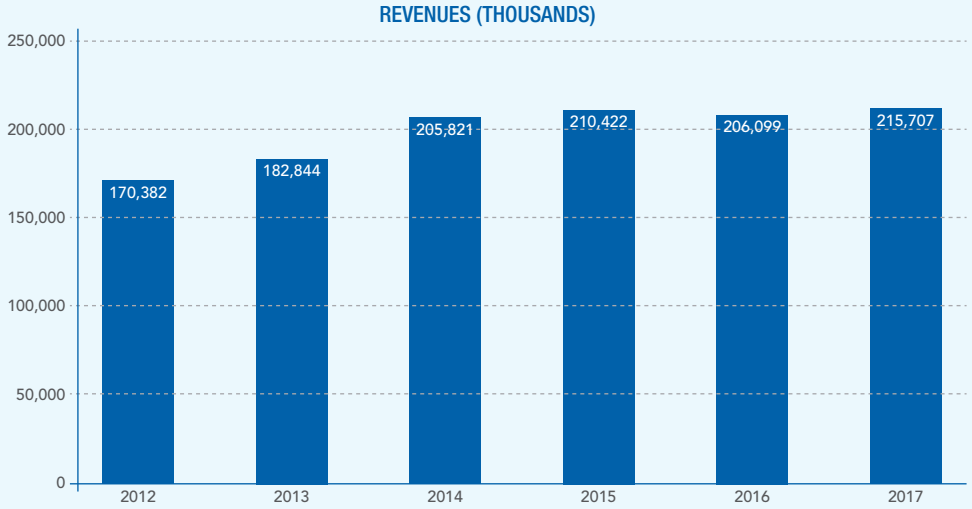


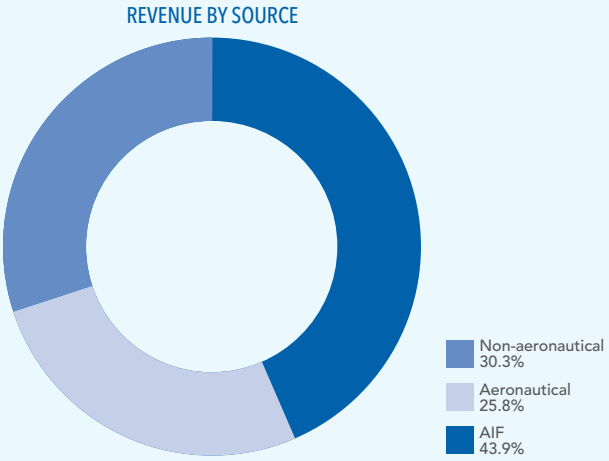
Passenger volumes are the key driver of most revenue items at EIA. Airport Improvement Fee, car parking, terminal concessions and several passenger related aeronautical fees are all directly correlated to passenger volumes. Total passenger volumes are up by 3.8 per cent in 2017, driven by a 5.0 per cent increase in terminal passengers and partially offset by decreases in general/business aviation (-13.6 per cent) and transborder (-4.0 per cent) volumes. The passenger variance to budget decreased during the fourth quarter, as the 2017 Business Plan anticipated flat to minimal growth over the first half of the year with more aggressive assumptions built into the second half of the year. Total passengers exceeded budget by 1.5 per cent in the fourth quarter.

Full-year terminal passenger volumes are 5.7 per cent above budget driving positive variances in passenger related revenues such as AIF. Variances in terminal passengers are driven by higher than anticipated load factors and higher than anticipated aircraft activity during the second and third quarters.

EIA also saw continued success in its regional hub strategy. Connecting passenger traffic from key regional markets like Grande Prairie, Saskatoon, Regina and Fort McMurray continued to support connecting traffic onto international routes and long-haul domestic services. This traffic is critical in building sufficient volumes to support further growth in international services.

REVENUES:

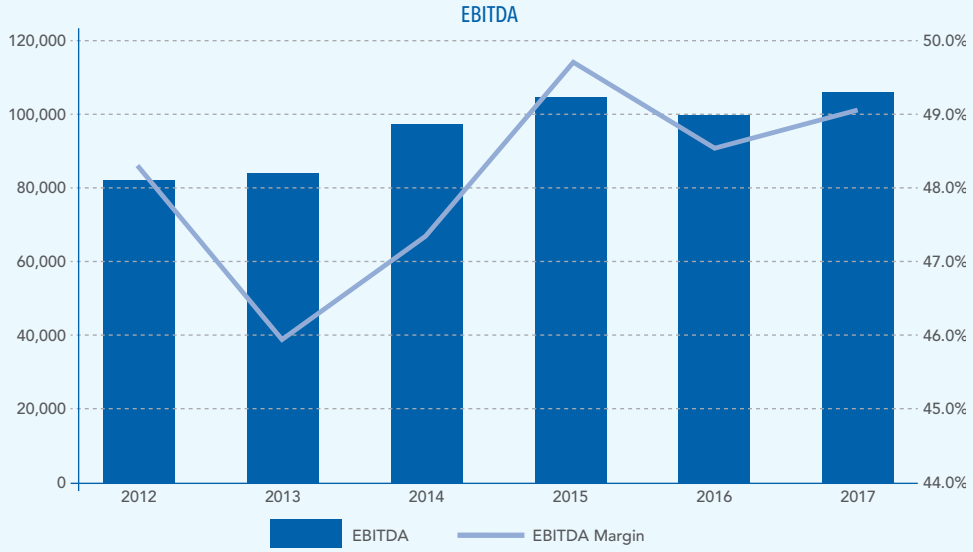




Total revenues increased by approximately $9.6 million in 2017, a 4.7 per cent increase over 2016. The increase in revenue was largely caused by a $5.4 million increase over prior year in AIF. Overall passenger traffic throughout the year increased by 3.8 per cent over 2016. Real estate revenues increased over 2016 by 24.8 per cent, which was largely due to the increased development of land with the highway commercial project, as well as Aurora Cannabis. Government funding received for air cargo initiatives during 2017 totaled $2.0 million, resulting in an increase in other revenue.

Decreases in year-over-year revenues were seen in the areas of general aviation due to some major general aviation operators moving to the terminal building for operations and a 13.6 per cent decrease in passengers. Cargo also saw a decrease compared to last year with the loss of Air China Cargo flights; however, this was offset with the increased government grant funding.

EBITDA MARGIN:



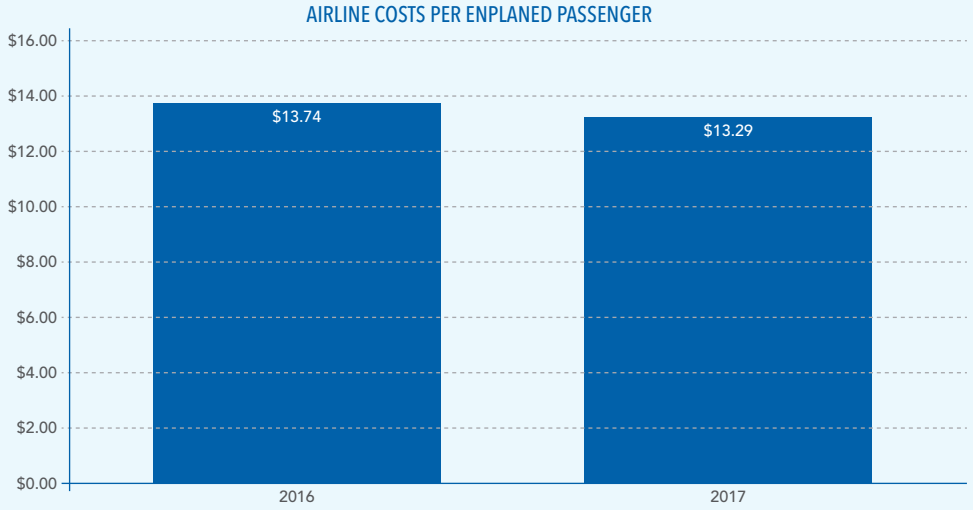
EBITDA margin, also sometimes known as the efficiency margin, indicates how much operating profit the organization earns for each dollar in revenue generated. Edmonton Airports considers this an important performance measure as it helps ensure that the organization is managing its facilities in a cost-effective manner and that sufficient cash flow is being generated to execute on strategic priorities.

The EBITDA margin has declined slightly from peak levels experienced prior to the economic downturn, although it has improved in the fourth quarter reaching its highest level since Q3 2016.

Total EBITDA of $105.7 million is a new record level for Edmonton Airports.

By achieving this target, the organization is able to continue to generate free cash flow to invest in key strategic initiatives and continue to attract investments in commercial real estate, which support future revenue growth and drive economic development for the region.

AIRLINE COSTS PER ENPLANED PASSENGER:



Airline costs per passenger play an integral role in attracting new routes and airlines. In 2017, management specifically targeted airline costs per passenger as a key strategic target. Edmonton Airports outperformed this target in 2017 by a healthy 4.6 per cent margin. If this key strategic target can be sustained, Edmonton Airports will be well positioned to add routes and flights from new and existing airline partners.

SUMMARY:

2017 was a positive year for Edmonton Airports, recording all-time highs in revenue ($215.7M) and EBITDA ($105.7M), while dropping targeted airline cost per passenger by 4.6 per cent. The focus on generating revenue while managing expenses and being a low cost partner with our airlines positions Edmonton Airports well to achieve its goals in 2018.

2017 FINANCIAL PERFORMANCE

As our primary customers, passengers are the strongest influencers of airport success. The more passenger demand we have, the more opportunity we have to deliver our vision of more flights to more places. With this in mind, and the continued impact of the depressed economy in 2017, Edmonton Airports continued to focus on attracting and retaining passengers, while actively managing discretionary expenditures.

NET OPERATING RESULTS

(in thousands)	2017 $	2016 $	Change $	Change %
Revenue	215,707	206,099	9,608	4.7%
Expenses	109,987	105,937	4,050	3.8%
EBITDA*	105,720	100,162	5,558	5.5%
EBITDA margin %	49.0%	48.6%	0.4%	0.8%
Depreciation and amortization	64,564	62,963	1,601	2.5%
Interest	44,666	45,160	(494)	(1.1%)
Gain on foreign exchange	15	(52)	67	(128.8%)
Loss on disposal of property, plant and equipment	(35)	20	(55)	(275.0%)
Net loss	(3,490)	(7,929)	4,439	(56.0%)

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

In 2017, we experienced a net loss of $3.5 million, which was a decrease of 56.0 per cent over the prior year's net loss. The decreased net loss was primarily a result of increased revenue by $9.6 million due to an increase in passenger traffic.

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 prior years, the negative earnings is the result of expected increased interest and amortization expenses related to the major infrastructure spend in 2012.

REVENUE

(in thousands)	2017 $	2016 $	Variance $	Variance %
Airport improvement fee	94,779	89,383	5,396	6.0%
Parking and concessions	56,152	56,223	(71)	(0.1%)
Airside and general terminal	42,879	42,097	782	1.9%
Police and security	12,682	12,563	119	0.9%
Real estate leases	6,829	5,474	1,355	24.8%
Other revenue	2,386	359	2,027	564.6%
	215,707	206,099	9,608	4.7%

Revenue increased year-over-year to $215.7 million, which was an increase of 4.7 per cent compared to the prior year. This was driven by an increase in passenger traffic, which resulted in an increase in all passenger-driven revenue items as stated above.

AIRPORT IMPROVEMENT FEE

AIF is a major source of Edmonton Airports' revenue base, approximating 43.9 per cent ($94.8 million) of all revenues in 2017. AIF is collected by the airlines on behalf of Edmonton Airports from all passengers originating from Edmonton International Airport (not including connecting and non-revenue passengers) for the purpose of funding capital programs for airport infrastructure and the related financing costs, governed by the Airport Improvement Fee Memorandum Agreement. During 2017, AIF revenue showed an increase of $5.4 million (6.0 per cent) over 2016. The difference was the result of an increase in terminal enplaned passenger volume compared to prior year (5.3 per cent).

AERONAUTICAL REVENUE

Airside and general terminal revenue (AGT) representing aircraft landing fees, terminal fees, US pre-clearance fees, user fees, bridge fees and fees for common-use terminal equipment, is primarily driven by the aircraft size and number of aircraft movements. AGT revenue was $42.9 million in 2017, which is an increase of $0.8 million (1.9 per cent) compared to the prior year, primarily due to increased domestic terminal aircraft activity, resulting in an increase in movements and capacity year-over-year. General aviation operations continue to be impacted by the Alberta energy industry, particularly in the business aviation sector, which has resulted in reduced aircraft activity. The reduced activity is partly offset by a 3.0 per cent increase in landing fees effective January 1, 2017.

Police and security revenues, which are based on a cost-recovery methodology, have shown an increase of $0.2 million (0.9 per cent) over the prior year. Police and Security revenue is a cost recovery of Police and Security expenses, therefore the revenue is driven by the amount of expenses.

NON-AERONAUTICAL REVENUE

Edmonton Airports also earns revenue from non-aeronautical commercial operations, such as parking, concessions, ground transportation and real estate. Revenues from concessions and parking totaled $56.2 million in 2017, which was comparable to the total revenue in these two revenue streams in 2016.

During 2017, real estate revenues were $6.8 million, which was 24.8 per cent higher than 2016. This increase is driven primarily by new leases in land development on airport property taking effect in 2017.

OTHER REVENUE

Other revenue saw a substantial increase over prior years as government grant funding for cargo initiatives was realized during the year for $2.0 million.

OPERATING EXPENSES

(in thousands)	2017 $	2016 $	Change $	Change %
Salaries and employee benefits	31,676	31,071	605	1.9%
Services, maintenance, supplies and administration	32,709	31,248	1,461	4.7%
Canada lease rent	18,366	17,504	862	4.9%
Utilities, insurance and property taxes	11,971	11,391	580	5.1%
Police and security	10,454	10,183	271	2.7%
Airport improvement collection costs	4,811	4,540	271	6.0%
	109,987	105,937	4,050	3.8%

Total 2017, operating expenses increased by 3.8 per cent to $110.0 million as compared to $105.9 million in 2016. The increase in expenses is due to increase in service, maintenance and supplies, salaries and employee benefits, Canada lease rent, utilities, insurance and property taxes, police and security, and airport improvement collection costs.

SALARIES AND EMPLOYEE BENEFITS

(in thousands)	2017 $	2016 $	Change $	Change %
Salaries and benefits	29,852	28,599	1,253	4.4%
Defined benefit pension plan	3,360	3,384	(24)	(0.7%)
Long-term benefit plan	82	78	4	5.1%
Defined contribution plan	444	371	73	19.7%
	33,738	32,432	1,306	4.0%
Capitalized salaries	(2,062)	(1,361)	(701)	51.5%
	31,676	31,071	605	1.9%

Throughout 2017, salaries and employee benefits increased by 1.9 per cent to $31.7 million as compared to $31.1 million in 2016. Salaries and employee benefits increased compared to prior year due to hiring of additional staff for DAX project and various initiatives.

Defined benefit pension plan expense (current service cost) is the increase in the present value of the defined benefit obligation resulting from employee service in the current period. This cost is driven by the rate used to discount the benefit obligation and is based on high quality fixed income investments with cash flows that match expected payments from the plan. The current service cost was consistent with 2016.

SERVICE, MAINTENANCE, SUPPLIES AND ADMINISTRATION

(in thousands)	2017 $	2016 $	Change $	Change %
Services	7,792	7,359	433	5.9%
Maintenance and supplies	10,487	9,567	920	9.6%
Administration	13,302	14,147	(845)	(6.0%)
	31,581	31,073	508	1.6%
Bad debt expense	1,128	175	953	544.6%
	32,709	31,248	1,461	4.7%

Services, maintenance, supplies and administration expense increased 4.7 per cent to $32.7 million as compared to $31.2 million in 2016.

Services costs include the operational costs of operating our parking facilities and ground transportation services, contracted maintenance services and contracted information technology (IT) services. The increase was driven by increased labour required to support terminal operations' customer services, IT services and commercial development.

Maintenance and supplies include the costs to maintain Edmonton Airports' facilities, equipment, aprons and runways. This includes janitorial costs, lighting replacement costs, fleet equipment and repair and consumables including fuel, chemicals and equipment parts. The increase compared to the prior year is driven by higher runway maintenance costs, fuel and equipment repair expenditures, due to unfavorable weather conditions.

Administration costs include the costs of marketing and communication costs, air service development investments, management consulting, travel and training, credit card service fees, legal expenses, director's fees and stationary supplies. The increase was driven primarily by increased costs related to strategic growth initiatives.

Bad debt expense increased by $1.0M from 2016 due to a one-time provision of $0.7M made in 2017.

CANADA LEASE RENT

Canada lease rent expense is based on a percentage, on a progressive scale, of "Airport Revenues" at Edmonton Airports, as defined in the Ground Lease. "Airport Revenues" for 2017 were $215.7 million (2016 - $206.1 million), which resulted in a 4.6 per cent increase in rent expense of $18.4 million in comparison to $17.5 million in 2016.

Based on "Airport Revenues" (in thousands)	Rate %	Rent Payable $
On the first $5 million	0%	0
On the next $5 million	1%	50
On the next $15 million	5%	750
On the next $75 million	8%	6,000
On the next $150 million	10%	11,566
On any amount over $250 million*	12%	0
		18,366

** Nil as a result of year-to-date revenues below $250 million.*

UTILITIES, INSURANCE AND PROPERTY TAXES

Utilities, insurance and property tax expenses increased by 5.1 per cent to $12.0 million as compared to $11.4 million in 2016. This increase is primarily related to higher electricity and natural gas expenses due to higher consumption and higher rates due to carbon tax implementation. Also contributing to the increase is the increase in property taxes as a result of a higher tax assessment.

POLICE AND SECURITY

During 2017, police and security expenses increased by 2.7 per cent to $10.5 million compared to $10.2 million in 2016. This increase is a result of increased policing and security contract labour costs as well as increased demand for non-passenger vehicle screening. Increases in police and security costs are then recovered through the police and security fee charged on a per-passenger basis to airlines at Edmonton Airports.

AIF IMPROVEMENT FEE COLLECTION COSTS

AIF collection costs for 2017 increased 6.0 per cent to $4.8 million as compared to $4.5 million in 2016. This has been driven by the 6.0 per cent increase in AIF revenue due to an increase in terminal enplaned passenger volume compared to prior year.

OTHER COMPREHENSIVE INCOME

Edmonton Airports experienced a net remeasurement gain on post-employment benefits of $8.1 million in 2017 as compared to a $3.1 million loss in 2016. These remeasurement adjustments are the result of the change, year-over-year, in actuarial assumptions used by Edmonton Airports' actuarial expert to estimate the pension obligation at the end of each period. The gain in 2017 was the net result of a $1.2 million gain from the change in financial assumptions, a $2.8 million experience gain and $4.2 million return on plan assets. The above was impacted most significantly by the decrease in the discount rate to 3.4 per cent from 3.7 per cent in 2016 and the increase in the commuted value basis discount rate to 1.5 per cent from 1.2 per cent in 2016.

OTHER EXPENSES

	2017 $	2016 $	Change $	Change %
Depreciation and amortization	64,564	62,963	1,601	2.5%
Interest	44,321	44,869	(548)	(1.2%)
Net interest cost and expected return on plan assets	345	291	54	18.6%
Gain on foreign exchange	15	(52)	67	(128.8%)
Loss on disposal of property, plant and equipment	(35)	20	(55)	(275.0%)
	109,210	108,091	1,119	1.04%

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense increased compared to prior year due to the timing of capital projects becoming available for use in 2017.

NET INTEREST EXPENSE

(in thousands)	2017 $	2016 $	Change $	Change %
Series A Bond interest	14,895	15,352	(457)	(3.0%)
Series C Bond interest	30,094	30,437	(343)	(1.1%)
Interest portion of current service cost for post- employment benefits	345	291	54	18.6%
Other interest and financing costs	200	124	76	61.3%
Interest income and other	(868)	(704)	(164)	23.3%
	44,666	45,500	(834)	(1.8%)
Capitalized interest	–	(340)	340	(100.0%)
	44,666	45,160	(494)	(1.1%)

Edmonton Airports' interest costs represent interest on the outstanding balances of the revenue bond (Series A Bond) issued in October 2000 and the fixed rate debentures (Series C Bond) issued by the Alberta Capital Finance Authority (ACFA). The interest costs are lower than the prior year. The decrease in both Series A Bond interest and Series C Bond interest is due to reductions in loan principal as a result of repayments of the existing balance.

CAPITAL PROJECTS

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

1. COMMERCIAL REAL ESTATE

Projects in this category include those that build revenue capacity for Edmonton Airports and are funded from operating earnings and cash flow that becomes available. $19.1 million was spent on all projects to December 31, 2017.

During 2017, Edmonton Airports continued to prepare land for commercial development, including activities to support the completion of office development, hotel/restaurant campus, and land leased to various developments.

As part of the highway commercial project, Edmonton Airports completed the improvement of the existing primary access point (Airport Road) for entering and exiting the airport. Improvement of the Airport Perimeter Road was also completed during the year; this road serves as the primary access point for many land tenants. These improvements were required for the development of the highway commercial and airport support lands south of the airport.

2. GROWTH

Projects in this category include those that expand capacity, create new services and/or improve passenger experience. This includes terminal leasehold improvements for new concessions, expanded apron and taxiway to serve airside developments, and parking lot expansions and projects related to enhancing the passenger experience. $2.8 million was spent on growth projects to December 31, 2017.

The most significant projects in this category include the following:

- Primary Inspection Kiosks. To expedite the process through the international arrivals for Canada Border Services Agency, Edmonton Airports provided 24 primary inspection kiosks to streamline the customs process. Costs totaled $0.8 million in 2017.
- ZVL Land Servicing, Aviation. Completion of site servicing required for existing lease agreements with various tenants. Costs totaled $0.6 million in 2017.
- Private Transportation Provider (PTP). To avoid revenue losses, Edmonton Airports implemented a management solution to allow EA to monitor, record, control and bill (where necessary) the activities of PTP's through license plate recognition, automated vehicle identification checkpoints and geo-fences, as well as virtual barriers that can be monitored for crossings. Costs totaled $0.3 million in 2017.
- Combined Office Tower. Resolution of final payment owed to Ellis Don for the completion of the Central Office Tower. Costs totaled $0.3 million in 2017.
- Centralized Baggage Redundancy System. Improved redundancy and a baggage handling system contingency plan to enable the shutdown of the centralized baggage handling system for maintenance while retaining automated bag flow between the north and south bag rooms.
- Building Automation Systems. Completion of a distributed control system designed to monitor and control the mechanical, security, fire and lighting in the terminal. Costs totaled $0.2 million in 2017.
- North Airport Access and Lighting. Realignment of the Highway 19 entrance to the airport to acquire space for the third runway and provide improved access to the future business aviation park. Costs totaled $0.1 million in 2017.
- Food Beverage 2015. Since completion of the project scoping document in 2015, the proposed tenant improvement by gate 56 has increased significantly. The proposed tenant improvement will remove the only access for moving boom lifts between airside and groundside, as a result, a new hold room access for lifts will be constructed as part of this project. Costs totaled $0.1 million in 2017.
- Non-Passenger Vehicle Screening (NPS-V). Completion of the two vehicular access points to the critical restricted area of the airport (commercial apron). This allows CATSA to initiate a non-passenger screening program that complies with the International Civil Aviation Organization. Costs totaled $0.1 million in 2017.

3. 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. $16.9 million was spent on all projects to December 31, 2017.

In line with the objective of improving airport infrastructure, the most significant projects in this category include the following:

- Apron, Runway & Taxiway Rehabilitation Program. A major part of the project scope in 2017 was the rehabilitation of the asphalt surface across the full width of Taxiway Bravo, including inspection, assessment and repair of concrete slabs along its intersections. This project was undertaken to rehabilitate asphalt surfaces nearing the end of their lifecycle to minimize unplanned maintenance expenditures. Costs totaled $4.6 million in 2017.
- 2017 Capitalized Internal Costs. Capitalization of salaries and benefits of employees in Projects, Technical Services and those who assisted in the completion of the DAXeam implementation. Costs totaled $2.2 million in 2017.
- DAXeam (Core Business Systems Replacement). Implementation of a maintenance management process and supporting information system to improve asset maintenance, increase efficiencies and integrate core business processes such as procurement and inventory management. Costs totaled $1.2 million in 2017.
- Software License Renewals 2017. Renewal of user licenses that gives Edmonton Airports access to technical support and program upgrades for software critical to business operations. In 2017, IT took advantage of the Microsoft Enterprise Agreement that allows special Alberta Government discounted pricing, which is renewed every three years. Costs totaled $1.0 million in 2017.
- 2017 Project Development. Cost of professional services for consulting and design of prospective projects and projects not yet in progress within the current year's plan. Costs totaled $0.9 million in 2017.
- 2017 Fleet Replacement Program. Procurement of maintenance equipment to maintain the current fleet and ensure optimal response to regulatory requirements. Costs totaled $0.6 million in 2017.
- 2016 Campus Area Network Replacement. Completion of the 2016 campus area network replacement project. The campus area network carries all administrative and operational network traffic for Edmonton Airports, thus critical network improvements are required to keep the equipment up to date and increase performance in order to be able to access new technology. Costs totaled $0.6 million in 2017.
- 2017 Campus Area Network Replacement. Replacement of all WIFI hardware to maintain current technology standards for critical airline and airport operations, as well as providing availability of ports and lines sufficient for growth. Costs totaled $0.5 million in 2017.
- Parkade Rehabilitation. Continuation of the maintenance program that addresses numerous issues with Parkade I to extend its lifecycle, eliminate incidents and reduce operating expenses over the long term. Costs totaled $0.4 million in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Edmonton Airports is an authority without share capital and, accordingly, is funded through operating revenues, AIF revenues, reserve funds, its bank credit facility and financing from the Alberta Capital Finance Authority (ACFA). Maintaining a strong financial position is imperative to Edmonton Airports' success as it allows the reinvestment of cash flows in supporting our strategic objectives.

We completed 2017 with a cash and equivalents balance of $39.7 million, compared to $41.0 million at December 31, 2016. The decrease in our cash position was a result of positive cash flow from operations of $74.7 million, offset by $51.4 million spent on capital expenditures and $24.6 million in financing outflows. Our current ratio, defined as current assets over current liabilities, was 0.91:1 at December 31, 2017 compared to 0.97:1 at December 31, 2016.

(in thousands)	2017 $	2016 $	Change $
Cash flows from operating activities	74,658	48,867	25,791
Cash flows used in investing activities	(51,365)	(44,931)	(6,434)
Cash flows (used in) from financing activities	(24,597)	(2,092)	(22,505)
	(1,304)	1,844	(3,148)
Effect of foreign exchange on cash and cash equivalents	(15)	52	(67)
Net increase in cash and cash equivalents	(1,319)	1,896	(3,215)
Cash and cash equivalents, beginning of year	40,969	39,073	1,896
Cash and cash equivalents, end of year	39,650	40,969	(1,319)

OPERATING CASH FLOWS

Edmonton Airports defines cash flows from operating activities as those that are primarily derived from our principal revenue-producing activities and generally result from transactions and other events that enter into the determination of profit or loss. Therefore, this includes cash flows from AIF revenue and cash outflows for interest expense. We consider the cash flows arising from operating activities as a key indicator of the extent to which Edmonton Airports has generated sufficient cash flows to repay loans, maintain operating capability and make new investments.

For the year ended December 31, 2017, our cash flows from operating activities increased 52.8 per cent to $74.7 million compared to $48.9 million in the prior year. This year-over-year increase was mainly the result of a positive change in working capital, decrease in net loss, and decrease in deferred revenue. Cash inflows from operating activities were used to invest in capital projects and repay long-term debt.

INVESTING CASH FLOWS

For the year ended December 31, 2017, cash flows used in investing activities totaled $51.4 million compared to $44.9 million in the prior year. Increase in proceeds on Property, Plant and Equipment (PPE) as well as a decrease in interest paid for PPE was the main reasons for the year-over-year increase.

FINANCING CASH FLOWS

For the year ended December 31, 2017, cash flows used in financing activities totaled $24.6 million compared to outflow of $2.1 million in the prior year. This was the result of repayment on long-term debt.

DEBT COVENANTS

REVENUE BOND

Pursuant to the terms of Edmonton Airports' revenue bond, we are required to maintain a Debt Service Reserve Fund equal to one-half of our annual debt service costs and an Operating and Maintenance Contingency Fund equal to one quarter of our annual operation and maintenance expenses. At December 31, 2017, restricted deposits of $34,446 (2016 - $33,539) exist as a requirement of the Debt Service Reserve Fund. The Operating and Maintenance Contingency Fund is satisfied by a $70 million term revolving loan of which $21,591 (2016 - $20,834) has been set aside for the Fund.

We are required to maintain a Debt Service Coverage Ratio on a rolling twelve month basis of 1.00:1 and a Gross Debt Service Coverage Ratio of not less than 1.25:1. At December 31, 2017, ratios were 1.56:1 and 2.46:1, respectively.

ACFA FINANCING

Pursuant to the terms of Edmonton Airports' credit facility with ACFA, we must maintain an Interest Coverage Ratio (ICR) of not less than 1.25:1 and net cash flows greater than zero at the end of any fiscal quarter on a rolling four fiscal quarter basis. At December 31, 2017 the ICR was 2.06:1 and cash flows were greater than zero on a rolling four fiscal quarter basis.

CAPITAL FINANCING

The following is a summary of the most recent ratings issued for Edmonton Airports from all three rating agencies. This reflects Edmonton Airports' ability to maintain a strong business risk profile through another year of declining passengers and ongoing global economic uncertainty.

Rating Agency	Date	2017 Rating	2016 Rating
S & P	June 2017	A+ Stable	A+ Stable*
Moody's	June 2017	A1 Stable	A1 Stable
DBRS	February 2017	A (High)	A (High)

**this rating was increased in early 2016*

OUTLOOK

The global outlook for aviation growth remains strong with aircraft manufacturer, Boeing, forecasting passenger activity to grow by 4.7 per cent annually over the next twenty years. According to Boeing's Current Market Outlook, the strongest growth markets will be Asia, the Middle East and Latin America all of whom will experience average annual passenger growth rates of around 6 per cent or higher between now and 2036. Growth in the more mature North American market is anticipated at a more modest pace of 2.6 per cent over the next twenty years. Africa, Latin America and the Middle East represent the biggest opportunities for international traffic growth from North America over this period, all with estimated growth rates exceeding 5.0 per cent annually.

World air freight volumes are projected to grow at an average annual rate of 4.2 per cent, down from the 5.2 per cent growth rate experienced over the last thirty years. Growth in e-commerce is expected to be one of the major growth factors for air freight driving both demand for dedicated freighter aircraft as well as the movement of goods in the bellies of commercial aircraft. Societal demands for more timely shipping of products create opportunities for secondary markets not traditionally served well by more traditional supply chains. Edmonton Airports' strategic investments in logistics and air cargo infrastructure over the last several years position the airport to take advantage of these trends in the coming years.

The Alberta economy experienced a year of recovery in 2017 with real GDP estimated to have grown by around four per cent following two consecutive years of decline in 2015 and 2016. Rising oil prices and growth in employment resulted in a 28.0 per cent increase in the Conference Board of Canadas' Consumer Confidence Index for Alberta in 2017. This translated into increased spending on big ticket items such as vehicles and vacations, helping boost air passenger travel. Continued increases in employment and a stabilization of energy prices are expected to drive this measure higher in 2018 and supports the underlying growth assumptions in our five-year Strategic Plan.

While 2017 showed signs of a strong economic recovery, the majority of forecasts are calling for a more moderate pace of growth in the coming years, in contrast to periods of more robust growth that have been experienced in years following prior historic recessions in Alberta. RBC Economics is forecasting growth of 2.3 per cent in 2018 and 2.0 per cent in 2019, the year in which economic activity is expected to exceed pre-recession levels. This outlook is consistent with other major financial institutions and the Conference Board of Canada which also expects a more moderate, and sustainable, pace of recovery for Alberta. This more moderate outlook for growth can be partially attributed to increased competition from lower cost oil fields in the United States as well as limited pipeline capacity from Alberta to access global markets. Limited access to markets has resulted in an increasing spread between the price received for Alberta oil and global benchmarks such as West Texas Intermediate and Brent Crude. As such Alberta is not expected to realise the full benefits of the rise in energy prices as experienced in past recoveries. This impact can be seen reflected in the forecasts of the Canadian Association of Petroleum Producers (CAPP) which estimates capital spending in the oil sands to drop for the fourth consecutive year in 2018 to $12 billion dollars ($14 billion in 2017) and for the number of wells drilled in Western Canada to decline by 5 per cent from 2017 levels.

On the positive side, gains in employment are expected to increase in 2018 both across the province and in the Edmonton region. Nearly 10,000 new jobs are expected to be created in the Edmonton region with gains spread broadly across the majority of employment sectors. Growth in the service sector is expected to outpace that of the goods sector with significant gains in business services, non-commercial services and public administration forecast by the Conference Board. Between 10,000 and 13,000 new jobs are anticipated to be created each year in the region through 2021. As noted earlier, the improving employment picture helps increase consumer confidence, which leads to increased spending on discretionary items such as air travel. Increased hiring is also a sign of growing business confidence, which leads to a loosening of corporate purse strings for items such as business travel. These economic indicators are consistent with, and support, the growth assumptions outlined in our five-year financial plan. Key measures from this plan are illustrated in the table below.

(in thousands)	2018	2019	2020	2021	2022
Passengers	7,933.8	8,260.0	8,595.2	8,890.9	9,197.2
Revenue	222,529	233,457	241,944	251,364	260,263
EBITDA margin	47.9%	48.8%	49.1%	49.6%	50.1%
Net Earnings/(loss)	$150	$5,061	$12,066	$17,950	$24,276
Capital expenditures	41,406	39,404	45,932	51,101	47,000
Debt/Enplaned Passenger	$230	$214	$197	$182	$167
Debt Service Coverage Ratio	1.44	1.48	1.54	1.61	1.68
Interest Coverage Ratio	2.02	2.29	2.59	2.80	3.02

ACCOUNTABILITY

Edmonton Airports' public accountability requirements with respect to planning, reporting, conduct and operational effectiveness are documented in the Airport ground lease and associated agreements with the Government of Canada and under the relevant provincial legislation, including the Regional Airports Authorities Act (Alberta). These agreements and incorporating legislation set out specific requirements for matters such as business ethics, conflict of interest, audit, periodic performance reviews and disclosure. In addition to information included in the 2017 Management Discussion and Analysis above, the following items require disclosure:

BUSINESS AND STRATEGIC PLANS

The Executive Summary of Edmonton Airports 2017 Business Plan and 2017-2020 Strategic Plan are available upon request.

CONFLICT OF INTEREST

In accordance with the Airport ground lease and the Regional Airport Authorities Act (Alberta), Edmonton Airports confirms it has an appropriate Conflict of Interest Policy and is in compliance with that policy.

Edmonton Airports confirms its compliance, in all material respects, with the public accountability requirements documented in the Airport ground lease as well as with provincial legislation, including the Regional Airports Authorities Act (Alberta).

PUBLIC COMPETITIVE TENDERING

Edmonton Airports, in accordance with the Airport ground lease with the Government of Canada, is required to report on all contracts in excess of $132,671 ($75,000 in 1992 dollars) that were entered into during the year and were not awarded on the basis of a public competitive tendering process. Such reporting shall identify the parties, contract amount and nature and circumstances of the contract, and the reasons for not awarding the contract on the basis of a public competitive tendering process. We entered into four contracts in excess of $132,671 ($75,000 in 1992 dollars) that, for the reasons outlined in the corresponding table, were not awarded on the basis of a public competitive tendering process.

2017 SOLE SOURCE CONTRACTS OVER $132,671
(based on 2017 Edmonton CPI Index)

Supplier	Project	Value	Code
Ryken Group Ltd.	Various small construction projects to complete additional changes to airport operations facility that were not included in the building purchase	$175,000.00	In compliance with strategic alliance requirements
Aerium Analytics (a joint venture)	UAV Wildlife Management and Imaging Services	$300,000.00	In compliance with strategic alliance requirements
Vanderlande Industries Canada Inc.	Centralized Redundancy Project	$3,766,433.00	Single source provider
Embross	Replacement of CUSS Kiosk Hardware	$350,000.00	In compliance with a product or equipment standardization program

FINANCIALS

REPORT OF MANAGEMENT

The financial statements of the Edmonton Regional Airports Authority (Edmonton Airports) are the responsibility of management and have been approved by the Board of Directors. These financial statements have been prepared by management in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and include disclosures otherwise required by laws, regulations and agreements to which Edmonton Airports is subject. These financial statements also include amounts that are based on estimates and judgments which reflect currently available information. Edmonton Airports has developed and maintains accounting procedures and related systems of internal controls that are designed to provide reasonable assurance that its assets are safeguarded and that its financial records are reliable.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, has been appointed by the Board of Directors as external auditors of Edmonton Airports. The Auditor's Report to the Board of Directors, which describes the scope of their examination and expresses their opinion, is presented herein.

The Board of Directors has appointed an Audit Committee, whose members are not employees of Edmonton Airports. The Audit Committee meets with management and external auditors at least four times a year to review any significant accounting, internal control and auditing matters. They also review and recommend the annual financial statements of Edmonton Airports to the Board of Directors for approval.

Tom Ruth

President and Chief Executive Officer

Roxanne LeBlanc

Acting Chief Financial Officer and
Vice President, Corporate Services

Edmonton Canada
March 15, 2018

March 15, 2018

Independent Auditor's Report

To the Board of Directors of
Edmonton Regional Airports Authority

We have audited the accompanying financial statements of Edmonton Regional Airports Authority, which comprise the statement of financial position as at December 31, 2017 and the statements of comprehensive income (loss), changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Edmonton Regional Airports Authority as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
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T: +1 780 441 6700, F: +1 780 441 6776

EDMONTON REGIONAL AIRPORTS AUTHORITY

STATEMENTS OF FINANCIAL POSITION

At December 31, 2017 and 2016 (in thousands of dollars)

	2017 $	2016 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	39,650	40,969
Accounts receivable (note 5)	17,298	20,156
Prepaid expenses and other	5,363	5,314
	62,311	66,439
NON-CURRENT ASSETS		
Restricted deposits (note 6(b))	34,446	33,539
Prepaid expense and lessee receivable	307	514
Post-employment benefits (note 7)	3,948	–
Property, plant and equipment (note 8)	942,859	971,720
Intangible assets (note 9)	6,683	3,764
	1,050,554	1,075,976
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (notes 8(b) and 10)	35,833	41,654
Current portion of deferred revenue (note 11)	2,002	1,118
Current portion of post-employment benefits (note 7(c))	–	1,386
Current portion of long-term debt (note 6)	30,891	24,597
	68,726	68,755
NON-CURRENT LIABILITIES		
Tenants' security deposits	2,067	2,313
Deferred revenue (note 11)	15,570	11,027
Post-employment benefits (note 7)	3,320	7,012
Long-term debt (note 6)	908,382	938,980
	998,065	1,028,087
Contingencies (note 14)		
Commitments (note 15)		
NET ASSETS	52,489	47,889
	1,050,554	1,075,976

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:

Chair

Chair – Audit Committee

EDMONTON REGIONAL AIRPORTS AUTHORITY

STATEMENTS OF COMPREHENSIVE (LOSS)

For the years ended December 31, 2017 and 2016 (in thousands of dollars)

	2017 $	2016 $
REVENUE		
Airport improvement fee (note 12)	94,779	89,383
Concessions and parking	56,152	56,223
Airside and general terminal	42,879	42,097
Police and security	12,682	12,563
Real estate leases (note 13)	6,829	5,474
Other revenue	2,386	359
	215,707	206,099
EXPENSES		
Service, maintenance, supplies and administration	32,709	31,248
Salaries and employee benefits (note 17)	31,676	31,071
Canada Lease Rent (notes 1 and 15(c))	18,366	17,504
Utilities, insurance and property taxes	11,971	11,391
Police and security	10,454	10,183
Airport improvement fee collection costs (note 12)	4,811	4,540
	109,987	105,937
EBITDA (note 16)	105,720	100,162
OTHER EXPENSES (INCOME)		
Depreciation and amortization (notes 8(c) and 9(b))	64,564	62,963
Interest (note 6(f))	44,666	45,160
Loss (gain) on foreign exchange	15	(52)
(Gain) loss on disposal of property, plant and equipment (note 8(d))	(35)	20
	109,210	108,091
NET LOSS FOR THE YEAR	(3,490)	(7,929)
OTHER COMPREHENSIVE INCOME (LOSS):		
ITEMS THAT WILL NOT BE RECLASSIFIED TO NET LOSS		
Remeasurement gain (loss) on post-employment benefits (note 7)	8,090	(3,058)
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	4,600	(10,987)

The accompanying notes are an integral part of these financial statements.

EDMONTON REGIONAL AIRPORTS AUTHORITY

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31, 2017 and 2016 (in thousands of dollars)

	2017 $	2016 $
NET ASSETS – BEGINNING OF YEAR	47,889	58,876
Re-measurement gain (loss) that will not be reclassified to net loss	8,090	(3,058)
Net loss for the year	(3,490)	(7,929)
Total comprehensive income (loss) for the year	4,600	(10,987)
NET ASSETS – END OF YEAR	52,489	47,889

The accompanying notes are an integral part of these financial statements.

EDMONTON REGIONAL AIRPORTS AUTHORITY

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016 (in thousands of dollars)

	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(3,490)	(7,929)
Adjustments for:		
Depreciation and amortization	64,564	62,963
Amortization of borrowing costs	293	289
Gain on foreign exchange	15	(52)
Loss on disposal of property, plant and equipment	(35)	20
Post-employment benefit expense	3,711	3,828
Finance costs – net	43,798	44,456
Changes in working capital:		
Accounts receivable	2,833	(3,651)
Prepaid expenses and other	(11)	107
Accounts payable and accrued liabilities	6,428	(2,156)
Deferred revenue	5,427	(78)
Tenants' security deposits	(245)	621
Post-employment benefit contributions	(4,647)	(5,065)
Interest paid	(44,851)	(45,190)
Interest received	868	704
NET CASH FLOWS IN OPERATING ACTIVITIES	74,658	48,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Lessee receivable	169	(148)
Purchase of restricted deposits	(907)	(301)
Purchase of property, plant and equipment	(46,514)	(42,329)
Purchase of intangible assets	(4,321)	(1,813)
Proceeds on disposal of property, plant and equipment	208	–
Interest paid capitalized to property, plant and equipment	–	(340)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(51,365)	(44,931)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	(24,597)	(22,092)
Proceeds from long-term debt	–	20,000
NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES	(24,597)	(2,092)
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	(15)	52
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,319)	1,896
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	40,969	39,073
CASH AND CASH EQUIVALENTS – END OF YEAR	39,650	40,969

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016 (in thousands of dollars)

1 NATURE OF OPERATIONS

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 financial statements were authorized for issue by the Board of Directors on March 15, 2018.

EDMONTON INTERNATIONAL AIRPORT

On April 2, 1992, Edmonton Airports signed an agreement with the Landlord to transfer control of the Edmonton International Airport (the Airport) to Edmonton Airports. Effective July 31, 1992, Edmonton Airports signed the Ground Lease Agreement (Canada Lease) with the Landlord to lease the Airport facilities for an initial period of 60 years ending in 2052. On August 1, 1992, Edmonton Airports assumed control of the Airport. All revenue and expenditure contracts in effect on August 1, 1992, were assigned to Edmonton Airports and Edmonton Airports did not assume any liability with respect to claims against the Landlord prior to this date. Under the option granted to Edmonton Airports in the Canada Lease, Edmonton Airports provided notice to the Landlord that the option was being exercised to extend the term for an additional 20 years. The Landlord advised Edmonton Airports on August 13, 2012, that such notice was duly received and as such the term of the Canada Lease has been extended, on the same terms and conditions, for an additional 20 years expiring July 31, 2072. At the end of the renewal term, Edmonton Airports is obligated to return control of the Airport to the Landlord. The Airport must be returned in a state of good order, condition and repair. The Airport must also be free and clear of any Occupancy Agreement, Transfer, Leasehold Mortgage (as defined in the Canada Lease) or other encumbrances of any nature or kind except those for which the Landlord has granted rights of non-disturbance.

The Canada Lease is the principal document governing the relationship between Edmonton Airports and the Landlord at the Airport. It determines the rent (Canada Lease Rent) to be paid and generally allocates risk and responsibilities between Edmonton Airports and the Landlord for all matters related to the operation of the Airport. Under the terms of the Canada Lease, Edmonton Airports is fully responsible for the management, operation and development at the Airport. Edmonton Airports is free to operate the Airport on a commercial basis and has the authority to set rates and charges and to develop and improve facilities. The Landlord retains regulatory control over aeronautics and as such, will set safety and security standards for airports, license airports and regulate the aviation industry as a whole.

Canada Lease Rent is calculated as a percentage of Gross Revenue at the Airport as defined by the Canada Lease and related documents using escalating percentages with the following ranges: 0% for Gross Revenue below $5.0 million, 1% for Gross Revenue between $5.0 million and $10.0 million, 5% for Gross Revenue between $10.0 million and $25.0 million, 8% for Gross Revenue between $25.0 million and $100.0 million, 10% for Gross Revenue between $100.0 million and $250.0 million, and 12% for Gross Revenue in excess of $250.0 million. The calculation of Gross Revenue is subject to audit by the Landlord. The future lease payments due to the Landlord are based upon projected Gross Revenue in each year and are estimated in note 14(c).

The Airport operates on approximately 2,800 hectares of land in the County of Leduc adjacent to the City of Leduc in the Province of Alberta. The assets of the Airport include air-terminal, airside assets including two runways, multiple taxiways and aprons, loading bridges, groundside assets including parking lots, maintenance facilities and other ancillary structures necessary to execute its mandate. These assets will revert to the Landlord (Transport Canada) upon the expiration or termination of the Canada Lease. Assets owned by NAV CANADA, the operator of Canada's civil air navigation system, are excluded from Airport operations.

Edmonton Airports is committed to the continuing development of the Airport. This includes continued redevelopment of the terminals, increasing airside capacity, and increasing cargo and aircraft facilities.

VILLENEUVE AIRPORT

On March 30, 2000, Edmonton Airports acquired from the Landlord all lands, assets, chattels and equipment comprising the Villeneuve Airport for a nominal amount. Villeneuve Airport operates on approximately 579 hectares of land in Sturgeon County and is a certified general aviation airport. Villeneuve Airport's role is to serve the needs of small commercial, recreational flying and general aviation and it is a flight training facility with a flight control system owned and operated by NAV CANADA.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A) BASIS OF PREPARATION

Edmonton Airports prepares its financial statements in compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Canadian Generally Accepted Accounting Principles (GAAP) as issued by the Chartered Professional Accountants of Canada. Edmonton Airports has consistently applied IFRS throughout these financial statements.

The financial statements have been prepared in Canadian dollars under the historical cost convention. The financial statements and notes are presented in thousands of Canadian dollars unless otherwise noted.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

B) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash and other investments with an original term of 90 days or less.

C) LEASES

A lease is classified as a finance lease when it transfers to the lessee substantially all the risks and rewards related to ownership of the leased asset. All other leases are classified as operating leases.

Edmonton Airports as the lessee:

Operating lease payments made are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as deferred revenue. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Canada Lease Agreement is accounted for as an operating lease.

Edmonton Airports as the lessor:

The amount receivable from the lessee in accordance with a finance lease is recognized at an amount equal to the net investment of Edmonton Airports in the lease. Lease income from finance leases is recognized over the term of the lease in order to reflect a constant periodic return on Edmonton Airports' net investment in the finance lease.

Rental income from operating leases is recognized on a straight-line basis over the lease term. Amounts not recognized as income in the current year are classified and recorded as deferred revenue. The respective leased assets are included in the balance sheet based on their nature.

In the event that lease incentives are provided to the lessee to enter into an operating lease, when the lease incentive adds future economic value to the space independent of the lease in place, such costs are capitalized to property, plant and equipment and recognized through depreciation expense over the useful life of the corresponding asset. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term.

D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost, net of applicable government grants, less accumulated depreciation and accumulated impairment losses and include only the amounts expended by Edmonton Airports. Property, plant and equipment do not include the cost of the facilities that are leased from the Landlord (note 8). These assets will revert to Transport Canada upon the expiration or termination of the Canada Lease. No amounts are amortized longer than the lease term.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and interest capitalized during the construction of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of that property, plant and equipment, and are recognized net within other items in the statements of comprehensive income (loss).

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Edmonton Airports and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance costs are charged to the statements of comprehensive income (loss) during the period in which they are incurred.

Depreciation is recognized in the statements of comprehensive income (loss) on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are amortized over the shorter of the lease term and their useful lives unless it is reasonably certain that Edmonton Airports will obtain ownership by the end of the lease term.

The major categories of property, plant and equipment are amortized at the following annual rates:

TERMINAL AND FACILITIES	
Buildings	1.67 – 50.00%
Roadway systems	2.50 – 20.00%
Parking facilities and lots	2.50 – 20.00%
Runway, taxiways and apron surfaces	1.67 – 33.33%
Land development	1.67 – 10.00%
Land	Straight-line over the remaining term of the Ground lease

TERMINAL AND FACILITIES MACHINERY AND EQUIPMENT	
Vehicles and maintenance equipment	5.00 - 33.33%
Furniture and equipment	2.85 - 20.00%
Computer hardware	33.33 - 50.00%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted as appropriate.

Edmonton Airports has previously purchased land for operational purposes and future development. The Canada Lease requires that at commencement of development the applicable land be transferred to the Government of Canada at which time Edmonton Airports reclassifies the land to leased land.

E) INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses and include only the amounts expended by Edmonton Airports, offset by any contributions from government grants. Intangible assets do not include the cost of the facilities that are leased from the Landlord (note 9).

Intangible assets include purchased computer software and software licenses with finite useful lives. These assets are capitalized and amortized on a straight-line basis in the statements of comprehensive income (loss) at the following annual rates:

Purchased software and software licences	10.00 – 50.00%

F) BORROWING COSTS

Borrowing costs attributable to the acquisition or construction of qualifying assets are added to the cost of those assets, until such time as the assets are available for use as intended by management. All other borrowing costs are recognized as interest expense in the statements of comprehensive income (loss) in the year in which they are incurred. The amount of borrowing cost capitalized is determined by applying a weighted average cost of borrowings to qualifying assets included in the construction work in progress.

G) IMPAIRMENT OF NON-FINANCIAL ASSETS

Property, plant and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash-generating units (CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGUs). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Edmonton Airports evaluates impairment losses for potential reversals when events or circumstances may indicate such consideration is appropriate. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

H) REVENUE RECOGNITION

Edmonton Airports recognizes revenues when received or receivable if the amount to be received can be reasonably estimated and if collection is reasonably assured as follows:

- Airport improvement fee (AIF) revenue is recognized based upon monthly remittances from air carriers. Monthly remittances are estimated when necessary and adjusted to actual amounts received.
- Concession revenue is recognized based upon the greater of agreed percentages of reported concession sales and specified minimum rentals over the terms of the respective leases.
- Airside and general terminal and parking revenues are recognized as the airport facilities are utilized.
- Police and security revenue is recognized as these services are provided.
- Real estate revenue net of incentives is recognized on a straight-line basis over the terms of the respective leases. For land, this amount is recognized once the development of land has been granted to the tenant.

I) POST-EMPLOYMENT BENEFITS

Edmonton Airports operates various post-employment plans including a defined benefit (DB) pension plan, a defined contribution (DC) pension plan, a (DB) Supplementary Executive Retirement Plan (SERP) with one member that is a non-funded liability, and a non-funded long-term benefit plan for eligible employees under the terms of the collective bargaining agreements.

The DC plan is a pension plan under which Edmonton Airports pays fixed contributions into a separate entity. Edmonton Airports has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to their contributions plus investment income. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or reduction in the future payment is available. A DB plan is a pension plan that is not a DC plan.

The liability recognized in the balance sheet in respect of the DB pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the unit credit method. The present value of the post-employment benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have duration to maturity approximating the duration of the related pension liability.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in full in the period in which they arise in other comprehensive income.

Past service costs are recognized immediately in net loss for the year.

The expected costs of the DB SERP are accrued over the period of employment using the same methodology as used for the DB pension plan. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in full in the period in which they arise in other comprehensive income. These obligations are valued annually by independent qualified actuaries.

J) FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets and liabilities are recognized when Edmonton Airports becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards have transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

At initial recognition, all assets and liabilities are classified as follows depending on the purpose for which the instruments were acquired:

i) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Edmonton Airports' loans and receivables comprise accounts receivable and cash and cash equivalents, which are included in current assets due to their short-term nature. Receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in net loss.

ii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities and long-term debt. Trade payables are initially recognized at the amount required to be paid which approximates fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

K) GOVERNMENT GRANTS

Grants from the government are recognised when there is a reasonable assurance that the grant will be received and Edmonton Airport is in compliance with all attached conditions. Government grants relating to costs are deferred and recognised into income over the period necessary to match them with the costs that they are intended to compensate.

3 CHANGES IN ACCOUNTING STANDARDS AND DISCLOSURES

A) NEW AND AMENDED STANDARDS ADOPTED IN 2017

Edmonton Airports has adopted the following new and amended standards, along with any consequential amendments, effective January 1, 2017. These changes were made in accordance with the applicable transitional provisions.

- Disclosure Initiative: Amendments to IAS 7

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 6 (a).

B) ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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. Additional disclosures on transition from IAS 39 to IFRS 9 will be required under IFRS 7, the application of which is effective on adoption of IFRS 9.

Edmonton Airports has reviewed its financial assets and liabilities and does not expect the new guidance to affect the classification and measurement under IFRS 9. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, Edmonton Airports expects an insignificant increase in the loss allowance for trade creditor.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. IFRS 9 must be applied for financial years commencing on or after January 1, 2018. Edmonton Airports will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

ii) IFRS 15 Revenue from 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. Edmonton Airports has assessed the effects of applying the new standard on the financial statements and has identified the following areas that will be affected:

- Accounting for non-cash consideration – IFRS 15 requires non-cash consideration to be included in determining the total transaction price in a contract. This will result in higher amounts recognize in revenue and a corresponding increase in expense. Edmonton Airports is currently quantifying the impact of the increased revenue and corresponding expense.
- Accounting for incentives provided to airlines – the total incentive payments provided to an airline must be spread out over the contract term and recognize as a reduction to revenue at the same time that performance obligations are met. As such the timing of revenue recognition will be impacted. Edmonton Airport is currently quantifying the impact of this timing difference.

IFRS 15 is mandatory for financial years commencing on or after January 1, 2018. Edmonton Airports intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of January 1, 2018 and that comparatives will not be restated.

iii) IFRS 16 Leases

IFRS 16, published in January 2017, 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.

Edmonton Airports signed the Canada Lease with the Landlord to lease the Airport facilities until July 31, 2072. Edmonton Airports does not expect the new guidance to affect the classification and measurement of this lease because the rent payments made to the Landlord are variable in nature. The new standard excludes these payment in the calculation of lease liability. Where Edmonton Airports subleases Airport land, management is currently determining if these leases would become on-balance sheet under IFRS 16.

The new standard is mandatory for financial years commencing on or after January 1, 2019. At this stage, Edmonton Airports does not intend to adopt the standard before its effective date. Edmonton Airports intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

In applying Edmonton Airports' accounting policies, management is required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

Accounting estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

i) Critical judgments in applying accounting policies:

The following are the critical judgments that management has made in the process of applying Edmonton Airports' accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Lease incentives: Payments to tenants or tenant improvements are often provided when new leases are signed. When the payments or tenant improvements add future economic value to the space independent of the lease in place, such costs are capitalized to property, plant and equipment. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with SIC 15, Operating Leases – Incentives. Edmonton Airports uses its judgment in determining whether the lease incentive should be recorded as property, plant and equipment or a lease incentive.

Property, plant and equipment and intangible assets: Critical judgments are utilized in determining when an item of property, plant and equipment and intangible assets are available for use as intended by management. This determination impacts the timing of cessation of capitalized interest and commencement of depreciation.

LEASES:
Edmonton Airports evaluates agreement terms and conditions to determine whether they contain or are leases. Where a lease exists, Edmonton Airports determines whether substantially all of the significant risks and rewards of ownership are transferred to the customer, in which case it is accounted for as a finance lease, or remain with the Edmonton Airports, in which case it is accounted for as an operating lease.

ii) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

Property, plant and equipment and intangible assets: Significant components of property, plant and equipment and intangible assets are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates.

Post-employment benefits: The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. Key assumptions for pension obligations are included in note 7. Edmonton Airports considers the extrapolation of the December 31, 2016 figures of the DB pension plan to be an appropriate method to estimate Edmonton Airports' pension obligation and expense as at and for the year ended December 31, 2017 since the revised assumptions used in relation with this extrapolation were reviewed and found to be appropriate.

Fair value of long-term debt: Edmonton Airports uses valuation techniques in measuring fair value of long-term debt for disclosure purposes, where active market quotes are not available. Details of the assumptions are provided in note 16. In applying the valuation techniques, Edmonton Airports makes maximum use of market inputs, and uses estimates and assumptions that are, as much as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, Edmonton Airports uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's-length transaction at the reporting date.

5 ACCOUNTS RECEIVABLE

	2017 $	2016 $
Trade receivables	14,560	18,584
Less: Allowance for doubtful accounts	(685)	(502)
Trade receivables – net	13,875	18,082
Other receivables and accrued receivables	3,423	2,074
	17,298	20,156

All of Edmonton Airports' trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision for impairment of accounts receivable has been recorded (note 16).

6 LONG-TERM DEBT

A) TOTAL LONG-TERM DEBT OUTSTANDING

	2017 $	2016 $
Series A Bond	205,104	211,720
Series C Bond	761,598	757,074
Opening Balance	966,702	968,794
Add: loan proceeds	–	20,000
Less: loan payments	24,597	22,092
Series A Bond	197,738	205,104
Series C Bond	744,367	761,598
Closing Balance	942,105	966,702
Less: Current portion Series A Bond	8,177	7,366
Less: Current portion Series C Bond	22,714	17,231
Total current portion	30,891	24,597
Less: Unamortized transaction costs	2,832	3,125
	908,382	938,980

B) SERIES A BOND AND RESTRICTED DEPOSITS

In October 2000, Edmonton Airports completed a $250 million revenue bond issue (Series A Bond) to fund the requirements of the Air Terminal Redevelopment project. Net proceeds of the issue were used to retire an existing credit facility and to complete the project's construction.

Pursuant to the terms of this bond, Edmonton Airports is required to maintain a Debt Service Reserve Fund equal to one-half of its annual debt service costs and an Operating and Maintenance Contingency Fund equal to one quarter of its annual operation and maintenance expenses. At December 31, 2017, Restricted deposits of $34,446 (2016 – $33,539) exist as a requirement of the Debt Service Reserve Fund. These deposits earned annual interest of 1.40% (2016 – 0.90%). The Operating and Maintenance Contingency Fund can be satisfied by cash, letter of credit or undrawn availability of the Series B Bond and revolving credit facility.

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.

Interest Rate	Semi-annual Instalment $	Maturity Date	2017 $	2016 $
7.21%	Varying	November 1, 2030	197,738	205,104
Less: Unamortized transaction costs			2,8321	3,125
			194,906	201,979
Less: Current portion			8,177	7,366
			186,729	194,613

C) SERIES B BOND AND REVOLVING CREDIT FACILITY

In addition, Edmonton Airports executed a restated credit agreement in 2017 with the Royal Bank of Canada a three-year term, $5 million revolving credit facility to support operations and an increase to the term revolving loan (Series B Bond) from $40 million to $70 million for general corporate purposes and to assist in the interim financing of construction projects with the ability to extend the credit facility up to $200 million. As at December 31, 2017, $21,591 (2016 – $20,834) of the term revolving loan had been set aside for the Operating and Maintenance Contingency Fund as required under the Series A Bond.

Pledged as collateral to the bonds are: a first leasehold mortgage on the Edmonton International Airport and related Canada Lease; a security interest over all of the present and future personal property of Edmonton Airports including without limitation, all book debts, and all sources of revenue and assets and any reserve funds; and a floating charge over all of the other present and future property and assets of Edmonton Airports.

D) SERIES C BOND

Under its existing capital markets platform, Edmonton Airports entered into a Credit Agreement (Agreement) with the Alberta Capital Finance Authority (ACFA) on December 6, 2006. On March 19, 2008, the Agreement was amended (First Amending Agreement) for Edmonton Airports to finance the capital expansion program at the Edmonton International Airport. On March 12, 2012, the First Amending Agreement was amended (Amended and Restated Credit Agreement) for Edmonton Airports to finance the construction of non-expansion related infrastructure at the Edmonton International Airport. The Amended and Restated Credit Agreement contains three Credit Facilities.

Credit Facility 1, for $1.0 billion, by way of fixed rate loans, is to be used solely for the purposes of airport infrastructure expenditures at the Edmonton International Airport.

Credit Facility 2, for $300 million, by way of fixed rate loans, is to be used firstly for the purposes of redeeming or purchasing for cancellation the Series A Bond and the Series B Bond. The First Amending Agreement restricts any drawdown of the final $50 million of Credit Facility 2 until all the Series B Bond is redeemed. Once Series A and Series B Bonds are fully redeemed, any residual balance in Credit Facility 2 can be used for the same purposes as Credit Facility 1. Credit Facility 3, for $100 million, by way of fixed rate loans, is to be used solely for the purposes of funding capital expenditure projects, the general purpose of which are to construct or improve infrastructure in respect to buildings, airfield, land, roads, navigational aids and other assets required for the operation of the Edmonton International Airport. The use of Credit Facility 3 reduces, dollar for dollar, the amount available to Edmonton Airports under Credit Facility 1.

Throughout the period, when debentures are outstanding, 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.

The collateral pledged under the Agreement is the same as and ranks equally with the Series A and Series B Bonds.

FIXED RATE DEBENTURES, SERIES C BONDS PAYABLE IN SEMI-ANNUAL INSTALMENTS OF PRINCIPAL AND INTEREST:

Interest Rate	Semi-annual Instalment $	Maturity Date	2017 $	2016 $
4.37%	755	December 15, 2026	11,135	12,126
4.50%	1,145	March 15, 2027	17,550	19,002
5.00%	398	June 15, 2027	5,967	6,447
4.89%	395	September 17, 2027	6,186	6,655
4.68%	1,552	June 16, 2028	25,507	27,350
4.55%	3,068	September 17, 2028	52,634	56,249
4.67%	1,245	December 15, 2039	34,028	34,901
4.54%	920	March 15, 2040	25,777	26,425
4.56%	1,845	June 15, 2040	51,579	52,873
4.00%	1,439	October 1, 2040	42,999	44,122
4.40%	2,112	December 15, 2040	60,729	62,233
4.41%	1,511	March 15, 2041	43,933	44,982
4.16%	1,657	June 15, 2041	49,384	50,000
3.73%	557	March 17, 2044	18,640	19,047
3.36%	266	September 15, 2044	9,388	9,599
3.18%	260	December 15, 2044	9,370	9,587
2.72%	490	December 15, 2046	19,561	20,000
			484,367	501,598

FIXED RATE DEBENTURES, SERIES C BONDS PAYABLE IN SEMI-ANNUAL INSTALMENTS OF INTEREST ONLY:

Interest Rate	Semi-annual Instalment $	Maturity Date	2017 $	2016 $
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%	343	March 15, 2043	20,000	20,000
			744,367	761,598
Less: Current portion			22,714	17,231
			721,653	744,367

E) THE FUTURE ANNUAL PRINCIPAL AND INTEREST PAYMENTS REQUIRED TO RETIRE THE LONG-TERM DEBT ARE AS FOLLOWS:

	Principal $	Interest $	Total $
2018	30,891	43,527	74,418
2019	35,530	41,922	77,452
2020	37,854	40,141	77,995
2021	40,030	38,239	78,269
2022	42,334	36,213	78,547
Thereafter	755,466	284,520	1,039,986
	942,105	484,562	1,426,667

F) INTEREST EXPENSE (INCOME)

	2017 $	2016 $
Series A Bond interest	14,895	15,352
Series C Bond interest	30,094	30,437
Interest portion of current service cost for post-employment benefits	345	291
Other interest and financing costs	200	124
Interest income and other	(868)	(704)
	44,666	45,500
Capitalized interest (note 8(c))	–	(340)
	44,666	45,160

7 POST-EMPLOYMENT BENEFITS

The table below outlines where Edmonton Airports' post-employment amounts and activity are included in the financial statements:

	2017 $	2016 $
Asset included in statements of financial position		
Defined benefit pension plan	3,948	–
Asset in the statements of financial position	3,948	–
LIABILITIES INCLUDED IN STATEMENTS OF FINANCIAL POSITION		
Defined benefit pension plan	–	4,941
Supplementary executive retirement plan	3,270	3,206
Long-term benefit plan	50	251
Liability in the statements of financial position	3,320	8,398
EXPENSES INCLUDED IN NET LOSS FOR THE YEAR:		
Defined benefit pension plan	3,585	3,530
Supplementary executive retirement plan	115	119
Long-term benefit plan	23	179
	3,723	3,828
RE-MEASUREMENTS FOR:		
Defined benefit pension plan	8,231	(3,008)
Supplementary executive retirement plan	(141)	(46)
Long-term benefit plan	–	(4)
Re-measurement gain (loss) on post-employment benefits	8,090	(3,058)
Present value of funded obligations	61,155	63,268
Fair value of plan assets	65,103	58,327
Surplus (deficit) of funded plans	3,948	(4,941)
Present value of unfunded obligations	(3,320)	(3,457)
Net asset (liability) in the statements of financial position	628	(8,398)

A) DEFINED BENEFIT PENSION PLAN

Effective October 1, 2013, Edmonton Airports closed the existing DB pension plan to employees subject to collective bargaining and such employees are now included in the DC pension plan. The number of employees in the DB pension plan will diminish as time passes.

The most recent funding recommendation for the DB portion of the pension plan was completed as at December 31, 2016 and is contained in an actuarial report dated June 30, 2017. The next required actuarial valuation for funding purposes must be effective no later than December 31, 2017. The financial statements were prepared based on an actuarial valuation completed as at December 31, 2016 with an extrapolation to December 31, 2017.

The level of DB pension benefits provided depends on a member's length of service and their best average pensionable salary. Pensions paid are indexed with inflation and the benefit payments are from funds administered under an insurance contract. Responsibility for governance of the pension plan lies with Edmonton Airports.

Edmonton Airports has set up a pension administration committee to assist in the management of the pension plan and has also appointed experienced, independent professional experts such as investment managers, actuaries and fund holders.

The movement in the defined benefit obligation and fair value of plan assets of the pension plan over the years 2016 and 2017 is as follows:

	Present value of obligation $	Fair value of plan assets $	Total $
At January 1, 2016	57,401	(54,693)	2,708
Current service cost	3,193	–	3,193
Interest expense (income)	2,242	(2,096)	146
Impact on net loss for the year	5,435	(2,096)	3,339
RE-MEASUREMENTS			
Return on plan assets, excluding amounts included in interest (income)	–	(617)	(617)
Loss from change in financial assumptions	3,274	–	3,274
Experience gain	351	–	351
Impact of re-measurements on other comprehensive income (loss)	3,625	(617)	3,008
CONTRIBUTIONS			
Employer	–	(4,305)	(4,305)
Participants	–	(40)	(40)
Benefit payments	(3,191)	3,191	–
Administration costs	–	231	231
At December 31, 2016	63,270	(58,329)	4,941
At January 1, 2017	63,270	(58,329)	4,941
Current service cost	3,205	–	3,205
Interest expense (income)	2,392	(2,167)	225
Impact on net loss for the year	5,597	(2,167)	3,430
RE-MEASUREMENTS			
Return on plan assets, excluding amounts included in interest expense (income)	–	(4,152)	(4,152)
Loss from change in mortality assumptions	242	–	242
Gain from change in financial assumptions	(1,552)	–	(1,552)
Experience gain	(2,769)	–	(2,769)
Impact of re-measurements on other comprehensive income (loss)	(4,079)	(4,152)	(8,231)
CONTRIBUTIONS			
Employer	–	(4,243)	(4,243)
Participants	–	(33)	(33)
Benefit payments	(3,631)	3,631	–
Administration costs	–	188	188
At December 31, 2017	61,157	(65,105)	(3,948)

The significant actuarial assumptions are as follows:

	2017 %	2016 %
Discount rate	3.40	3.70
Rate of compensation increase	2.75	3.00

Assumptions regarding future mortality are set on actuarial advice in accordance with published statistics and experience of the pension plan. Recent experience has indicated actuarial gains or losses that are not material to the pension plan. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60:

	2017 years	2016 years
Retiring at the end of reporting period:		
Male	26.3	26.2
Female	29.2	28.6
Retiring 20 years after end of reporting period:		
Male	27.9	27.3
Female	30.6	29.6

The sensitivity of the defined benefit obligation to changes in assumptions is set out below. The effects on the DB portion of the pension plan of a change in an assumption are weighted proportionately to the total plan obligations to determine the total impact for each assumption presented.

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	(2.7%)	2.8%
Rate of compensation increase	0.25%	1.0%	(1.0%)
Mortality rates	10%	(2.3%)	2.5%

Through its defined benefit plans, Edmonton Airports is exposed to a number of risks, the most significant of which are detailed below:

ASSET VOLATILITY

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while contributing volatility and risk in the short-term. As the plans mature, Edmonton Airports intends to reduce the level of investment risk by investing more in assets that better match the liabilities. Edmonton Airports believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of Edmonton Airports' long-term strategy to manage the plan efficiently.

Plan assets are comprised as follows:

	2017 %	2016 %
Equities	59.80	59.70
Debt securities	40.20	40.30
Total	100.00	100.00

CHANGES IN BOND YIELDS

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

INFLATION RISK

The majority of the plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan's assets are loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

LIFE EXPECTANCY

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant in all Edmonton Airports' plans where inflationary increases result in higher sensitivity to changes in life expectancy.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the statement of financial position.

In case of the funded plan, Edmonton Airports ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension plans. Within this framework, Edmonton Airports' ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. Edmonton Airports does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2017 consists of equities and bonds. Edmonton Airports believes that equities offer the best returns over the long-term with an acceptable level of risk. The plans are not exposed to significant foreign currency risk.

As at December 31, 2016, the aggregate solvency deficit in the defined benefit portion of the pension plan amounted to $6,577. Edmonton Airports will make special payments for past service of $1,315 to fund the pension plan deficit over five years. Edmonton Airports' current service contribution is equal to 16.6% of pensionable salaries. There are no contributions to the SERP or the long-term benefit plan. The next annual actuarial valuation for funding purposes for the pension plan is due to be completed as at December 31, 2017.

The weighted average duration of the defined benefit pension plan obligation is 11.9 years.

The expected maturity analysis of undiscounted pension and long-term benefits is summarized as follows:

	Less than 1 year $	Between 1-2 years $	Between 2-5 years $	Over 5 years $	Total $
Defined benefit pension plan	4,091	4,255	15,265	66,487	90,098
SERP	192	191	567	4,129	5,079
Long-term benefit plan	51	–	–	–	51
At December 31, 2017	4,334	4,446	15,832	70,616	95,228

B) SUPPLEMENTARY EXECUTIVE RETIREMENT PLAN

Edmonton Airports also has a DB Supplementary Executive Retirement Plan (SERP) with one member, effective February 1, 2005. The benefits provided under the SERP constitute a non-funded liability of Edmonton Airports. All payments made to the member of the SERP will be made from general revenues of Edmonton Airports. The financial statements were prepared using an independent actuarial valuation completed at December 31, 2017.

The movement in the defined benefit obligation of the SERP over the years 2016 and 2017 is as follows:

	2017 $	2016 $
Balance – Beginning of year	3,206	3,233
Interest expense	115	119
Impact on net loss for the year	115	119
Impact of re-measurements on other comprehensive income (loss)	141	46
Benefit payments	(192)	(192)
Balance – End of year	3,270	3,206

The methods and types of assumptions used in determining the defined benefit obligation of the SERP are the same used for the defined benefit pension plan. The effect of a 0.25% decrease in the discount rate assumption for the defined benefit obligation would result in an increased defined benefit obligation of the SERP of approximately $97,000.

C) LONG-TERM BENEFIT PLAN

Edmonton Airports also has a DB long-term benefit plan for eligible employees under the general bargaining unit collective agreement, excluding employees and management and firefighters under a separate collective bargaining agreement. The benefits provided under the long-term benefit plan constitute a non-funded liability of Edmonton Airports. The financial statements were prepared using an independent actuarial valuation completed at December 31, 2017.

For the year ended December 31, 2017, the long-term benefit plan has no re-measurement loss (2016 – $4). Current service costs of $nil (2016 – $31) and interest expense of $5 (2016 – $26) were reported in the current year. Benefit payments totaling $568 (2016 – $568) were made during the current year by the plan. The methods and types of assumptions used in determining the long-term benefit plan are the same used for the defined benefit pension plan.

DEFINED CONTRIBUTION PENSION PLAN

Edmonton Airports maintains a pension plan with defined contribution provisions providing pension benefits to employees who joined the plan after November 1, 2010, and whose employment conditions are not subject to collective bargaining. This same pension plan is maintained for employees who joined the plan after October 1, 2013 and whose employment conditions are subject to collective bargaining. Edmonton Airports' contribution to the defined contribution portion of the plan is a maximum of 5.5% of the employee's regular salary and wages.

The net expense for the defined contribution portion of the pension plan in 2017 was $422 (2016 – $363).

8 PROPERTY, PLANT AND EQUIPMENT

COST	Buildings $	Roadway systems $	Parking facilities and lots $	Runway, taxiways and apron surfaces $	Land Development $	Vehicles and maintenance equipment $	Furniture and equipment $	Computer hardware $	Land $	Construction work in progress $	Total $
Balance at January 1, 2016	878,214	47,981	133,431	253,887	31,199	27,652	17,168	22,578	4,080	59,317	1,475,507
Additions/transfers	21,947	11,869	2,686	521	46,134	785	111	3,154	–	(32,566)	54,641
Disposals	(479)	–	–	–	(3)	–	–	(618)	–	–	(1,100)
Balance at December 31, 2016	899,682	59,850	136,117	254,408	77,330	28,437	17,279	25,114	4,080	26,751	1,529,048
Balance at January 1, 2017	899,682	59,850	136,117	254,408	77,330	28,437	17,279	25,114	4,080	26,751	1,529,048
Additions/transfers	4,850	14,450	710	9,893	11,906	1,640	90	3,356	–	(12,413)	34,482
Disposals	(20)	–	(34)	(95)	(6)	(723)	(32)	(2,919)	–	–	(3,829)
Balance at December 31, 2017	904,512	74,300	136,793	264,206	89,230	29,354	17,337	25,551	4,080	14,338	1,559,701

DEPRECIATION	Buildings $	Roadway systems $	Parking facilities and lots $	Runway, taxiways and apron surfaces $	Land Development $	Vehicles and maintenance equipment $	Furniture and equipment $	Computer hardware $	Land $	Construction work in progress $	Total $
Balance at January 1, 2016	285,676	17,284	45,879	96,682	7,544	18,360	12,172	13,029	–	–	496,626
Depreciation for the year	37,448	2,100	4,166	10,726	2,044	1,247	616	3,288	147	–	61,782
Disposals	(459)	–	–	–	(3)	–	–	(618)	–	–	(1,080)
Balance at December 31, 2016	322,665	19,384	50,045	107,408	9,585	19,607	12,788	15,699	147	–	557,328
Balance at January 1, 2017	322,665	19,384	50,045	107,408	9,585	19,607	12,788	15,699	147	–	557,328
Depreciation for the year	37,624	2,475	4,499	10,457	2,532	1,408	590	3,507	70	–	63,162
Disposals	(20)	–	(11)	(27)	(4)	(643)	(32)	(2,911)	–	–	(3,648)
Balance at December 31, 2017	360,269	21,859	54,533	117,838	12,113	20,372	13,346	16,295	217	–	616,842
CARRYING AMOUNTS											
At December 31, 2016	577,017	40,466	86,072	147,000	67,745	8,830	4,491	9,415	3,933	26,751	971,720
At December 31, 2017	544,243	52,441	82,260	146,368	77,117	8,982	3,991	9,256	3,863	14,338	942,859

a) At December 31, 2017, $14,338 (2016 – $26,751) of property, plant and equipment were under construction of which $9,036 (2016 – $19,761) 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 December 31, 2017 is $11,719 (2016 – $23,783) relating to unpaid capital expenditures (note 10).

c) Property, plant and equipment includes $nil (2016 – $340) in borrowing costs capitalized during the year. Borrowing costs were capitalized at a weighted average rate of its general borrowing of 4.78% in prior period.

d) Assets with a net book value of $181 (2016 – $20) were disposed of for proceeds of $216 (2016 – $nil).

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016 (in thousands of dollars)

9 INTANGIBLE ASSETS

COST	Computer software $	Construction work in progress $	Total $
Balance at January 1, 2016	6,218	528	6,746
Additions/transfers	1,607	206	1,813
Disposals	(146)	–	(146)
Balance at December 31, 2016	7,679	734	8,413
Balance at January 1, 2017	7,679	734	8,413
Additions/transfers	4,883	(562)	4,321
Disposals	(963)	–	(963)
Balance at December 31, 2017	11,599	172	11,771

AMORTIZATION	Computer software $	Construction work in progress $	Total $
Balance at January 1, 2016	3,614	–	3,614
Amortization for the year	1,181	–	1,181
Disposals	(146)	–	(146)
Balance at December 31, 2016	4,649	–	4,649
Balance at January 1, 2017	4,649	–	4,649
Amortization for the year	1,402	–	1,402
Disposals	(963)	–	(963)
Balance at December 31, 2017	5,088	–	5,088
CARRYING AMOUNTS			
At December 31, 2016	3,030	734	3,764
At December 31, 2017	6,511	172	6,683

a) At December 31, 2017, $172 (2016 – $734) of intangible assets were under construction and not yet subject to amortization.

b) Intangible assets are purchased software and software licences. During the year ended December 31, 2017, $1,402 (2016 – $1,181) of intangible asset amortization was charged to the statements of comprehensive income (loss).

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017 $	2016 $
Trade payables	1,290	525
Capital expenditures payables (note 8(b))	11,719	23,783
Payroll source deductions and other employee benefits payable	4,914	4,214
Accrued interest on long-term debt	7,315	7,500
Other accruals and payables	10,595	5,632
	35,833	41,654

NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016 (in thousands of dollars)

11 DEFERRED REVENUE

	2017 $	2016 $
Deferred revenue	12,145	12,223
Add: Recognition of new contracts	8,649	235
Less: Amortized in the current year	(3,222)	(313)
	17,572	12,145
Less: Current portion	(2,002)	(1,118)
	15,570	11,027

12 AIRPORT IMPROVEMENT FEE (AIF)

Effective April 12, 1997, Edmonton Airports implemented an AIF to fund capital expenditures and the related financing costs, including the capital expenditure projects; the general purpose is to construct or improve airport infrastructure at Edmonton International Airport (see note 15(a)).

CUMULATIVE FROM PROGRAM INCEPTION	2017 $	2016 $
AIF revenue	943,745	848,966
AIF collection costs, retained by airlines	(55,403)	(50,664)
	888,342	798,302
Less: Cumulative expenditures	(1,738,690)	(1,679,965)
	(850,348)	(881,663)

13 OPERATING LEASES

Edmonton Airports leases various retail spaces, hangars and industrial and agricultural lands which terminate between 2018 and 2072. The future minimum lease payments receivable under operating leases are:

	2017 $	2016 $
No later than a year	9,557	9,708
Later than 1 year and no later than 5 years	29,209	30,988
Later than 5 years	76,071	88,467
	114,837	129,163

Contingent-based rents recognized in the statements of comprehensive income (loss) were $9,221 (2016 – $9,793).

14 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.

15 COMMITMENTS

a) Capital commitments

Edmonton Airports' capital projects are identified by airport and are broken into three main categories which are Commercial Real Estate, Growth and Maintenance.

Commercial Real Estate includes projects that build the revenue capacity for Edmonton Airports, the funding for which will be approved as operating earnings grow, and cash flow becomes available. Projects in this category include highway commercial development, light industrial development, and other similar investments. The Growth category is made up of projects that expand capacity, create new services and/or improve the passenger experience. This category 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 third group of projects is related to the maintenance of existing airport facilities and infrastructure. Projects in this category include system lifecycle replacements, paving programs, fleet replacement and capital restoration.

b) At December 31, 2017, Edmonton Airports had outstanding capital commitments in the amount of $9,536 (2016 – $18,009).

c) Operating commitments

Edmonton Airports has operating contracts for the provision of parking and information technology management, building maintenance and security, air service, marketing and janitorial services. These contracts have annual commitments as follows:

	$
2018	19,391
2019	11,953
2020	1,839
2021	405
2022	15

Certain operating contracts where the amounts cannot be reasonably estimated have been excluded from the above annual commitments.

The Amended Canada Lease is based upon a percentage of estimated gross revenues, including AIF revenues, at the Edmonton International Airport (see note 1). The future lease payments due to the Landlord are based upon projected Gross Revenue in each year and are estimated for the next five years as follows:

	$
2018	18,935
2019	20,106
2020	20,955
2021	21,915
2022	22,982

16 FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT

FAIR VALUE MEASUREMENT

Financial instruments measured at fair value are categorized into levels by valuation method. The different levels have been defined as follows:

i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is prices) or indirectly (that is, derived from prices) (Level 2).

iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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 at December 31, 2017 is $1,042,365 (2016 – $1,065,656).

There were no transfers between the levels of the fair value hierarchy during the year.

RISK MANAGEMENT

Edmonton Airports' Board of Directors is responsible for understanding the principal risks of the business in which Edmonton Airports is engaged, achieving a proper balance between risks incurred and the purpose of Edmonton Airports and confirming that there are systems in place to effectively monitor and manage those risks with a view to the long-term viability of Edmonton Airports. The Board of Directors 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 the ability of Edmonton Airports to achieve its strategic or operational targets. The Board of Directors is responsible for confirming that management has procedures in place to mitigate identified risks.

i) Credit risk

For cash and cash equivalents, accounts receivable and restricted deposits, credit risk represents the carrying amount on the balance sheet. Cash and cash equivalents and restricted deposits credit risk is reduced by investing in instruments issued by financial institutions that management believes are creditworthy and in federal and provincial government issued short-term instruments.

The maximum exposure to credit risk is the carrying value of receivables on the balance sheet. At the end of the year Edmonton Airports has approximately 63% (2016 – 58%) of its trade accounts receivable balance from two airlines.

Edmonton Airports mitigates credit risk by endeavouring to obtain security deposits, letters of credit, customer credit evaluations and other credit enhancement methods.

At each reporting date, Edmonton Airports assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, Edmonton Airports recognizes an impairment loss for its financial assets carried at amortized cost.

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Accounts receivable are non-interest bearing and are generally due in 30 to 90 days. At December 31, 2017, provision for impairment of accounts receivable was $685 (2016 – $502).

At December 31, 2017, the aging analysis of trade receivables that are past due, but not impaired, is as follows:

	2017 $	2016 $
30 to 90 days	2,097	1,394
Greater than 90 days	1,899	3,373
	3,996	4,767

No other impairments have been identified within trade or other receivables.

ii) Liquidity risk

Liquidity risk arises through excess obligations over available financial assets due at any point in time. Edmonton Airports' objective in managing liquidity risk is to maintain sufficient readily available reserves to meet its liquidity requirements at any point in time. Edmonton Airports achieves this through funds generated by operations and externally through bank borrowings and bonds that provide flexibility in the timing and amounts of long-term financing. Edmonton Airports has a policy to invest its cash balances in short-term pooled money market funds whose underlying investment policy restricts these investments to federal and provincial government issues and in issues of large highly-rated Canadian financial institutions.

The following table sets out Edmonton Airports' financial liabilities, including interest payments, where applicable:

	Long-term debt $	Trade and other payables $	Total $
AS AT DECEMBER 31, 2017			
Within 1 year	74,418	35,833	110,251
1 to 5 years	391,091	–	391,091
After 5 years	961,158	–	961,158
AS AT DECEMBER 31, 2016			
Within 1 year	69,479	41,654	111,133
1 to 5 years	386,682	–	386,682
After 5 years	1,039,985	–	1,039,985

Given the available credit facilities, the amounts of cash and cash equivalents, and the timing of liability payments, Edmonton Airports' management assesses the liquidity risk as low.

iii) Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates, will affect Edmonton Airports' income or the value of the financial instruments held.

FOREIGN CURRENCY RISK

Edmonton Airports' functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Management believes that the foreign exchange risk from currency conversions is negligible.

INTEREST RATE RISK

Interest rate risk arises because of the fluctuations in interest rates. Edmonton Airports is exposed to interest rate risk on its cash and cash equivalents, Note 6 restricted deposits, post-employment benefit liabilities and long-term debt.

Edmonton Airports enters into fixed rate debentures under the Series C Bond and other debt securities with the intention of holding to maturity. Fluctuations in interest rates will have an impact on the fair value of the long-term debt. The fair value of the long-term debt would increase by $105,151 if interest rates decreased by 1 percent and decrease by $90,983 if interest rates increased by 1 percent.

CAPITAL MANAGEMENT

Edmonton Airports is incorporated without share capital under provisions of the Regional Airports Authority Act (Alberta) and, as such, all surpluses are retained and reinvested in airport operations and development. Edmonton Airports manages net assets as capital. Edmonton Airports' objective when managing capital is to safeguard the entity's ability to operate and manage its airports in a safe and secure fashion.

Edmonton Airports sets the amount of capital in proportion to risk and its ability to operate the airports in conjunction with its stated purpose. Edmonton Airports manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, Edmonton Airports may adjust rates and fees related to airport operations, AIF or by adjusting its capital project plans. As of December 31, 2017, Edmonton Airports had net assets of $52,489 (2016 – $47,889).

Edmonton Airports' plan, which is unchanged from 2016, is to comply with the covenants for Debt Service Coverage Ratio, Gross Debt Service Coverage Ratio and Interest Coverage Ratio (notes 6(b) and 6(d)). Edmonton Airports maintains its credit rating in order to secure access to financing at a reasonable cost. As at December 31, 2017, Edmonton Airports was in compliance with the restrictions imposed on capital.

The primary measure Edmonton Airports uses to monitor its profitability and financial leverage is EBITDA (earnings before interest, taxes, depreciation and amortization). Edmonton Airports' earnings are exempt from federal and provincial income tax. EBITDA is an additional GAAP measure as contemplated by IFRS and has been presented in the manner in which the chief operating decision maker assesses performance.

17 DIRECTORS' AND OFFICERS' REMUNERATION AND EXPENSES

This information is provided pursuant to the Regulations of the Act.

a) Directors' compensation

	Annual retainer $
Chair	70
Committee chairs (do not collect director retainer)	36
Directors	113

Meeting fees: Board and Board Committee meeting fees are $1,000 per meeting.

Total compensation paid and expenses reimbursed to each Director in 2017:

	Compensation $	Expenses $	Total $
Naseem Bashir	22	–	22
Leonard Blumenthal	6	1	7
Maureen McCaw (Chair)	85	1	86
Gail Stepanik-Keber	22	–	22
Ralph Young	21	–	21
Dale Klein (Chair, Audit Committee)	27	–	27
Darrell Jones	22	–	22
Jay Ramotar	22	–	22
Joan Hertz	22	–	22
Robert Petryk (Chair, Governance & Human Resource Committee)	28	1	29
Mary Cameron (Previous Chair, Real Estate Development Oversight Committee)*	7	–	7
Murray Hales	22	4	26
Suromitra Sanatani	18	4	22
Tim Hofstra	19	1	20

* Term was completed in December 2016. Remuneration paid in 2017 is for meetings attended in the last quarter of 2016.

Total compensation for each key member of management in 2017 was as follows:

	Base salary $	Other cash benefits(1) $	Other non-cash benefits(2) $	2017 Total $	2016 Total $
President and Chief Executive Officer*	404	262	36	702	752
Vice President Infrastructure & Energy	224	68	56	348	387
Vice President Operations	240	72	59	371	405
Chief Financial Officer and Vice President, Corporate Services*	287	74	36	397	45
Vice President, Air Service and Commercial Development	257	72	63	392	435
Vice President, Digital Services and Corporate Communications*	243	71	59	373	413
	1,655	619	309	2,583	2,844
	1,777	971	372	3,120	2,874

*Denotes officer of Edmonton Airports at December 31, 2017

(1) Other cash benefits include incentive pay and management allowances.

(2) Other non-cash benefits include Supplementary Executive Retirement Plan (SERP) (per note 7(b)) and Edmonton Airports' share of all taxable employee benefits and contributions or payments made on behalf of employees including the DB Plan and DC Plan and group life insurance plan.

(b) Total remuneration for Directors and Officers:

During the year ended December 31, 2017, Edmonton Airports provided its Directors and Officers remuneration (base salary, incentives, and allowances) and reimbursement of expenses in the following amounts:

	2017	
	Remuneration $	Expenses $
To directors	343	12
To 4 officers who are not directors	1,736	191
	2,079	203

	2016	
	Remuneration $	Expenses $
To directors	374	9
To 4 officers who are not directors	1,892	139
	2,266	148

LEADERSHIP

Executive Management Team

Tom Ruth
President and CEO

Traci Bednard
Vice President, Digital Services and Corporate Communications

Kirstan Jewell
Vice President, Human Resources and Organizational Effectiveness

Myron Keehn
Vice President, Air Service and Commercial Development

Roxanne LeBlanc
Acting Chief Financial Officer and Vice President, Corporate Services

Steve Maybee
Vice President, Operations

Steve Rumley
Vice President, Infrastructure and Energy

Bill Wright
Vice President, Risk, General Counsel and Governance Officer

Karen Croll
Manager, Executive Office and Board Secretary

Appointer Representatives

City of Edmonton
Don Iveson, Mayor
Linda Cochrane, City Manager

City of Leduc
Bob Young, Mayor
Paul Benedetto, City Manager

Leduc County
Tanni Doblanko, Mayor
Duane Coleman, County Manager

Parkland County
Rod Shaigec, Mayor
Mike Heck, Chief Administrative Officer

Strathcona County
Rod Frank, Mayor
Rob Coon, Chief Commissioner

Sturgeon County
Alanna Hnatiw, Mayor
Bill Minnes, Chief Administrative Officer

Transport Canada
Ross Ezzeddin, Director General, Air and Marine Programs
Jason Tom, Director, Authorities Stewardship, Air and Marine Programs

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EIA
we'll move you.

VILLENEUVE
AIRPORT